

# Second-Party Opinion

## Hitachi Capital (UK) Green Financing Framework

### Evaluation Summary

#### Alignment with the Green Bond Principles 2018 and the Green Loan Principles 2020

Sustainalytics is of the opinion that the Hitachi Capital (UK) Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2018 and the Green Loan Principles 2020. This assessment is based on the following:



**USE OF PROCEEDS** The eligible categories for the use of proceeds – Clean Transportation and Renewable Energy – is aligned with those recognized by the Green Bond Principles 2018 and the Green Loan Principles 2020. Sustainalytics considers that investments in projects in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDGs 7 and 11.



**PROJECT EVALUATION / SELECTION** HCUK's CSR Committee will be responsible for identifying eligible projects while its operation and asset management groups will be responsible for identifying eligible expenditures pertaining to upgrades and maintenance of assets. Final project selection will be made by HCUK's CSR Committee. Sustainalytics considers the project selection process to be in line with market practice.



**MANAGEMENT OF PROCEEDS** Proceeds raised under the Framework will be deposited to HCUK's operating account monitored by HCUK's Global Treasury team and reported to the CSR Committee. Unallocated proceeds will be held in cash reserves or used for repayment of debt. HCUK commits to allocating proceeds within 24 months of any issuance. Sustainalytics considers the management of proceeds process to be in line with market practice.



**REPORTING** HCUK intends to report on its website on an annual basis. Allocation reporting will include a list of eligible projects, amount of proceeds allocated by project category, and the balance of any unallocated proceeds. Impact reporting will include metrics such as installed net renewable energy capacity (MW), renewable energy production (MWh) and expected GHG reduced (tonnes of CO<sub>2</sub> emissions). Sustainalytics views HCUK's allocation and impact reporting as aligned with market practice.

#### Alignment with the EU Taxonomy

Sustainalytics has assessed HCUK's Green Financing Framework for alignment with the EU Taxonomy and is of the opinion that, of the Framework's two eligibility categories (which map to five EU activities), both align with the applicable Technical Screening Criteria ("TSC") in the EU Taxonomy and partially *align* with the Do No Significant Harm ("DNSH") Criteria. No categories were determined to be *not aligned*. Sustainalytics is also of the opinion that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.



<b>Evaluation date</b>	March 15, 2021
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<b>Issuer Location</b>	United Kingdom
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## Introduction

Hitachi Capital (UK) PLC (“HCUK”, the “Issuer”, or the “Company”) is a financial services provider that offers retail, vehicle leasing, business, and personal finance services. Headquartered in Staines-upon-Thames, the Company was created in 1982.

HCUK has developed the Hitachi Capital (UK) Green Financing Framework (the “Framework”) under which it intends to issue green debt instruments, including green bonds and green loans, and use the proceeds to finance and refinance, in whole or in part, existing and future projects that could reduce GHG emissions from road transportation by fostering electric mobility. The Framework defines eligibility criteria in two areas:

1. Clean Transportation
2. Renewable Energy

HCUK engaged Sustainalytics to review the Hitachi Capital (UK) Green Financing Framework, dated January 2020, and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2018 (GBP)<sup>1</sup> and the Green Loan Principles 2020 (GLP)<sup>2</sup> and the relevant criteria in the EU Taxonomy.<sup>3</sup> This Framework has been published in a separate document.<sup>4</sup>

### Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>5</sup> opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2018, as administered by ICMA, and the Green Loan Principles 2020, as administered by LMA, APLMA and LSTA<sup>6</sup>;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7.1, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of HCUK’s management team to understand the sustainability impact of HCUK’s business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework.

HCUK representatives have confirmed: (1) they understand it is the sole responsibility of HCUK to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information; and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and HCUK.

<sup>1</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>2</sup> The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>.

<sup>3</sup> The Technical Annex of the EU Taxonomy is available at: [https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en](https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en).

<sup>4</sup> The HCUK Green Finance Framework is available on HCUK (UK) ’s website at: <https://www.hitachicapital.co.uk/financial-performance/>.

<sup>5</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

<sup>6</sup> In addition to the Loan Markets Association, the GLP is also administered by the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with green bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the green bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that HCUK has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the HCUK Green Financing Framework

Sustainalytics is of the opinion that the Hitachi Capital (UK) Green Financing Framework is credible and impactful and aligns with the four core components of the GBP, GLP, and the EU Taxonomy. Sustainalytics highlights the following elements of Hitachi Capital's (UK) Green Financing Framework:

- Use of Proceeds:
  - The eligible categories – Clean Transportation and Renewable Energy – are aligned with those recognized by the GBP and GLP. Sustainalytics notes that the proceeds of the green debt instruments issued under the Framework activities are expected to reduce GHG emissions from road transportation by fostering electric mobility in the United Kingdom.
  - Within the Clean Transportation category, HCUK may provide leases for the purchase of battery electric vehicles, including cars and small vans (3.5t and under), as well as heavy goods vehicles (over 3.5t).
  - As for the Renewable Energy category, HCUK may finance electric vehicle charging points and hybrid solar farms. The hybrid solar farm is part of a photovoltaic solar power generation complex developed by Gridserve, a third-party company. The complex also includes power storage capabilities and electric vehicle charging points. The financings may increase the share of solar power generation and contribute to the shift towards electric mobility.
  - HCUK has adopted a 36 months look-back period for refinancing activities, after the date the lease was signed.
- Project Evaluation and Selection:
  - HCUK's internal process in evaluating and selecting projects is handled by the CSR Committee. The CSR Committee includes the CEO as the Chair, General Manager CEO office, HR Director, Legal Director, Head of Enterprise Risk and a representative from each Business Unit and relevant central function, including Treasury and Finance. The Committee will meet on a quarterly basis to ensure that projects comply with the eligibility criteria set in the Framework. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - HCUK's process for management of proceeds is managed by the Treasury Team, following a portfolio approach. The allocation of proceeds will be reported to the CSR Committee on a quarterly basis. HCUK intends to reach full allocation within 24 months after issuance. Unallocated proceeds will be held at HCUK Treasury in cash, short-term investments, or for the repayment of debt, Sustainalytics notes that HCUK will exclude the refinancing of debt associated with carbon-intensive assets or activities. Based on these elements, Sustainalytics considers this process to be in line with market practice.
- Reporting:
  - HCUK intends to report on allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include allocated and unallocated proceeds, as well as the share of financing vs. refinancing. In addition, HCUK is committed to reporting on relevant

impact metrics, such as number of electric vehicles financed, CO<sub>2</sub> emission savings, and renewable power generated. Impact reporting will also include a description of the projects. Based on these elements, Sustainalytics considers this process to be in line with market practice.

### Alignment with Green Bond Principles 2018 and Green Loan Principles 2020

Sustainalytics has determined that the Hitachi Capital (UK) Green Financing Framework aligns to the four core components of the GBP and GLP. For detailed information please refer to Appendix 1: Green Bond/Green Bond Programme External Review Form.

### Alignment with the EU Taxonomy

Sustainalytics has assessed each of the Framework's eligible green use of proceeds criteria against the relevant criteria in the EU Taxonomy and determined their alignment with each of the Taxonomy's three sets of requirements. The results of this assessment are as follows:

1. Technical Screening Criteria ("TSC")
  - The two eligible green criteria outlined in the Framework, which are associated with five activities within the EU Taxonomy, were assessed and are aligned with the applicable TSC of the EU Taxonomy.
2. Do No Significant Harm ("DNSH") Criteria
  - All five of the activities are partially aligned with the applicable DNSH criteria.
  - The five activities assessed have a total of 17 individual DNSH criteria (across all environmental objectives) applicable to them and are aligned with 11, partially aligned with four, and not aligned with two of those individual DNSH criteria.
3. Minimum Safeguards
  - Based on a consideration of the policies and management systems applicable to Framework criteria, as well as the regulatory context in which financing will occur, Sustainalytics is of the opinion that the EU Taxonomy's Minimum Safeguards requirements will be met.
  - For Sustainalytics' assessment of alignment with the Minimum Safeguard see Section 2 below.

**Table 1** provides an overview of the alignment of HCUK's Framework with the TSC and DNSH criteria for the corresponding NACE<sup>7</sup> activities in the EU Taxonomy.

**Table 1: Summary of Alignment of Framework Criteria with the EU Taxonomy**

Framework Criterion	Alignment with Taxonomy Criteria		Alignment per EU Environmental Objective					
	TSC	DNSH	Mitigation	Adaptation	Water	Circular Economy	Pollution	Eco-systems
Transport by motorbikes, passenger cars and light commercial vehicles	■	□	■	☒	–	■	■	–
Freight transport services by road	■	□	■	☒	–	■	■	–
Electricity generation using solar photovoltaic technology	■	□	■	□	–	■	–	■
Storage of electricity	■	□	■	□	–	■	–	■

<sup>7</sup> The EU Taxonomy is based on economic activities defined in NACE (Nomenclature des Activités Économiques dans la Communauté Européenne). The Taxonomy lists 72 economic activities which have been chosen due to their ability to substantially contribute to climate change mitigation or adaptation.

Infrastructure enabling low-carbon road transport	■	□	■	□	■	□	■	■
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Legend	
Aligned	■
Partially aligned	□
Not aligned	☒
No applicable DNSH criteria for this Objective and/or Activity	—
Grey shading indicates the primary EU Environmental Objective	

\* The EU Taxonomy has not yet defined TSC for EU Environmental Objectives other than Climate Mitigation and Climate Adaptation. In cases where an activity of the Framework has the intent of advancing a different Objective, Sustainalytics has assessed alignment against the DNSH criteria for all six Objectives.

## Section 2: Sustainability Strategy of HCUK

### Contribution of framework to HCUK's sustainability strategy

As a financial services provider, HCUK recognizes its key role in supporting society, communities, and its customers, notably through their alignment with the SDGs.<sup>8</sup> As such, HCUK has implemented an Environmental, Social and Governance strategy ("ESG strategy") that has recently become central to its business operations.<sup>8</sup> The ESG strategy has four focus areas, including sustainable business, community and development, environmental, and inclusion and diversity.<sup>8</sup> Sustainalytics notes that the sustainable business area is the most relevant topic regarding the projects financed through the Framework. Within this area, HCUK aims at fostering electric mobility and electrifying the vehicles that the Company funds. To implement its ESG strategy and targets, HCUK has set up a Corporate Social Responsibility ("CSR") Committee that meets quarterly.<sup>8</sup>

Furthermore, HCUK has identified the Vehicle Solutions business ("HCVS") as the activity that has the largest environmental impact.<sup>8</sup> Within the area, HCUK operates over 81,000 assets, such as cars, vans, heavy good vehicles and machinery.<sup>8</sup> As such, HCUK is committed to minimizing the environmental impact of its lending activities through the electrification of the fleet.<sup>8</sup> By 2030, HCUK targets to electrify 100% of the funded car & small van (3.5t and under) fleet, and 50% of the funded larger van fleet (vehicles over 3.5t).<sup>8</sup> Sustainalytics notes that the provision of leases for electric vehicles that are included in the Framework could therefore support the Group in achieving its electrification target and reducing the environmental impact of its lending activities.

Since 2019, HCUK has been involved in the Optimise Prime project, an electric vehicle commercial fleet study, to understand and minimize the impact of electrification on distribution networks.<sup>8</sup> Thereafter, HCUK decided to become a market leader for EV adoption by financing EV charging stations.<sup>8</sup> For example, the partnership of HCUK with Gridserve (in which HCUK holds an equity stake) seeks to "provide the backbone for the future of electric vehicle charging in the UK."<sup>8</sup> As mentioned in Section 1, Gridserve is a clean energy company that develops solar PV generation infrastructure and electric vehicle charging points.<sup>9</sup> Therefore, Sustainalytics notes that the projects funded under the Framework, such as electric charging points, could assist HCUK in fulfilling its ambition to become a market leader in electric vehicle adoption.

Sustainalytics is of the opinion that the HCUK Green Financing Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key environmental priorities.

### Well-positioned to address common environmental and social risks associated with the projects

While Sustainalytics recognizes that the net proceeds from the bonds and loans issued under the Framework will be directed towards eligible projects that are recognized by the GBP and GLP to have positive environmental impact, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks associated with the eligible projects could include occupational health and safety and land use issues.

Sustainalytics is of the opinion that HCUK is able to manage and/or mitigate potential risks through implementation of the following:

<sup>8</sup> HCUK (UK), "ESG Report", (2020), at: <https://www.hitachicapital.co.uk/media/4193/hitachi-capital-uk-esg-report-2020.pdf>

<sup>9</sup> Gridserve, "About us", at: <https://www.gridserve.com/about-us/>

- HCUK is committed to reducing its energy consumption and carbon footprint, and complying with environmental laws.<sup>10</sup> On the environmental side, the UK has implemented several regulations regarding Environmental Impact Assessment, following the amended EU Directive 2001/42/EC,<sup>11</sup> in order to “protect the environment by ensuring that a local planning authority when deciding whether to grant planning permission for a project, which is likely to have significant effects on the environment, does so in the full knowledge of the likely significant effects, and takes this into account in the decision making process.”<sup>12</sup>
- Within the UK, the Health and Safety at Work etc. Act 1974<sup>13</sup> and The Management of Health and Safety at Work Regulations 1999<sup>14</sup> ensures the health and safety of the workplace, including risk assessment, adequate information, and training for employees and for health surveillance where appropriate. Employers with five or more employees need to document the significant findings of the risk assessment; furthermore, employers need to “make arrangements for implementing the health and safety measures identified as necessary by the risk assessment.”

Based on these policies, standards and assessments, Sustainalytics is of the opinion that HCUK has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Alignment with the EU Taxonomy’s Minimum Safeguards

The EU Taxonomy recommends that companies have policies aligned with international and regional guidelines and regulations pertaining to human rights, labour rights, and combating bribery and corruption. Specifically, activities should be carried out in alignment with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Additionally, companies should be in compliance with the International Labour Organisation’s (ILO) declaration on Fundamental Rights and Principles at Work.

#### *Human Rights*

HCUK has implemented the following policies and procedures aimed at ensuring human rights:

- Hitachi Group’s Code of Conduct, to which HCUK is subject, recognizes the importance of respecting human rights and has implemented principles aimed at promoting the respect of human rights, and specifically requires all companies and employees in the Group to respect human rights following international norms and standards.<sup>15</sup>
- HCUK adheres to the global Hitachi Human Rights Policy, which is intended to align with the UN Guiding Principles on Business and Human Rights.
- HCUK strives to operate in a responsible manner and has defined such approaches in its CSR policy standard and reports on this progress in its annual Environmental, Social, and Governance (ESG) Report.

Sustainalytics has not detected involvement in any relevant controversies which would suggest that the above policies are not being implemented effectively and is of the opinion that these measures appropriately safeguard minimum standards on human rights in relation to the activities of the framework.

#### *Labour Rights*

HCUK has implemented the following policies and procedures aimed at ensuring labour rights:

- HCUK’s primary operations are within the UK, which has ratified all eight Fundamental Conventions of the International Labour Standards.<sup>16</sup> HCUK terms and conditions comply with all UK statutory employment requirements.

<sup>10</sup> HCUK (UK) , “Annual Report and Consolidated Financial Statements”, (2020), at: <https://www.hitachicapital.co.uk/media/4125/hcuk-group-annual-report-and-financial-statements-year-ended-31st-march-2020.pdf>

<sup>11</sup> European Union Law, “Directive 2001/42/EC of the European Parliament and of the Council of 27 June 2001 on the assessment of the effects of certain plans and programmes on the environment”, (2001), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32001L0042>

<sup>12</sup> Government of the UK, “Environmental Impact Assessment”, at: <https://www.gov.uk/guidance/environmental-impact-assessment>

<sup>13</sup> UK Legislation, “Health and Safety at Work etc. Act 1974”, (1974), at: <http://www.legislation.gov.uk/ukpga/1974/37/contents>

<sup>14</sup> UK Legislation, “The Management of Health and Safety at Work Regulations 1999”, (1999), at:

<http://www.legislation.gov.uk/uksi/1999/3242/contents/made>

<sup>15</sup> HCUK, “Code of Conduct”, (2021), at: [http://www.hitachi.com/about/vision/conduct/conduct\\_e.pdf](http://www.hitachi.com/about/vision/conduct/conduct_e.pdf)

<sup>16</sup> ILO, “Core Conventions and Recommendations”, (2021), at: <https://www.ilo.org/global/standards/introduction-to-international-labour-standards/conventions-and-recommendations/lang-en/index.htm#:~:text=The%20ILO%20Governing%20Body%20has,forced%20or%20compulsory%20labour%3B%20the>



- HCUK strives to implement a healthy work environment, including promoting awareness of contractual and statutory rights and Inclusion and Diversity at HCUK. Moreover, HCUK has an independent whistleblowing line for all staff to use in addition to the normal grievance and whistleblowing routes. HCUK has been accredited by the Living Wage Foundation as an employer committed to paying all employees a real living wage, in excess of the statutory minimum wage.<sup>17</sup>
- HCUK produces a mandatory annual Modern Slavery Statement and is committed to conducting business ethically and aims to mitigate the risk of slavery and human trafficking within its business and supply chains.<sup>18</sup>

Sustainalytics has not detected involvement in any relevant controversies which would suggest that the above policies are not being implemented effectively and is of the opinion that these measures appropriately safeguard minimum standards on labour rights in relation to the activities of the framework.

#### *Anti-bribery and anti-corruption*

HCUK has implemented the following policies and procedures aimed at ensuring anti-bribery and anti-corruption:

- HCUK has implemented an anti-bribery and corruption ("ABAC") policy for all employees, underlining a zero-tolerance for anti-bribery and corruption. The Policy is underpinned by a Policy Standard which confirms actions and processes necessary for employees to comply with the Policy.
- HCUK has disclosed that all staff must complete mandatory training on bribery and corruption on an annual basis and must file any material gifts and hospitality on the gift and hospitality register. The line manager reviews the gift and hospitality registers, with oversight from the Group Financial Crime Prevention Team. Any issues identified are escalated to the Chief Risk Officer.

Sustainalytics has not detected involvement in any relevant controversies which would suggest that the above policies are not being implemented effectively and is of the opinion that these measures appropriately safeguard anti-bribery and anti-corruption in relation to the activities of the framework.

Based on these policies, standards, and assessments, Sustainalytics is of the opinion that HCUK policies, guidelines and commitments are sufficient to demonstrate that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

### Section 3: Impact of Use of Proceeds

The two use of proceeds categories are recognized as impactful by GBP. Sustainalytics discusses below where the impact is specifically relevant in the local context.

#### **Air Pollution and GHG emissions: Health and Environmental Benefits of Electric Mobility in the UK**

Air pollution including, particulate matters ("PM") such as PM<sub>2.5</sub> and PM<sub>10</sub>, and nitrogen dioxide (NO<sub>2</sub>) represents critical health risks, having lifelong impact on human health from before birth until old age.<sup>20</sup> Air pollution damages lung function growth during childhood and accelerates lung function decline during ageing, which ultimately leads to an increasing vulnerability to lung diseases.<sup>20</sup> Moreover, evidences indicate a correlation between PM<sub>2.5</sub> exposure and cardiovascular, respiratory, and lung cancer mortality.<sup>19</sup> In London, a report commissioned by the City Hall estimated that 9,000 premature deaths were caused by long-term exposure to air pollution in 2010.<sup>20</sup> Road transport is a major contributor to air pollution in the UK.<sup>21</sup> As such, the financings of leases to zero tailpipe emission vehicles included in the Framework could assist the UK in reducing air pollution and provide tangible health benefits.

<sup>17</sup> Living Wage Foundation, <https://www.livingwage.org.uk/accredited-living-wage-employers>

<sup>18</sup> HCUK, "Anti-Slavery and Human Trafficking Statement 2019", (2019), at: <https://www.hitachicapital.co.uk/media/2809/hitachi-capital-anti-slavery-statement-2019.pdf>

<sup>19</sup> WHO, "Health risks of air pollution in Europe - HRAPIE project", (2013), at: [http://www.euro.who.int/\\_data/assets/pdf\\_file/0006/238956/Health\\_risks\\_air\\_pollution\\_HRAPIE\\_project.pdf](http://www.euro.who.int/_data/assets/pdf_file/0006/238956/Health_risks_air_pollution_HRAPIE_project.pdf)

<sup>20</sup> Royal College of Physicians, "Every breath we take: the lifelong impact of air pollution", (2016), at: <https://www.rcplondon.ac.uk/projects/outputs/every-breath-we-take-lifelong-impact-air-pollution>

<sup>21</sup> Office for National Statistics, "Road transport and air emissions", (2019), at: <https://www.ons.gov.uk/economy/environmentalaccounts/articles/roadtransportandairremissions/2019-09-16#:~:text=2.0,5%25%20of%20all%20licensed%20vehicles%20in%20the%20UK%20in%202018,5>.

In addition, battery electric vehicles could help to reduce GHG emissions from road transportation in the UK. In 2018, the transport sector was responsible for approximately 31% of total GHG emissions in the UK.<sup>22</sup> The sector was the largest emissions emitter on an end-user basis.<sup>22</sup> While the UK managed to reduce its overall territorial GHG emissions by 43% between 1990 and 2018,<sup>23</sup> there has been little overall change regarding GHG emissions from road transport.<sup>22</sup> The main source of emissions from the sector lies in the use of fossil fuels in road transport.<sup>22</sup> On the other side, battery electric vehicles generate lower GHG emissions than conventional vehicles on a life-cycle basis.<sup>22</sup> As such, they represent an opportunity for the UK to reduce GHG emissions from road transport. Sustainalytics notes that the financings of leases to battery electric vehicles could reduce the sector's overall GHG emissions.

Sustainalytics is of the opinion that the financings of leases for battery electric vehicles included in the Framework are impactful and could help reducing road transportation air pollution and GHG emissions.

### Financing EV Charging Stations to Foster EV Adoption

Studies show that EV charging infrastructures have a strong impact on EV adoption.<sup>24</sup> One of the major barriers to large scale adoption of battery electric vehicles is range anxiety, defined as the anxiety a consumer experiences in response to the limited range of an electric vehicle.<sup>25</sup> As such, the UK's Road to Zero strategy aims at expanding the electric vehicle infrastructure network in the UK, including off-street charging, home charging, and workplace charging.<sup>26</sup> As of 2018, the UK installed 14,000 public charging points.<sup>26</sup> However, more charging points are needed to foster the adoption of electric vehicles.<sup>26</sup> In addition, acknowledging the potential impacts of EV adoption on power demand, the strategy seeks to promote smart charging to minimize peak demand and network congestion.<sup>26</sup> Moreover, anticipating a potential increase in electricity demand, the Strategy insists on meeting the additional power demand by renewable power generation.<sup>26</sup>

As such, the financing of electric vehicle charging stations included in the Framework could help the UK in developing an affordable, efficient, and reliable EV infrastructure network. Moreover, by financing solar photovoltaic generation, HCUK could participate in the efforts required to meet the additional power demand induced by EV adoption.

Given the above, Sustainalytics considers that the projects funded under the Framework are impactful. The financings could help the UK in developing charging infrastructure networks and provide additional renewable energy production capacities.

### Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bond(s) and loan(s) issued under the HCUK Green Financing Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older person
Renewable Energy	7. Affordable and Clean Energy	7.1 By 2030, increase substantially the share of renewable energy in the global energy mix

<sup>22</sup> Department for Business, Energy, & Industrial Strategy, "Annex: 2018 UK Greenhouse Gas Emissions, final figures by end user and fuel type", (2020), at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/875522/Annex\\_1990-2018\\_UK\\_GHG\\_Emissions\\_final\\_figures\\_by\\_end\\_user\\_sector\\_by\\_fuel\\_and\\_uncertainties\\_estimates.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/875522/Annex_1990-2018_UK_GHG_Emissions_final_figures_by_end_user_sector_by_fuel_and_uncertainties_estimates.pdf)

<sup>23</sup> Department for Business, Energy, & Industrial Strategy, "2018 UK Greenhouse Gas Emissions", (2018), at:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/863325/2018-final-emissions-statistics-summary.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863325/2018-final-emissions-statistics-summary.pdf)

<sup>24</sup> Lanz, B., et al., (2020), "The chicken or the egg: Technology adoption and network infrastructure in the market for electric vehicles", at: <https://ideas.repec.org/p/irn/wpaper/20-08.html>

<sup>25</sup> Faraj, M., et al., (2016), "Range anxiety reduction in battery-powered vehicles", at: <https://ieeexplore.ieee.org/abstract/document/7520190>

<sup>26</sup> Department for Transport, "The Road to Zero", (2018), at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/739460/road-to-zero.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/739460/road-to-zero.pdf)



## Conclusion

HCUK has developed the Hitachi Capital (UK) Green Financing Framework under which it will issue green bonds/loans and the use of proceeds to finance assets that support the energy transition and climate change mitigation. Sustainalytics considers that the projects funded by the green proceeds will provide positive environmental impacts.

The HCUK Green Financing Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Hitachi Capital (UK) Green Financing Framework is aligned with the overall sustainability strategy of the company and that the green use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 7 and 11. Additionally, Sustainalytics is of the opinion that HCUK UK has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Sustainalytics has assessed Hitachi Capital (UK) Green Financing Framework for alignment with the EU Taxonomy, and is of the opinion that, of the Framework's two use of proceeds criteria which map to five EU activities, both align with the applicable Technical Screening Criteria ("TSC") in the EU Taxonomy and *partially align* with the applicable Do No Significant Harm Criteria. No categories were determined to be *not aligned*. Sustainalytics is also of the opinion that the activities and projects to be financed under the Framework will be carried out in alignment with the EU Taxonomy's Minimum Safeguards.

Based on the above, Sustainalytics is confident that HCUK is well-positioned to issue green bonds/loans and that the Hitachi Capital (UK) Green Financing Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2018, Green Loan Principles 2018 and the EU Taxonomy.

## Appendices

### Appendix 1: Approach to Assessing Alignment with the EU Taxonomy

#### Approach to Alignment Assessment

Sustainalytics has assessed each of the eligible green use of proceeds criteria in the Framework against the criteria for the relevant NACE<sup>27</sup> activity in the EU Taxonomy. This appendix describes Sustainalytics' process and presents the outcome of its assessment of alignment with the Taxonomy's applicable Technical Screening Criteria (TSC) and Do No Significant Harm (DNSH) criteria. Sustainalytics' assessment involves two steps:

##### 1. Mapping Framework Criteria to Activities in the EU Taxonomy

The initial step in Sustainalytics' assessment process involves mapping each criterion in the Framework to a relevant and applicable NACE activity in the EU Taxonomy. Note that each Framework criterion may be relevant and applicable to more than one NACE activity and vice versa. Sustainalytics recognizes that some Framework criteria relate to projects that do not map well to a NACE activity. In such cases, Sustainalytics has mapped to the NACE activity that is most relevant with respect to the primary environmental objective and impacts.

In some cases, the Framework criteria cannot be mapped to an activity in the EU Taxonomy, as some activities are not yet covered by the Taxonomy, and some categories which are traditionally included in green bonds may not be associated with a specific economic activity. While recognizing that financing projects in these areas may still have environmental benefits, Sustainalytics has not assessed these criteria for alignment.

The outcome of Sustainalytics' mapping process for HCUK's Framework is shown in Error! Reference source not found. below.

##### 2. Determining Alignment with EU Taxonomy Criteria

The second step in Sustainalytics' process is to determine the alignment of each criterion with relevant criteria in the EU Taxonomy. Alignment with the TSC and DNSH criteria is usually based on the specific criteria contained in the issuer's Framework and may in many cases (especially DNSH criteria) also be based on management systems and processes and/or regulatory compliance. To assess alignment with the EU Taxonomy's Minimum Safeguards Sustainalytics has conducted an assessment of policies, management systems and processes applicable to the use of proceeds, as well as examining the regulatory context in the geographical location in which the issuer will finance activities and projects. (This assessment is included in Section 2, above.)

In cases where the Framework criteria describe projects which are intended to advance EU environmental objectives other than Climate Mitigation or Climate Adaptation, the Taxonomy does not include relevant TSC. In these cases, Sustainalytics has assessed the activity for alignment with the DNSH criteria across all objectives.

Sustainalytics' detailed assessment of alignment is provided in Appendix 2.

Table 2: Framework mapping table

Framework Category	Framework Criterion (Eligible Use of Proceeds)	EU / NACE Activity	NACE Code	Primary EU Environmental Objective	Refer to Table
Clean Transportation	Battery Electric Vehicles	Transport by motorbikes, passenger cars and light commercial vehicles	H49.32 H49.39 N77.11	Mitigation	Table 1
		Freight transport services by road	H49.4. H53.10 H53.20 N77.12	Mitigation	Table 2
Renewable Energy, Clean Transportation	Hybrid Solar Farms	Electricity generation using solar photovoltaic technology	D.35.11 F42.22	Mitigation	Table 3
		Storage of electricity		Mitigation	Table 4
	Electric Vehicle Charging Points	Infrastructure enabling low-carbon road transport		Mitigation	Table 5

## Appendix 2: Comprehensive EU Taxonomy Alignment Assessment

The tables below provide a detailed assessment of the alignment of HCUK's Framework criteria with the EU Taxonomy's TSC and DNSH criteria for the relevant NACE activity.

Table 3

Framework Activity assessed		Battery Electric Vehicles	
EU Activity		Transport by motorbikes, passenger cars and light commercial vehicles	
NACE Code			
EU Technical Screening Criteria		Alignment with Technical Screening Criteria	
Mitigation	For vehicles of category M1 and N1, vehicles have specific emissions of less than 50 gCO <sub>2</sub> /km until 2025, and zero specific emissions thereafter.	All vehicles financed are battery-electric, with zero tailpipe emissions.	Aligned
DNSH Criteria		Alignment with DNSH Criteria	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 8.		
Transition to a circular economy	<p>Vehicles are at least 85% (by weight) reusable or recyclable and 95% reusable or recoverable.</p> <p>Measures exist to manage wastes both in the use phase (maintenance) and the end-of-life of the fleet, including battery and electronics recycling and recovery of critical raw materials.</p> <p>Vehicles do not contain lead, mercury, hexavalent chromium and cadmium, except where specifically exempted by regulation.</p>	<p>Regulations currently mandate that all producers selling vehicles in the UK must comply with a 95% recovery target and 85% recycling by average weight. HCUK relies upon government enforcement of this regulation at this time to ensure alignment with this requirement, but has expressed an ambition to work with manufacturers to better track and report this data going forward.</p> <p>HCUK is committed to reuse, and generally sells at auction vehicles at the end of their lease period, which is sooner than the end of the vehicle’s life. As such, they do not have any commitments for end-of-life recycling.</p> <p>EU regulations currently mandate that these substances are not used in vehicles. HCUK is of the view that all vehicles it purchases are in compliance with such regulations.</p>	Aligned
Pollution prevention and control	<p>Vehicle tires must comply with noise class A and energy performance class A or B<sup>28</sup>, as well as the noise requirements of Regulation (EC) No 661/2009.</p> <p>Vehicles overall comply with Regulation (EU) No 540/2014.</p>	HCUK has disclosed that its suppliers (ie. car manufacturers) are of the “general consensus” that all vehicles comply with these criteria. All vehicles financed possess an EC Certificate of Conformity attesting to this regulatory compliance.	Aligned

<sup>28</sup> Per Regulation (EU) 2020/740

Protection and restoration of biodiversity and ecosystems	Refer to the assessment set out in Appendix 3, Table 9.
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Table 4

Framework Activity assessed		Battery Electric Vehicles	
EU Activity		Freight transport services by road	
NACE Code			
EU Technical Screening Criteria		Alignment with Technical Screening Criteria	
Mitigation	<p>Vehicles with a technically permissible maximum laden mass not exceeding 7.5 tonnes have zero emissions, while those with a mass of greater than 7.5 tonnes have zero emissions or are classified as a “low emissions heavy vehicle” in EU regulation.</p> <p>Vehicles are not dedicated to the transport of fossil fuels.</p>	<p>All vehicles financed are battery-electric, with zero tailpipe emissions, and are not dedicated to the transport of fossil fuels.</p>	Aligned
DNSH Criteria		Alignment with DNSH Criteria	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 5.		
Transition to a circular economy	<p>Vehicles are at least 85% (by weight) reusable or recyclable and 95% reusable or recoverable.</p> <p>Measures exist to manage wastes both in the use phase (maintenance) and the end-of-life of the fleet, including battery and electronics recycling and recovery of critical raw materials.</p> <p>Vehicles do not contain lead, mercury, hexavalent chromium and cadmium, except where specifically exempted by regulation.</p>	<p>Regulations currently mandate that all producers selling vehicles in the UK must comply with a 95% recovery target and 85% recycling by average weight. HCUK relies upon government enforcement of this regulation at this time to ensure alignment with this requirement, but has expressed an ambition to work with manufacturers to better track and report this data going forward.</p> <p>HCUK is committed to reuse, and generally sells at auction vehicles at the end of their lease period, which is sooner than the end of the vehicle’s life. As such, they do not have any commitments for end-of-life recycling.</p> <p>EU regulations currently mandate that these substances not be used in vehicles. HCUK is of the view that all vehicles it purchases are in compliance with such regulations.</p>	Aligned

Pollution prevention and control	<p>Vehicle tires must comply with noise class A and energy performance class A or B<sup>29</sup>, as well as the noise requirements of Regulation (EC) No 661/2009.</p> <p>Vehicles overall comply with Regulation (EU) No 540/2014 and the requirements of the most recent applicable stage of the Euro VI heavy duty emission type-approval.</p>	<p>HCUK has disclosed that its suppliers (ie. car manufacturers) are of the “general consensus” that all vehicles comply with these criteria. All vehicles financed possess an EC Certificate of Conformity attesting to this regulatory compliance.</p> <p>Euro VI is not applicable for battery-electric vehicles.</p>	Aligned
Protection and restoration of biodiversity and ecosystems	Refer to the assessment set out in Appendix 3, Table 9.		

Table 5

Framework Activity assessed		Hybrid Solar Farms	
EU Activity		Electricity generation using solar photovoltaic technology	
NACE Code		D.35.11 and F42.22	
EU Technical Screening Criteria		Alignment with Technical Screening Criteria	
Mitigation	The activity generates electricity using solar PV technology.	Eligible by default	Aligned
DNSH Criteria		Alignment with DNSH Criteria	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 5.		
Transition to a circular economy	The activity assesses availability of land, where feasible, uses equipment and components of high durability and recyclability and that are easy to dismantle and refurbish.	HCUK’s partner Gridserve is responsible for the design and construction of solar projects. Gridserve has disclosed that “projects in such a way that they can easily be dismantled for repair or refurbishment during their operating life and decommissioned at end of life,” and further claims that key components are certified “where relevant and possible”. All land use is subject to local regulatory authority permitting requirements.	Aligned

<sup>29</sup> Per Regulation (EU) 2020/740



		Current end-of-life procedures involve recycling and reuse of 90% of glass components and 95% of semi-conductor material from decommissioned panels.	
Protection and restoration of biodiversity and ecosystems	Refer to the assessment set out in Appendix 3, Table 9.		

Table 6

<b>Framework Activity assessed</b>		Hybrid Solar Farms	
<b>EU Activity</b>		Electricity Storage	
<b>NACE Code</b>		n/a	
<b><i>EU Technical Screening Criteria</i></b>		<b><i>Alignment with Technical Screening Criteria</i></b>	
Mitigation	The activity is the construction and operation of electricity storage including closed-loop pumped hydropower storage.	As this is battery-electric storage, the activity is eligible by default.	Aligned
<b><i>DNSH Criteria</i></b>		<b><i>Alignment with DNSH Criteria</i></b>	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 5.		
Sustainable use and protection of water and marine resources	For closed-loop pumped hydropower storage, environmental degradation risks related to water quality and stress are identified and addressed.	As HCUK's electricity storage is battery-based, this criterion is not applicable.	N/A
Transition to a circular economy	A waste management plan is in place and ensures maximal reuse or recycling at end of life in accordance with the waste hierarchy.	<p>HCUK's partner Gridserve aims to comply with the the EU Waste Electrical &amp; Electronic Equipment (WEEE) Directive (Directive 2012/19/EU), which covers the use, treatment, and end-of-life recycling of batteries and electronic equipment. Further, Gridserve works with accredited partners to dispose of end-of-life batteries in line with the EU Battery Directive (2006/66/EC).</p> <p>Gridserve has disclosed that its project financial models include allowances for repairs and decommissioning.</p>	Aligned
Protection and restoration of biodiversity	Refer to the assessment set out in Appendix 3, Table 9.		

and ecosystems		
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Table 7

Framework Activity assessed		Electric Vehicle Charging Points	
EU Activity		Infrastructure enabling low-carbon road transport	
NACE Code		F42.11, F42.13, F71.1 and F71.20	
EU Technical Screening Criteria		Alignment with Technical Screening Criteria	
Mitigation	The activity complies with one or more of the following criteria: <ul style="list-style-type: none"><li>the infrastructure is dedicated to the operation of vehicles with zero tailpipe CO2 emissions: electric charging points, electricity grid connection upgrades, hydrogen fuelling stations or electric road systems (ERS);</li><li>the infrastructure and installations are dedicated to transshipping freight between the modes: terminal infrastructure and superstructures for loading, unloading and transhipment of goods;</li><li>the infrastructure and installations that are dedicated to public passenger transport.</li></ul>	As the activity is the installation of electric charging points for zero-emissions vehicles, this activity is eligible by default.	Aligned
DNSH Criteria		Alignment with DNSH Criteria	
Climate Change Adaptation	Refer to the assessment set out in Appendix 3, Table 5.		
Sustainable use and protection of water and marine resources	Environmental degradation risks related to preserving water quality and avoiding water stress are identified and addressed, in accordance with a water use and protection management plan, developed in consultation with relevant stakeholders.	HCUK’s partner Gridserve has disclosed that a Construction Environment Management Plan (CEMP) is developed and used for every project, and that it works with the relevant environment agency, local planning conditions and statutory service provider regulations to ensure that appropriate measures are in place to protect and preserve water quality. This CEMP is in place throughout the construction and operation phases	Aligned
Transition to a circular economy	At least 70% (by weight) of the non-hazardous construction and demolition waste (excluding naturally occurring material defined in category 17 05 04 in the European List of Waste established by Commission Decision 2000/532/EC) generated on the construction site	HCUK’s partner Gridserve has implemented an ISO 14001-accredited Environmental Management System in relation to its construction policies and processes.	Partially Aligned

	is prepared for re-use, recycling and other material recovery, including backfilling operations using waste to substitute other materials, in accordance with the waste hierarchy and the EU Construction and Demolition Waste Management Protocol. Operators limit waste generation in processes related construction and demolition, in accordance with the EU Construction and Demolition Waste Management Protocol and taking into account best available techniques and using selective demolition to enable removal and safe handling of hazardous substances and facilitate re-use and high-quality recycling by selective removal of materials, using available sorting systems for construction and demolition waste.	<p>Gridserve aims to comply with the the EU Waste Electrical &amp; Electronic Equipment (WEEE) Directive (Directive 2012/19/EU), which would cover such wastes generated from the installation of charging points.</p> <p>Gridserve's Construction Environment Management Plans, implemented for each project, addresses some concerns related to construction materials and waste.</p>	
Pollution prevention and control	<p>Where relevant, noise and vibrations from use of infrastructure are mitigated by introducing open trenches, wall barriers or other measures and comply with Directive 2002/49/EC.</p> <p>Measures are taken to reduce noise, dust and pollutant emissions during construction or maintenance works.</p>	HCUK's partner Gridserve has disclosed that a Construction Environment Management Plan (CEMP) is developed and used for every project. As part of this procedure, risk mitigation plans to effectively manage the risk of noise, dust and pollutants are developed and put in place.	Aligned
Protection and restoration of biodiversity and ecosystems	Refer to the assessment set out in Appendix 3, Table 9.		

## Appendix 3: Criteria for Do No Significant Harm (“DNSH”) to Climate Change Adaptation and Protection and Restoration of Biodiversity and Ecosystems

Table 8

Criteria for DNSH to Climate Change Adaptation		
<i><b>DNSH Criteria</b></i>	<i><b>Alignment with DNSH Criteria</b></i>	
<p>The physical climate risks that are material to the activities mentioned above have been identified by the Issuer by performing a robust climate risk and vulnerability assessment.<sup>30</sup> The assessment must be proportionate to the scale of the activity and its expected lifespan, such that:</p> <ul style="list-style-type: none"> <li>for investments into activities with an expected lifespan of less than 10 years, the assessment is performed, at least by using downscaling of climate projections;</li> <li>for all other activities, the assessment is performed using high resolution, state-of-the-art climate projections across a range of future scenarios consistent with the expected lifetime of the activity, including, at least, 10 to 30 years climate projections scenarios for major investments.</li> </ul> <p>The issuer has developed a plan to implement adaptation solutions to reduce material physical climate risks to the selected activities under this framework.</p> <ul style="list-style-type: none"> <li>For new activities the Issuer ensures that adaptation solutions do not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts.</li> <li>For activities that involve upgrading or altering existing assets or processes, the Issuer must implement adaptation solutions identified within five years from the start of the activity. In addition, selected adaptation solutions must not adversely affect the adaptation efforts or the level of resilience to physical climate risks of other people, of nature, of assets and of other economic activities and are consistent with local, sectoral, regional or national adaptation efforts.</li> </ul>	<p>HCUK’s partner Gridserve has disclosed that they have conducted a climate risk analysis for major projects, and consider the outcomes of this assessment in the design. In particular, Gridserve has identified flood risks as a major consideration, and has consequently prepared dyke protection, ditches and scrapes/swales to manage water run-off areas where necessary.</p> <p>Gridserve has also disclosed that their intended design and implementation plans are intended for long-term (25-60 years) operations, and that they therefore consider risk factors over this time scale.</p> <p>HCUK has stated that it will consider overall compliance and alignment with regional and national adaptation planning is considered as part of its general CSR activities, overseen by the CSR Committee.</p>	<p>Partially Aligned (for projects undertaken by Gridserve)</p>

<sup>30</sup> The EU Delegated Act identifies several climate related risk and classifies them into chronic or acute risks, Chronic risks include -changing temperature (air, freshwater, marine water), changing wind patterns, changing precipitation patterns and types, coastal erosion, heat stress, ocean acidification, sea-level rise, and solifluction. Acute risks pertain to – heat/ cold wave, wildfire, cyclone, hurricane, tornado, storm, drought, landslide, flood, and glacial lake outburst. For a complete list of climate related risk please refer to Section 2 of Appendix E of EU’s draft delegated regulation (Annex 1), at: [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC\\_WORKFLOW](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW)

Table 9

Criteria for the Protection and Restoration of Biodiversity and Ecosystems		
<i><b>DNSH Criteria</b></i>	<i><b>Alignment with DNSH Criteria</b></i>	
<p>An Environmental Impact Assessment (EIA) or screening has been completed, for activities within the Union, in accordance with Directive 2011/92/EU. For activities in third countries, an EIA has been completed in accordance with equivalent national provisions or international standards.</p> <p>Where an EIA has been carried out, the required mitigation and compensation measures for protecting the environment are implemented.</p> <p>For sites/operations located in or near biodiversity-sensitive areas (including the Natura 2000 network of protected areas, UNESCO World Heritage sites and Key Biodiversity Areas, as well as other protected areas), an appropriate assessment, where applicable, has been conducted and based on its conclusions the necessary mitigation measures are implemented.</p>	<p>HCUK's partner Gridserve carries out EIA where applicable as part of its Construction Environmental Management Plan (CEMP). These are conducted in accordance with UK and any relevant local regulations, and compliance is embedded within Gridserve's development process screens.</p> <p>Gridserve has confirmed that it aims for full compliance with any mitigation measures arising from the EIA process. Specifically, the legal Decision Notice granted by the local permitting authority (or separate legal agreement where the obligations are related to requirements off-site) are cited as documents ensuring appropriate compensation measures.</p> <p>Gridserve has indicated compliance with UK regulation governing the protection of sensitive areas, and states that the existing permitting process to which it is subject ensure that impacts on such areas are minimized or avoided. Relevant local authorities must sign off on this determination.</p>	Aligned

## Appendix 4: Green Bond / Green Finance Programme

### Section 1. Basic Information

Issuer name:	Hitachi Capital (UK) PLC
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Hitachi Capital (UK) Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	March 15, 2021
Publication date of review publication:	

### Section 2. Review overview

#### SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds        | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting                                    |

#### ROLE(S) OF REVIEW PROVIDER

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 <sup>nd</sup> opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification   | <input type="checkbox"/> Rating        |
| <input type="checkbox"/> Other <i>(please specify)</i> :                        |  |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

#### EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

### Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

#### 1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible category for the use of proceeds, Renewable Energy, is aligned with those recognized by the Green Bond Principles 2018 and the Green Loan Principles 2020. Sustainalytics considers that investments in



projects in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 7 and 11.

#### Use of proceeds categories as per GBP:

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy  | <input type="checkbox"/> Energy efficiency   |
| <input type="checkbox"/> Pollution prevention and control   | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation  | <input checked="" type="checkbox"/> Clean transportation   |
| <input type="checkbox"/> Sustainable water and wastewater management  | <input type="checkbox"/> Climate change adaptation   |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes                            | <input type="checkbox"/> Green buildings   |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

If applicable please specify the environmental taxonomy, if other than GBP:

## 2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

HCUK's CSR Committee will be responsible for identifying eligible projects while its operation and asset management groups will be responsible for identifying eligible expenditures pertaining to upgrades and maintenance of assets. Final project selection will be made by HCUK's CSR Committee. Sustainalytics considers the project selection process to be in line with market practice.

#### Evaluation and selection

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's environmental sustainability objectives              | <input checked="" type="checkbox"/> Documented process to determine that financings fit within defined categories  |
| <input checked="" type="checkbox"/> Defined and transparent criteria for financings eligible for Green Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available                    | <input type="checkbox"/> Other ( <i>please specify</i> ):  |

#### Information on Responsibilities and Accountability

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other ( <i>please specify</i> )   |  |

### 3. MANAGEMENT OF PROCEEDS

Overall comment on section *(if applicable)*:

Proceeds raised under the Framework will be deposited to HCUK's operating account monitored by HCUK's Global Treasury team and reported to the CSR Committee. Unallocated proceeds will be held in cash reserves or used for repayment of debt. HCUK commits to allocating proceeds within 24 months of any issuance. Sustainalytics considers the management of proceeds process to be in line with market practice.

#### Tracking of proceeds:

- ☒ Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- ☐ Disclosure of intended types of temporary investment instruments for unallocated proceeds
- ☐ Other *(please specify)*:

#### Additional disclosure:

- |  |   |
|--|---|
| <input type="checkbox"/> Allocations to future investments only                  | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements                  | <input checked="" type="checkbox"/> Allocation to a portfolio of disbursements          |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other <i>(please specify)</i> :                                |

### 4. REPORTING

Overall comment on section *(if applicable)*:

HCUK intends to report on its website on an annual basis. Allocation reporting will include a list of eligible projects, amount of proceeds allocated by project category, and the balance of any unallocated proceeds. Impact reporting will include metrics such as installed net renewable energy capacity (MW), renewable energy production (MWh) and expected GHG reduced (tonnes of CO<sub>2</sub> emissions). Sustainalytics views HCUK's allocation and impact reporting as aligned with market practice.

#### Use of proceeds reporting:

- |  |  |
|--|--|
| <input type="checkbox"/> Project-by-project            | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other <i>(please specify)</i> :         |

#### Information reported:

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Allocated amounts    | <input type="checkbox"/> Green Bond financed share of total investment |
| <input type="checkbox"/> Other <i>(please specify)</i> : |  |

**Frequency:**

- ☒ Annual
 ☐ Semi-annual  
☐ Other (please specify):

**Impact reporting:**

- ☐ Project-by-project
 ☒ On a project portfolio basis  
☐ Linkage to individual bond(s)
 ☐ Other (please specify):

**Information reported (expected or ex-post):**

- ☒ GHG Emissions / Savings
 ☒ Energy Savings  
☐ Decrease in water use
 ☒ Other ESG indicators (please specify): Building certification level of assets

**Frequency**

- ☒ Annual
 ☐ Semi-annual  
☐ Other (please specify):

**Means of Disclosure**

- ☐ Information published in financial report
 ☒ Information published in sustainability report  
☐ Information published in ad hoc documents
 ☐ Other (please specify):  
☐ Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE****Type(s) of Review provided:**

- ☐ Consultancy (incl. 2<sup>nd</sup> opinion)
 ☐ Certification  
☐ Verification / Audit
 ☐ Rating  
☐ Other (please specify):

**Review provider(s):**

**Date of publication:**

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**ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP**

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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