

Green Financing Framework - October 2021





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1.0 Introduction to the Issuer

1.1 About Hitachi Capital (UK)

Hitachi Capital (UK) PLC (“HCUK”) is a leading financial services company established in 1982. We are made up of 5 Business Units:

1. Consumer Finance - the UK’s leading retail point of sale finance provider and has a significant presence in the personal loans sector.
2. Vehicle Solutions - one of the UK’s leading vehicle finance companies, operating over 95,000 assets, from cars, vans and HGVs to plant and machinery.
3. Business Finance - a leading provider of business asset finance to SMEs and larger corporations in the UK offering hire purchase, finance lease solutions, stocking, and block discounting.
4. European Vendor Solutions - provides bespoke end-to-end vendor and channel finance solutions for the end users of Hitachi and Mitsubishi group companies and their distribution networks internationally.
5. Invoice Finance - provides cash flow solutions to clients across a wide range of sectors in the UK.

We continue to transform the Company in response to the ever-changing commercial, customer and societal environment we operate in.

 Our vision “The trusted brand of financial services in the UK and across Europe”	 Our mission “Exceptional people, providing outstanding customer experiences today”	 Our values “Harmony”, “Sincerity” and “Pioneering Spirit”
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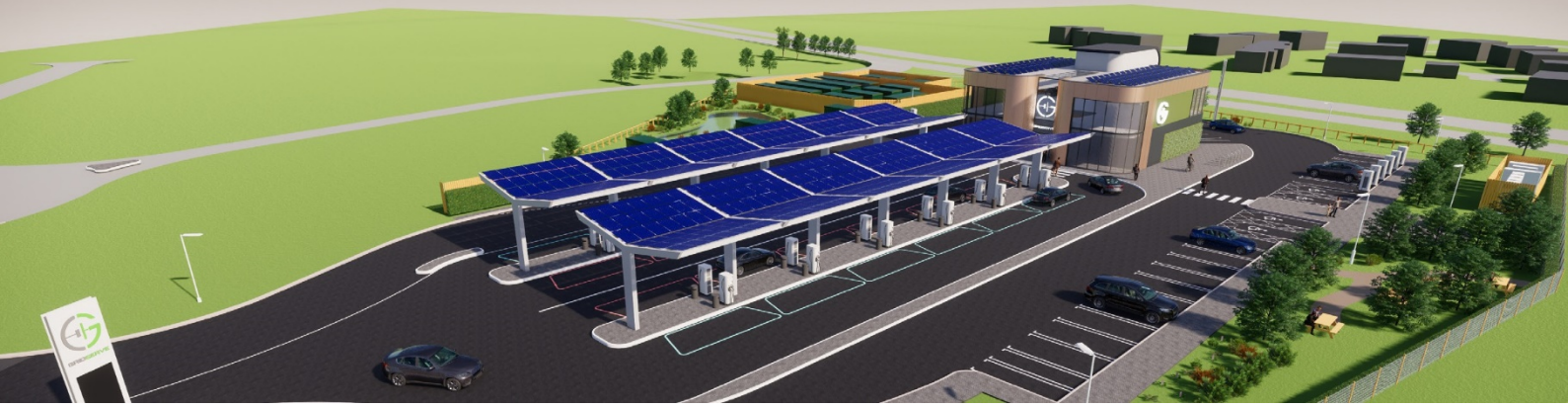
We will continue to evolve to make a positive impact on society and the communities that we operate in, actively contributing towards achieving the UN Sustainable Development Goals.

Our strategic focus continues to be on sectors that have a positive impact on people and their lives. During 2020/21, we strengthened our focus on environmental agendas through our business propositions, and we’ll continue to enhance these contributions.

1.2 Hitachi Capital (UK) sustainability strategy

HCUK has adopted the UN’s Sustainable Development Goals with the aim of achieving sustainable growth.

To implement our Environmental, Social and Governance (“ESG”) strategy and targets we have set up a Corporate Social Responsibility (“CSR”) Committee that meets on a quarterly basis. We have also committed to publishing an annual ESG report. The ESG reporting is provided to our parent company on an annual basis and HCUK’s Executive Committee when required.



Hybrid and electric vehicles

The Net Book Value of Green Assets (electric vehicles, green energy, recycling & waste equipment, renewable energy, energy efficiency and rail) on our balance sheet is £351.6m as at the end of March 2021.

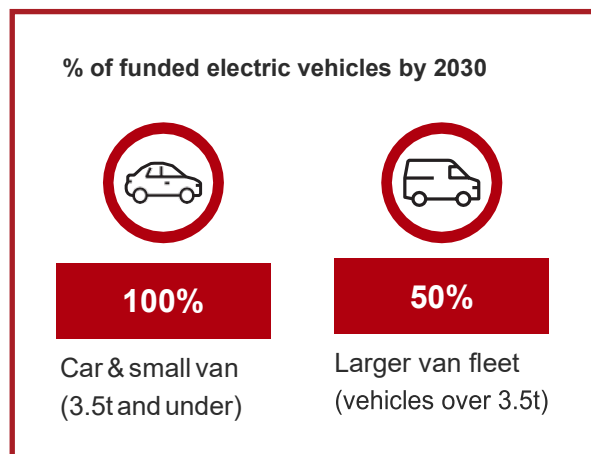
Our main impact on the environment emanates from the Vehicle Solutions business (“HCVS”). Here we operate over 95,000 assets, from cars, vans and Heavy Good Vehicles (“HGVs”) to plant and machinery. We are seeking to respond to this by becoming a market leader in the UK for electric vehicle adoption. Our vehicle business is responding with products and initiatives to support the UK’s goal of banning petrol, diesel and hybrid cars by 2035. This is evidenced by our ambitious targets to electrify the fleet. HCVS is committed to electrify 100% (62,500+) of the funded car & small van (3.5t and under) and 50% of funded larger van fleet (vehicles over 3.5t) by 2030.

We updated our HCUK Group company car policy for employees in order to address our carbon impact. We introduced an Ultra-Low Emission Vehicles (ULEV) incentive scheme for cars below 75g/km CO₂. In addition, we included a smart charging point within the car allowance so that employees could have a home charging point installed.

In the financial year ending March 2021 the percentage of the fleet consisting of Battery-powered Electric Vehicles (BEV) was 3.9% and 1% in March 2020. The percentage of the fleet comprising hybrid, including both plug-in (PHEV) & self-charging vehicles (HEV) was 6.8% in March 2021 and 4.9% in March 2020.

Vehicle charging stations

To support growing uptake in this segment we are partnering with GRIDSERVE - a cutting edge sustainable energy solutions company that focuses on projects around grid power, EV power and remote power. The partnership will see GRIDSERVE develop the UK’s most technically advanced hybrid solar farms, in conjunction with a new network of solar powered Electric Forecourts® to provide ultra-fast, dependable charging for all types of electric vehicles. Following the successful launch of the Braintree Electric Forecourt®, our funding is supporting GRIDSERVE’s project to upgrade the ‘Electric Highway’ network of charge points and provide faster charging facilities across the UK motorways and major roads network.



Buildings

To reduce the carbon impact from our offices we have looked at how their energy is sourced. Four sites (Staines, Leeds, Newbury and Trowbridge) out of our five sites are now supplied with electricity from renewable sources. In addition, the vehicle preparation centre located at Trowbridge generates a portion of its energy from 40 solar panels installed on the roof.

Employee volunteering

We continue to develop and maintain partnerships with our national charity organisations that are addressing sustainable issues through volunteering and providing advice and guidance where we have expertise and skills.

We've introduced a volunteering community, which is a group of employees at each of our offices providing support in arranging volunteering days. In addition, we have introduced a gifting volunteering leave scheme which enables unused volunteer leave to be utilised by other colleagues. Through those activities, our total volunteer hours decreased from 1,493 to 881 in 2020/21. Physical volunteering was difficult during the pandemic, therefore HCUK promoted digital mentoring volunteering opportunities to employees through our Gamechangers, EPQ (Extended Project Qualification) and Be the Business partnerships.

For more information on our strategy please see our ESG report: <https://www.hitachicapital.co.uk/about-us/corporate-social-responsibility/>

1.3 Rationale for green financing

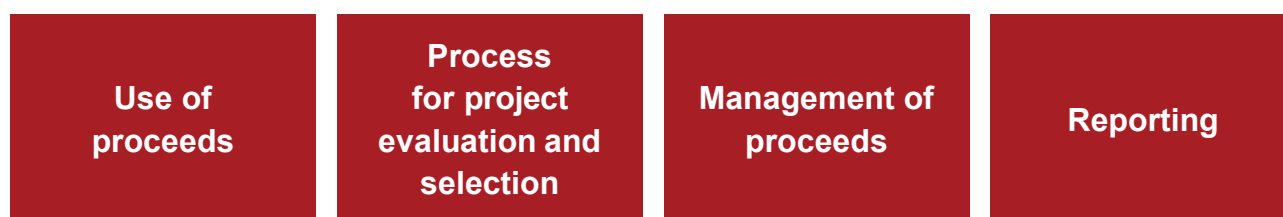
At HCUK we intend to issue green debt instruments to send a clear message to investors about our commitment and intention to meet our sustainability goals and accelerate the transition to low carbon transport. We also hope that the transparency of our Green Financing Framework will allow ESG-focused investors to take part in HCUK's fundraising with confidence.

We also see this form of fundraising as additive to our client proposition. By combining green financing with our expertise in vehicle finance we can help our customers switch their commercial fleets to electric vehicles.

2.0 Green Financing Framework

In line with our ambition of providing low-carbon mobility solutions, HCUK has established this Green Financing Framework under which it intends to issue "Green Financing Instruments" (which may include, but is not limited to, bonds, including private placements, and loans) to finance and/or refinance assets within the 'Eligible Categories of Clean Transportation and Renewable Energy'.

The HCUK Green Financing Framework is aligned with the ICMA "Green Bond Principles" as well as the LMA "Green Loan Principles", which provide guidelines in the form of four core components:





The HCUK Green Financing Framework also follows the recommendations of the ICMA Green Bond Principles regarding "External Review" (as set out in section 2.5).

Adoption of changes to the EU "Green Bond Standard" (EU -GBS) may be implemented in future versions of this framework. Any subsequent version of this framework will either keep or improve the stringency of the selection criteria and the current levels of transparency regarding project evaluation and selection process, management of proceeds and reporting requirements.

2.1 Use of proceeds

Use of proceeds alignment with HCUK strategy and institutional frameworks

GBP / GLP Eligible Category	Eligible Green Projects	HCUK's goals	UN SDGs alignment	EU Taxonomy alignment
Clean Transportation	<ul style="list-style-type: none"> Battery Electric Vehicles (provision of leases) Hybrid Vehicles (<50g CO2/km) 	<p>Target 100% of car & small van (3.5t and under fleet by 2030)</p> <p>50% of funded larger van fleet (vehicles over 3.5t) by 2030</p>	 <p>SDG 11 – Sustainable Cities and Communities</p> <p>Subgoal 11.2 (sustainable transport systems)</p>	<p>Substantial contribution to Climate Change Mitigation: Increasing clean or climate neutral mobility (1.c)</p> <p>Selected economic activity: 6.5 Passenger cars and commercial vehicles</p>
Renewable Energy, Clean Transportation	<ul style="list-style-type: none"> Hybrid Solar Farms Electric vehicle charging points, in particular the Electric Forecourts® 	<p>Rollout 100+ Electric Forecourts® across the UK by 2025, as part of GRIDSERVE partnership</p> <p>Investing in the Electric Highway charging infrastructure</p>	 <p>SDG 7 – Affordable and Clean Energy</p> <p>Subgoal: 7.2 (renewable energy in global energy mix)</p>	<p>Substantial contribution to Climate Change Mitigation: generating, transmitting, storing, distributing or using renewable energy (1.a)</p> <p>Selected economic activity: 4.1 Production of Electricity from Solar PV</p>

With regards to any leasing provisions or expenditures, we will adopt a lookback period of up to 36 months. For the avoidance of doubt, the reference date utilised is the date the lease was signed.

2.2 Process for project evaluation and selection

Description of the project evaluation and selection process:

The CSR Committee comprises 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 certain central functions – including Treasury and Finance.

The CSR Committee meets at least quarterly to discuss CSR targets, agree activities to these targets, and ensure these programmes meet the mission, vision and values of HCUK and its shareholder. The CSR Committee will also discuss the addition of any new categories of assets or projects to be eligible for Green Financing.

2.3 Management of proceeds

The net proceeds of a HCUK Green Finance Instrument will be managed on a portfolio basis at HCUK Treasury, the centralised funding centre of HCUK.

The purchase of eligible vehicles by HCUK or any of its subsidiaries will be recorded and tracked centrally via internal reporting systems, in line with HCUK's periodic (monthly) reporting requirements. HCUK's CSR function will validate the centrally reported purchases and allocate the purchases to the proceeds of a HCUK Green Finance Instrument.

Oversight of the “Management of Proceeds” will be provided by HCUK’s Treasury team. The allocated and unallocated proceeds of any HCUK Green Finance Instrument will be reported to the CSR Committee on a quarterly basis (£, %).

HCUK will strive to maintain a level of allocation for the Eligible Green Projects which matches the balance of net proceeds from its outstanding Green Finance Instruments.

It is HCUK’s intention to ensure that an amount equal to the net proceeds raised will be allocated to the acquisition of eligible assets within 24 months from the date of any HCUK Green Finance Instrument issuance.

Unallocated proceeds will be held at HCUK Treasury in cash or short-term investments or to repay maturing debt, in line with the risk appetite of HCUK. HCUK commits to not repaying debts that are linked to heavily polluting activities.

2.4 Reporting

In accordance with the ICMA Green Bond Principles, HCUK will keep green investors and other stakeholders updated on the allocation of proceeds and intends to communicate on the expected impact of the “Eligible Green Projects”.

HCUK intends to provide an annual update throughout the life of the HCUK Green Finance Instruments. It is expected that information on the “Allocation of Proceeds” and “Impact Reporting” (each as set out below) will be made available in such annual update.

Allocation report

Within the allocation report HCUK will provide a breakdown on the allocation of the proceeds of the HCUK Green Finance Instruments to the purchase of eligible assets.

This breakdown will be separated into:

- Allocated Proceeds (% , £)
- Unallocated Proceeds (% , £)
- Amount or percentage of new financing and refinancing (% , £)

Impact report

The impact report will be provided within the wider ESG report available on our website and will include:

- A description of the Eligible Green Projects.
- Subject to the availability of suitable data, metrics regarding Eligible Projects’ environmental impact e.g. amount financed in eligible categories, CO2 emissions saved and solar energy supplied.
- On a best effort basis, HCUK intends to align the impact reporting with the portfolio approach table as described in the ICMA Handbook - Harmonized Framework for Impact Report (June 2019).

2.5 External review

Prior to the issuance of any Green Finance Instrument, a second party opinion provider will be sourced from a credible provider of such services. The content of this opinion will be publicly disclosed.

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