

13 June 2023

Second Party Opinion

# Perpetual Next Conversions B.V.

PRE-ISSUANCE



# Perpetual Next Conversions B.V. Green Bond Framework Second Opinion

## Opinion Summary

Perpetual Next Conversions B.V. (“PN Conversions” or the “Company”) is a developer and operator of biogas and renewable district heating facilities with the overarching aim to provide a low-carbon alternative to fossil energy sources. The use of proceeds from bond issuance will be limited to investments in eligible Green Projects in Western Europe, Poland, Nordics, UK and Ireland.

The Green Bond Framework will support investments into construction and operation of facilities that produce biogas and its by-product digestate. PN Conversions biogas production is based on low-grade waste sources sourced regionally, which is important and beneficial from an environmental perspective. The framework outlines robust procedures for selecting and reporting on green assets, but at a corporate level the company’s sustainability profile has the potential to be stronger.

This review was conducted in accordance with ICMA’s external review guidelines<sup>1</sup> using documentation provided by PN Conversions as well as discussions with the Company’s senior management. PGA confirms it has in place processes to safeguard professional integrity, objectivity, competence, behaviour, and confidentiality.



### GREEN BOND PRINCIPLES

Position Green Advisory AS is of the opinion that PN Conversions’ Green Bond Framework is aligned with the four core components of the ICMA Green Bond Principles of June 2021<sup>2</sup>.

### SCORING/RATING

# B+

Based on an overall assessment of the eligible project categories environmental ambition and governance considerations, PN Conversions’ green financing framework receives a B+, meaning the net proceed will be allocated to projects that represent a significant step towards a low-carbon and climate resilient economy and/or have a clear and positive environmental impact. To improve the governance considerations, the company should increase its corporate sustainability profile, for example by measuring GHG emissions, conducting life cycle assessment and create corporate ESG targets.

<sup>1</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/Guidelines-for-GreenSocialSustainability-and-Sustainability-Linked-Bonds-External-Reviews-February-2021-170221.pdf>

<sup>2</sup> Green-Bond-Principles\_June-2022-280622.pdf (icmagroup.org)

# Methodology and rating scale

## Scope of review and responsibilities

This Second-Party Opinion (SPO) reflects PGA's independent opinion on the alignment of the reviewed Green Bond Framework with the Green Bond Principles. PGA confirms that it has:

- (1) expertise in Green Bond Framework requirements
- (2) reviewed the Company's alignment with the four core components of the ICMA Principles
- (3) assessed the alignment with broadly adopted environmental and climate-related objectives and frameworks.

PGA has relied on information provided by the Company's management team to understand the sustainability impact of their business strategy, and the reporting and verification procedures applicable to the Green Bond Framework. The Company's representatives have confirmed that:

- (1) They understand it is the sole responsibility of the Company to ensure that the information provided is complete, accurate and up to date.
- (2) They have provided PGA with all relevant information.
- (3) The provided material information has been duly disclosed in a timely manner.

PGA received information through discussions with the Company and reviewed relevant documents published by the Company as well as non-public information to prepare this report. The opinion should be read in conjunction with the Green Bond Framework<sup>3</sup> and other Financing Documents. PGA's SPO reflects PGA's opinion of the Framework's alignment with current market standards. As such, this SPO is no guarantee of alignment with future versions of relevant market standards. PGA's SPO addresses the use-of-proceeds and whether the eligible projects align with broadly adopted climate and environmental objectives and frameworks. However, the project selection and evaluation, management of proceeds and reporting are the sole responsibility of the issuer.

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

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<sup>3</sup> Perpetual Next Conversions B.V., Green Bond Framework, June 2023

## Alignment and rating scale

### Alignment

When conducting an SPO review, PGA assesses whether the proposed framework can be said to be aligned or not aligned with the Green Bond Principles issued by International Capital Market Association (ICMA). Where evidence is found that the said principles are covered, PGA deems a framework to be aligned.

### Rating of eligible project categories

When reviewing the eligibility criteria of projects, PGA applies the following ratings:

**A**

Allocated to projects that fully support the transition to a low-carbon and climate resilient economy and/or provides substantial positive environmental impact.

**B**

Allocated to projects that represent a significant step towards a low-carbon and climate resilient economy and/or have a clear and positive environmental impact.

**C**

Allocated to climate projects for which there are no technology and/or economically feasible alternatives but support the transition to a low-carbon economy and/or to projects that have some positive environmental impact.

**D**

Projects that can lower emissions or provide minor positive environmental impact.

**E**

Allocated to projects that have no recognisable long-term climate and/or positive environmental impact.

The rating reflects a qualitative review of the climate and environmental risks and impact associated with the project categories and overall business strategy and governance process. Strong governance structures are necessary to facilitate the delivery of the issuer's climate and environmental agenda. Hence, key governance aspects that can facilitate the implementation of the Eligible Green Project investments are considered and reflected in the overall rating. The rating intends to provide transparency to investors that seek to understand and mitigate potential exposure to climate and environmental risk and contribute the transition to a low-carbon and environmentally sustainable society.

# Perpetual Next Conversions B.V.

## The Issuer

PN Conversions is the bio-conversions business unit of Perpetual Next B.V., a Dutch registered climate technology group. PN Conversions builds, owns, and operates plants that convert low grade (food and animal by-product) waste into biogas and biomethane, in addition to producing renewable heat and power from wood waste using combined heat and power units.

The Company is headquartered in the Netherlands and has three operating facilities: Moerdijk (biogas, Netherlands), Lelystad (district heating, Netherlands) and Trinity (biogas, UK).

PN Conversions intends to issue Green Bonds (the “GB” or “Bond”) referencing this framework. The Company has commissioned Position Green Advisory to review its Green Bond Framework and provide an opinion on the alignment of the framework with the ICMA Green Bond Principles.

## Environmental strategy and governance

### Business strategy

PN Conversions is a developer and operator of biogas and renewable district heating facilities with the overarching aim of providing a low-carbon alternative to fossil energy sources. Bioenergy has a significant greenhouse gas (GHG) mitigation potential, provided that the resources are developed sustainably. The company uses an anaerobic digestion process that produces methane-rich biogas under controlled conditions, and a waste bi-product termed ‘digestate’. Biogas can be used in multiple forms and applications that displace fossil fuels. The digestate is typically used on farmland as organic fertilizer. The use of digestate instead of synthetic fertilizers derived from by-products of the petroleum industry saves energy and reduces the consumption of fossil fuels.

Low-grade waste sources, including expired food and rejected food that is labelled as not suitable for human or animal consumption and food waste from regional restaurants, are diverted from landfill for use in the anaerobic digestion process. This reduces fugitive emissions, in particular methane, and provides energy for fuel, heat, electricity, as well as fertilizer (as a by-product from the waste stream). Hence, biogas based on waste is considered part of the circular economy. Methane leakage during this process, however, may offset the climate mitigation benefits and therefore needs to be avoided. Specific monitoring is therefore needed to detect methane leakages from relevant facilities.

By producing renewable energy and recycling waste sources, PN Conversions seeks to contribute to the transition towards a low-carbon environmentally sustainable society.

### Sustainability and ESG governance

In PG’s view, PN Conversions has an overall business strategy that contributes to the transition to a low-carbon environmentally sustainable society, however it is still necessary to have appropriate governance structures related to internal ESG practices and process. It is considered best market practice to have strong governance of ESG issues, including clear ownership structures, robust processes to identify and mitigate ESG risks across own operations and the supply chain, internal controls to measure, monitor, verify and report ESG performance and impact. The issuer states that ensuring a sustainable supply chain and avoiding environmental harm are priorities and the company has strict waste sourcing protocols and adhere to stringent standards to mitigate risks. PN Conversion also conducts environmental impact assessments and implements measures to protect biodiversity and ecosystems throughout the life cycle of its facilities.

PN Conversion is dependent on fossil fuel throughout the value chain, for example for transport, production, and electricity consumption, and should aim to limit this. The company does not currently monitor its GHG emissions, nor conducts life cycle assessments of climate or environmental impact. Exposure to transitional and physical climate risk has not been considered.

Socially, community acceptance and engagement present a potential risk. Local communities may express concerns about odour emissions, noise levels, or visual impacts of the facilities. PN Conversions states that they proactively communicate and engage with stakeholders and implements best practices and state of the art technology in facility design and operation to minimize any negative impacts and build trust with the communities.

Overall, PN Conversions current governance structure, targets and policies are immature and there is significant room for improvement by establishing clear policies and processes related to ESG governance.

## Alignment with core principles

Overall assessment: PGA is of the opinion that the Company's Green Bond Framework is aligned with the four core elements of the Green Bond Principles (GBP) of June 2021.

### GBP1 - USE OF PROCEEDS

#### Assessment: Aligned

PGA has assessed whether the use of proceeds is appropriately described in the Green Bond Framework, whether they provide clear environmental benefit, and (where feasible) whether they are quantified by the issuer.

An amount equal to the net proceeds from the issued Green Bond will be used to finance, in whole or in part, a portfolio of assets and projects within PN Conversions that promote the production of biogas for various purposes. For eligible project categories and PGA's assessment, please refer to section 'Use of Proceeds Assessment'. Proceeds may be used for the financing of new assets and projects as well as for refinancing purposes. The share of financing vs. re-financing is expected to be 75% new projects and 25% refinancing. The proceeds from the first Green Bond transaction may only be applied to refinance debt related to Lelystad (commissioned in 2018) of EUR 9.4m and Moerdijk (acquired in 2022) of EUR 6.4m.

The issuer states that no proceeds will be used to finance investments to generate fossil energy or nuclear energy, nor investments linked to research and/or development within weapons and defence, potentially environmentally negative resource extraction, gambling, or tobacco.

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#### REQUIREMENTS IN GREEN BOND PRINCIPLES:

All designated eligible Green Projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer.



**PGA Comment:** Position Green has assessed PN Conversions' eligible projects based on the projects ability to deliver clear environmental benefit. For details on the PGA analysis, see section 'Use of Proceeds Assessment' below.

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## GBP2 – PROCESS FOR PROJECT EVALUATION AND SELECTION

### Assessment: Aligned

A Green Finance Committee will be established and is responsible for the evaluation and selection of projects. All eligible projects shall adhere to the eligibility criteria outlined in the "Use of Proceeds" section above and must comply with the eligible Green Project criteria, and any applicable national laws and regulations. The Green Finance Committee consists of members from the senior management team. It will meet on an annual basis, or more often if needed. The Company will endeavour to ensure that the amount of Eligible Green Projects at all times exceed the total amount of available net proceeds from the Green Bonds.

### REQUIREMENTS IN GREEN BOND PRINCIPLES:

The environmental sustainability objectives of the eligible Green Projects.

**Comment:** Communicated in Green Bond Framework and through annual reporting, as described below.

The process by which the issuer determines how the projects fit within the eligible Green Projects categories.

**Comment:** The company has stated that the Green Finance Committee will conduct thorough assessments of project proposals to determine their alignment with the Green Bond Principles, the Company's environmental objectives, and the eligibility criteria outlined in the framework and evaluating the potential environmental impact of each project, considering factors such as greenhouse gas emissions reduction, renewable energy generation, waste management, and resource efficiency. The Green Finance Committee has not yet been established, and PGA has not been presented with a mandate for the Green Finance Committee.

GBP encourages complementary information<sup>4</sup> on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s).

**Comment:** The company has identified generic social and environmental risks related to their business but have not explained how and to what degree this will be integrated in the project evaluation and selection process. The issuer informs us that this will be taken into account when finalizing the mandate for the Green Finance Committee.

## GBP3 – MANAGEMENT OF PROCEEDS

### Assessment: Aligned

An amount equal to the net proceeds from issued Green Finance Instruments will be earmarked for financing and refinancing of eligible Green Projects as defined in the Green Finance Framework. All relevant information regarding the issuance of Green Bonds and projects financed will be monitored and kept in the Company's accounting systems under the responsibility of the Head of Finance. If a Green

<sup>4</sup> Fulfilment of 'encouragements' stated in the GBP have not been included in the overall rating of alignment with the four core principles.

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Project already funded by Green Bond is sold, or for other reasons loses its eligibility in line with the criteria in this Framework, it will be removed from the portfolio.

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#### REQUIREMENTS IN GREEN BOND PRINCIPLES:

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Green Bond proceeds segregated or tracked by the issuer in an appropriate manner.

**Comment:** The use of the net proceeds will be thoroughly tracked internally, and a green financing register will be maintained to transparently track the use of proceeds and serve as a basis for reporting.

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The balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible Green Projects made during that period.

**Comment:** If a Green Project already funded by Green Bond is sold, or for other reasons loses its eligibility in line with the criteria in this Framework, it will be removed from the portfolio.

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Disclosure of intended types of temporary placement for the balance for the balance of unallocated net proceeds.

**Comment:** Where the net proceeds cannot be immediately allocated, they may be invested in short term money market instruments or held as cash.

### GBP4– REPORTING

#### Assessment: Aligned

The issuer will annually publish a Green Finance Report which will be made available on its website as long as there are Green Bonds outstanding. The report will include the allocation of net proceeds and associated environmental impact. The green financing report will be published as a part of the Company's ongoing financial reporting or as a standalone report.

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#### REQUIREMENTS IN GREEN BOND PRINCIPLES:

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The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects, the amounts allocated, and their expected impact.

**Comment:** According to the issuer the report will include:

- The total amount of green financing bonds outstanding
  - The total amount of allocated net proceeds per project category
  - A list of projects financed including a brief description
  - The proportion of net proceeds used for financing versus refinancing, and any balance of unallocated net proceeds
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Use of qualitative performance indicators and, where feasible, quantitative performance measures and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. ☒

**Comment:** The impact reporting will be on a project-by-project basis. Possible metrics include:

- CO2 savings (tonnes CO2/year)
- Biomethane production (m3/year)
- Yield from feedstock (Nm3 CH4/ton ww)
- Waste processing (tonnes/year)
- Fertilizer production (tonnes/year)
- Quantity of recycled streams (tonnes/year)
- Waste reduction (tonnes/year)
- Quantity of water reduction (tonnes/year)

It is unclear to what extent methodologies and underlying assumptions will be disclosed.


The GBP recommends that an issuer’s management of proceeds is reviewed by an external auditor, or other third party, to verify the internal tracking and the allocation of funds from the Green Bond proceeds to eligible Green Projects. ☐

**Comment:** The issuer has for now, not the intention to have an external auditor, or other third party, to verify the tracking and the allocation of funds from the Green Bond proceeds.

## Use of Proceeds Assessment

### Assessment: B+

Position Green has assessed PN Conversions’ eligible projects based on the project’s ability to deliver clear environmental benefit, as required by the Green Bond Principles.

PROJECT	ELIGIBLE GREEN PROJECTS	PGA ASSESSMENT
<b>Anaerobic digestion</b> 	<p>Construction and operation of dedicated facilities for the treatment of separately collected bio-waste through anaerobic digestion with the resulting production and utilisation of biogas and digestate and/or chemicals.</p> <p>Eligibility criteria:</p> <ul style="list-style-type: none"> <li>• Monitoring and contingency plan in place to minimise methane leakage.</li> </ul>	<ul style="list-style-type: none"> <li>• Feedstock sources are solely from low-grade waste products which reduces the environmental impact of the production process.</li> <li>• The eligibility criteria meet all the substantial contribution criteria in the EU Taxonomy for the activity ‘Anaerobic digestion of bio-waste contribution to climate mitigation’</li> <li>• The process of generating any form of energy from biogas and digestate</li> </ul>

- The biogas is used directly for the generation of electricity or heat or upgraded to bio-methane for injection in the natural gas grid or used as vehicle fuel or as feedstock in chemical industry.
  - The bio-waste that is used for anaerobic digestion is source segregated and collected separately.
  - The produced digestate is used as fertiliser or soil improver, either directly or after composting or any other treatment.
  - The share of food and feed crops used as input feedstock, measured in weight, as an annual average, is less than or equal to 10% of the input feedstock.
- through anaerobic digestion has potential adverse environmental impact that will need to be managed, including:
- Emissions to air, soil and water which may lead to emissions of pollutants that can impact surrounding ecosystems through acidification and/or eutrophication.
  - Methane leakage
  - Contaminants in the digestate may result in soil and water pollution.
- Any construction activities are associated with potential negative environmental impact, including land use change, resource consumption, emissions, noise and hazardous materials, which must be appropriately managed.

## Biogas



Construction and operation of facilities that produce heat exclusively from biomass, biogas or bioliquids, and excluding production of heat from the blending of renewable fuels with biogas or bioliquids.

Eligibility criteria:

- Agricultural biomass used complies with the criteria in Article 29, paragraphs 2 to 5, of Directive (EU) 2018/2001.
  - Forest biomass used in the activity complies with the criteria laid down in Article 29, paragraphs 6 and 7.
  - The greenhouse gas emission savings from the use of biomass are at least 80% in relation to the GHG emission saving methodology and relative fossil fuel comparator set out in Annex VI to Directive (EU) 2018/2001.
  - Where the installations rely on anaerobic digestion of organic material, the production of the digestate meets the criteria 1 and 2 of Section 5.7 of Annex I to Directive (EU) 2021/2139, as applicable.
- Biogas is a low-carbon renewable energy source, which is considered important to help the EU meet its GHG-reduction target.
  - Feedstock sources are solely from low-grade waste products which reduces the environmental impact of the process.
  - The eligibility criteria meet all the substantial contribution criteria in the EU Taxonomy for the activity 'Production of heat/cool from bioenergy contribution to climate mitigation'.
  - Fossil fuel reliance across the value chain for e.g., transport of feedstocks, electricity use and production processes should be managed and mitigated.
  - See 'Anaerobic digestion' category for environmental issues associated with anaerobic digestion and construction activities.

## District heating



Construction and operation of installations used for cogeneration of heat/cool and power exclusively from biomass, biogas or bioliquids, and excluding cogeneration from blending of renewable fuels with biogas or bioliquids.

Eligibility criteria:

- Agricultural biomass used complies with the criteria in Article 29, paragraphs 2 to 5, of Directive (EU) 2018/2001.
  - Forest biomass used in the activity complies with the criteria laid down in Article 29, paragraphs 6 and 7.
  - The greenhouse gas emission savings from the use of biomass are at least 80% in relation to the GHG emission saving methodology and relative fossil fuel comparator set out in Annex VI to Directive (EU) 2018/2001.
  - District heating based on biogas is a low-carbon renewable energy source, which is considered important to help the EU meet its GHG-reduction target.
  - Feedstock sources are solely from low-grade waste products which reduces the environmental impact of the process.
  - The eligibility criteria meet the majority of the substantial contribution criteria in the EU Taxonomy for the activity 'Cogeneration of heat/cool and power from bioenergy contribution to climate mitigation'.
  - Fossil fuel reliance across the value chain for e.g., transport of feedstocks, electricity use and production processes should be managed and mitigated.
  - See 'Anaerobic digestion' category for environmental issues associated with anaerobic digestion and construction activities.
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# About Position Green

Position Green Advisory (PGA) is the advisory branch of the Position Green Group, a Nordic leader in sustainability software and advisory. PGA provides expertise on environmental, social and governance (ESG) risk and compliance. The firm applies leading global ESG standards when conducting Company assessments, benchmarking, and gap analysis.

PGA has worked with over 150 public and private entities across all industries, most notably the maritime sector, oil and gas, renewables, defence, real estate, technology, and financial services. PGA also serves as a trusted advisor to public institutions such as the United Nations, the World Bank, and governmental agencies, as well as various NGOs and foundations.

Position Green is a member of the UN Global Compact, a partner of GRESB and the SASB Consulting Programme, having contributed to the development of the SASB Marine Transportation standards. Position Green is also a certified GRI Training Partner and a CDP Accredited provider. PGA is a signatory to the principles of the International Capital Market Association (ICMA). PGA applies the International Standard on Quality Control 1 (ISQC) framework required for e.g., ISAE 3000 assignments.



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