°CICERO Shades of Green

Paprec Group
Green Bond Second Opinion

June 18, 2021

Paprec Group ("Paprec") is a French waste services company. Through its business, Paprec is involved in the entire waste management value chain: from collection from its customers — municipalities and companies — to the sale of recycled raw materials, management of ultimate waste disposal, waste-to-energy or organic material recovery. Currently the company is active in France and Switzerland and plans expansions through acquisitions of waste-to-energy companies with operations in the UK, Poland and Azerbaijan.

Paprec's green bond framework includes investments (CAPEX and OPEX) in projects in Paprec's entire waste management business (55% of proceeds). In addition, it allows for the acquisition of two waste-to-energy companies (45%) with operations in France as well as in the UK, Poland and Azerbaijan. Investors should know that a share of proceeds will be used for investments in heavy duty fossil fuelled vehicles (currently Euro 6) and machinery necessary for Paprec's waste collection and recycling activities. The issuer informed us that it has that it has an internal project group to explore alternative-energy powered vehicles and already owns some hybrid/zero-emission vehicles. According to the company, a small portion of proceeds could be allocated landfills, but solely to improve their energy performance. No additional criteria (e.g., for efficiency, buildings etc.) have been established.

While Paprec's business focuses on the entire waste value chain, there is a risk that some of Paprec's waste-to-energy plants are not fully integrated into a process where waste avoidance and recycling is prioritized. In addition, waste-to-energy requires natural gas for the operations and can have broader environmental impacts. The company informed us that waste is not imported, locally produced and not transported more than approximately 200km. We encourage the issuer to also consider third-party transportation emissions.

The recovery, reuse and recycling of materials is important in a climate change perspective. Paprec has an overall recycling rate of 77.6% with the majority of the remaining waste going to landfills and a smaller share to waste-to-energy. The issuer is working towards a circular economy by processing waste according to the waste hierarchy, aiming at reducing landfill volumes. A small portion of proceeds could be allocated to landfills to improve their energy performance. Paprec's overall emissions are expected to increase in the future due to the investments in waste to energy and Paprec's reporting scheme constitutes a weakness as level of detail and transparency is lacking. In addition, not all plants have received environmental certifications. Paprec informed us that the non-certified plants are planned to be certified within three years after taking control.

Based on the overall assessment of the project types that will be financed by the green bonds, governance and transparency considerations, Paprec's green bond framework receives a **CICERO Medium Green** shading and a governance score of **Fair**. To improve, the issuer could commit to stringent quantitative targets, focus on investments in zero-emission solutions, enable environmental experts with veto power in the selection, prioritize recycling in its expansion strategy, incorporate systematic climate risks screenings, and significantly improve the reporting scheme.

SHADES OF GREEN

Based on our review, we rate the Paprec's green bond framework **CICERO Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in Paprec's framework to be **Fair**.

GREEN BOND PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.

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Contents

1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated April 9, 2021**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	Wind energy projects with a strong governance structure that integrates environmental concerns
Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	Bridging technologies such as plug-in hybrid buses
Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of Paprec's green bond framework and related policies

Paprec Group ("Paprec") is a French waste services company active in the French and Swiss market for waste collection, recycling (especially for paper, plastic, non-hazardous industrial waste, selective household waste and wood) and waste treatment (composting, incineration, non-hazardous waste storage centers management). Paprec also engages in the recycling of hazardous industrial waste ("HIW"), and waste electrical and electronic equipment ("WEEE") in household waste collection. Through its business, Paprec is involved in the entire waste management value chain: from collection from its customers — municipalities and companies — to the sale of recycled raw materials, management of ultimate waste disposal or organic material recovery. Paprec operates more than 250 sites in France and Switzerland. The company currently plans expansions through acquisitions of waste-to-energy companies in the UK, Poland and Azerbaijan.

Environmental Strategies and Policies

Paprec is solely active in the recycling and waste management sector. For 2020, Paprec informed us that it collected, recovered and recycled circa 11.3 million tons of waste during the year which leads to the avoidance of more than 4.1 $MtCO_2$ according to Paprec. These avoided emissions are calculated based on the carbon weight of the energy substituted, and avoided emissions associated with material recovery using a Life Cycle Analysis (LCA). The GHG protocol methodology for avoided emissions calculation is available online[1]. 60% of these avoided emissions are due to paper & board recycling, 23% from PE, PP, PVC & PET and 15.6% from metal recycling. In 2019, Paprec reported Scope 1 and 2 emissions of 327ktCO_2eq which constituted a slight increase compared to 2018 of 1%. Emissions from the recycling business increased by 19% compared to 2017 to 194ktCO_2eq. Paprec's own emissions are mainly resulting from collection vehicle fuel consumption (up to 80%) and the energy needed to operate sorting centers and plants (18%). The issuer informed us that Scope 1 and 2 emissions increased and will continue to increase mainly due to acquisitions, e.g., since 2017 Paprec has acquired landfills and also reports on associated emissions. The issuer reports on Scope 1 and 2 emissions in accordance with the GHG Protocol methodology, based on its Waste Sector GHG Protocol Calculation Tool. This calculation tool allows to use either a measurement or a calculation approach to quantify emissions from each kind of source type. Paprec's Scope 3 emissions related to subcontractors and clients downstream are not reported by Paprec.

The company's main environmental objective is to improve its waste recycling and recovery rate (recycling rate 77.6% in 2019). The issuer informed us that the majority of the remaining waste goes to landfills and a smaller share to waste-to-energy. The company informed us that Paprec's strategy is built on recycling first, producing energy out of waste second, and landfilling third. Paprec has established quantitative targets for processes and at site level, in particular to decrease the volume of recycling rejects. However, the company informed us that such targets are not disclosed. With regards to energy recovery, a total of 49GWh of electricity and 42 GW of heat generated for self-consumption onsite has been generated from landfills and close to 9 TWh of biogas was produced and fed into the relevant networks in 2019.

Each Paprec facility has at least one of the following certifications: ISO 9001 for quality, ISO 14001 for environmental management, OHSAS 18001 for security. Paprec's industrial sites are all certified ISO 14001 within three years when eligible; in 2020, 73% of them where certified. The company informed us that the remainder is

[1] Waste Sector GHG Protocol_Version 5_October 2013_1_0.pdf

not yet within the company's control for more than three years. In addition, the company notified us that it ensures that environmental standards are in place through due diligence before acquisitions, notably checking all legal documents required, as well as by conducting several internal audit according to the standards Paprec wants to achieve. In addition, all the Group's landfill facilities are certified to ISO 14001. Currently, Paprec operates 29 landfills for "ultimate waste". Paprec informed us that each landfill has a green monitoring programme and that landfill volume is expected to decrease by 50% by 2025. In addition, Paprec operated 54 hazardous waste storage platforms, 13 composting plants, 13 Waste-to-Energy plants for ultimate waste and residual household waste (in line with the French regulation), 13 plastic plants and 15 scrap iron and other metal recycling plants and many other plants/facilities.

The issuer is a signatory of the Global Compact since 2005. The framework also specifies that the Group is a member of Entreprises pour l'Environnement (EpE), Collège des Directeurs de Développement Durable (C3D), Institut de l'entreprise, the Orée NGO focused on industrial and regional ecology issues, and Institut National de l'Economie Circulaire (INEC). Paprec informed us it has several ongoing pluriannual cooperative R&D projects funded by the EU or by the French government incl. the 2019 H2020 European subsidy for recycling composite plastics with carbon fibres, the 2021 H2020 European CIMPA R&D project for the sorting and recycling of complex plastic films and the 2021 French government funded R&D project Recyvabat for the recycling of electrical vehicles batteries.

In addition, Paprec, together with 8 other Green Bond issuers, signed a Green Bond Pledge where they committed to a long-term presence in the market, that green bonds will be at the heart of their (project) financing and business lines, and that they will implement stringent reporting procedures. Paprec issued its first green bond in 2015. In 2018, Paprec has commissioned a second party opinion specifically for its 2018 green bond issuance for industrial recycling assets. The company informed us that reporting was partly integrated in the annual sustainability reporting but no dedicated green bond reporting has been prepared.

Paprec informed us that the company currently does not implement TCFD recommendations and neither uses climate scenarios nor systematic climate risk assessments.

Paprec informed us that the company intends to produce a report of at least two pages dedicated to the Group's waste-to-energy activity. The additional reporting will be included in the Group's annual Sustainable Development Report.

Use of proceeds

An amount equal to the net proceeds of the Green Bond will be used to refinance existing industrial recycling assets corresponding to Paprec's 2018 green bond and the acquisitions of energy-from-waste companies Dalkia Wastenergy and CNIM O&M. The company has specified that only refinancing of existing projects Paprec has invested in and only refinancing of acquisitions of the companies CNIM and Dalkia Wastenergy are eligible under the framework. Green Eligible Projects might include capital expenditures and operating expenditures linked to the maintenance costs related to green assets. Eligible projects are located in France, the UK, Poland and Azerbaijan. The issuer informed us that projects outside France are due to the acquisitions of companies in the waste-to-energy business. The company informed us that the look-back period is varying due to financing of recently completed (less than 5 years on eligible projects).

Paprec has not specified any exclusion criteria in the framework. However, the company has informed us that it is expected that no green bond financing is expected to be dedicated to landfill projects or to investments in companies that own and/or operate landfills. Nevertheless, according to the company, it may be possible that some non-significant amounts could fund landfilling activities, but solely to improve their energy performance.

The issuer has stated in the framework that Paprec intends to align the framework to the extent feasible with the draft EU's developing classification of environmentally-sustainable economic activities (the EU 'Taxonomy') and the European Green Bond Standard. A screening against the EU taxonomy has not been carried out.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Decisions are taken within dedicated committees, defined by asset category, which meet monthly:

1. The Investment Committee, for infrastructures that do not require a construction license;
2. The Real Estate Committee, for constructions requiring a construction license;
3. The Purchasing Committee, which oversees the company's purchasing policy;
4. The Merger & Acquisition Committee, which oversees external growth operations.

These committees are composed of the CEO, relevant members of the Executive Committee chaired by president founder Jean-Luc Petithuguenin, the legal team, local teams involved in the contemplated projects, as well as the heads of the involved region/activity/subsidiary. The QSE (quality, safety and environment) team is also involved in some of these committees.

All investment decisions must be validated by the Executive Committee. The company informed us that in the Board of Directors, financial shareholders benefit from veto rights and take into consideration the environmental/climate impact of projects.

For all purchases above EUR 3,000 and all recurrent purchases, an ESG evaluation grid is systematically used. It is based on the 10 principles of the Global Compact. The company has informed us that Paprec has a monitoring policy and will not finance controversial projects. If for any reasons, a project is no longer eligible, or in case of any major controversy affecting a project in the portfolio, the Green Bond Committee will substitute such projects with other eligible projects. For companies that are acquired, Paprec has specified to exclude companies not demonstrating satisfactory social climate and environmental legal compliance. This decision is taken based on a human resources study where several indicators are considered (number of strikes, number of warnings, etc.), a field study, based on interviews with the management team and a media study to identify potential controversies.

Management of proceeds

CICERO Green finds the management of proceeds of Paprec to be in accordance with the Green Bond Principles. The processes for management of proceeds are handled by Paprec's Finance & Treasury Department. According to the framework, Paprec's Finance & Treasury Department will track the use of proceeds in a systematic way, however, the issuer will not use an Escrow account and has not further specified how exactly proceeds will be tracked. Paprec's Finance & Treasury Department will ensure that the total of outstanding amount of Eligible Projects will always be equal or higher than the amount of Paprec's Green Bond outstanding in the market. The full proceeds from Paprec Green Bonds will be allocated once the acquisitions of the two companies are completed upon authorization by the Competition Authority and to refinance existing assets. The proceeds of the Notes to be used to finance the acquisitions of CNIM O&M and Dalkia Wastenergy will, upon issuance on the Issue Date, be held in an account held and controlled by the Issuer or another entity of the Group. In the event that either one or both of the acquisitions of CNIM O&M and Dalkia Wastenergy do not complete, Paprec will use such proceeds

to finance industrial recycling assets, i.e. the first category of projects defined in the "Use of Proceeds" section of the framework.

Unallocated proceeds will be held in cash or other liquidity instruments that do not include Greenhouse Gas (GHG) intensive activities nor any controversial activities, or used to further (re)finance green assets.

In case of divestment:

1. If divestment amounts to more than EUR 10 million, Paprec Group is contractually bound to invest divested proceeds in projects respecting the eligibility criteria within 24 months, otherwise they have to repay their debt in anticipation;
2. If divestment amounts to less than EUR 10 million, Paprec Group is committed to invest divested proceeds in projects respecting the eligibility criteria.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

Based on internal project accounting monitoring and reporting tools, Paprec's Finance and CSR Departments collect and consolidate these reporting data, notably:

1. Use of proceeds, quarterly reported until the maturity date of the Bond, on an aggregated portfolio basis due to competitive considerations, based on the list of investments per category and per investment type (waste collection, treatment, new equipment, equipment renewal, etc.);
2. The environmental and social impacts of eligible projects, reported on an annual basis and until the maturity date of the Bond, at category level, i.e. organic growth (assets) and external growth (company acquisition), due to the large number of underlying assets. The company informed us that reporting will not be on project level as as projects are all integrated in the Group's strategy and inter-connected.

Paprec already performed an annual reporting of its existing Green Bonds through a dedicated report made available to bondholders only. Going forward, the allocation of each Green Bond's proceeds and environmental impact metrics will be reviewed by an external auditor since the reporting will be included in the Sustainability Report published on Paprec's website. The company will report in their annual sustainability reporting on total mass of waste recycled (k tonnes), percentage of recycling achieved per type of waste (%) and GHG emissions avoided by recycling business (t eq CO2). In addition, Paprec will report on the use of proceeds via a dedicated two-pager within the Group's Sustainable Development report that will focus on the Group's waste-to-energy activities.

3 Assessment of Paprec's green bond framework and policies

The framework and procedures for Paprec's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Paprec should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Paprec's green bond framework, we rate the framework **CICERO Medium Green.**

Eligible projects under the Paprec's green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Industrial recycling assets (organic growth) 	Refinancing of tangible and intangible assets, that contribute to the optimization of the recycling process, all along the chain: collection rate, transportation stream, sorting and recycling solutions, etc. The assets include both entire plants and single pieces of machinery depending on the projects Detail: in the past 2 years, Paprec has invested circa EUR 100m in waste collection development capex and circa EUR 150m in industrial infrastructure and sorting equipment	**Light to Medium Green** ✓ Investments can include infrastructure along the full waste value chain incl. equipment, real estate and full plants. Paprec informed us that except for landfills all of Paprec's business could potentially qualify. No additional criteria (e.g., efficiency, criteria for its buildings etc.) have been established. ✓ The company informed us that approximately 20% of proceeds allocated to this category (11% of total) will be allocated to fossil fuel vehicles for fleet expansion and renewal (approximately 300 heavy duty vehicles are bought annually), which is considered Light Green in Paprec's context. While the issuer informed us that Paprec has a policy to only purchase new trucks that comply with the latest environmental regulations (currently Euro 6), these are still powered by fossil fuels. The issuer informed us that it has that it has an internal project group to explore alternative-energy powered vehicles and already owns some hybrid/zero-emission vehicles.

		✓ Investments in waste sorting and recycling projects are part of a circular economy. However, investments include waste-to-energy plants. Waste-to-energy plants are often associated with large emissions from fossil fuel based waste, consume natural gas to facilitate incineration, can lead to broader environmental impacts as well as to toxic residues that should be minimized and managed accordingly. The company informed us that waste is not imported, locally produced and not transported more than approximately 200km. In addition, Paprec produces recycled fuels which can have emissions associated with them during end-use, but does not recycle fossil fuels (e.g., oil etc.). ✓ Plastic sorting before waste incineration is a key mitigation measure. Investors should note that even with best-in-class plastic sorting facilities, there is a certain percentage of residual plastics that make it through to incineration and contribute to emissions. The issuer is responsible for managing and reporting this risk. ✓ Paprec informed us that it considers the waste hierarchy, and that recycling is preferred over incinerations. ✓ Emissions from third-party transportation should be considered by the issuer.
Acquisitions of recycling companies	Refinancing of acquisitions of companies which main activity (i.e. at least 80% of treated waste volume) is waste-to-energy, contributing to the improvement of the recycling capacity: - Higher recycling (industrial) capabilities (business diversification with new recycling solutions / channels); - Expansion of geographic marketplace / broader geographical coverage List of companies (EUR 200m): Dalkia Wastenergy and CNIM O&M.	**Light to Medium Green** ✓ Only the two companies can be acquired under the framework focusing on waste-to-energy plants and processing of waste into fuel, (indirectly exposed to downstream emissions. The issuer informed us that the companies will be acquired by 100%. Investments are partly related to international expansion to the UK, Poland and Azerbaijan. Fuel from waste (RDF) still have emissions associated with them during end use. ✓ The issuer informed us that the 80% eligibility threshold pertains to the fact that 20% of Dalkia Wastenergy's activities are selective collection and mechanical biological treatment and no landfill activities. ✓ As Paprec is acquiring all assets of the companies, the issuer should screen for infrastructure using fossil fuels (e.g., vehicles, real estate, incinerators etc.) and focus on zero-emission solutions. ✓ As waste-to-energy plants outside France operate currently independently of Paprec's recycling activities there is a risk that waste-to-energy might not be fully integrated into a process where waste avoidance and recycling is prioritized. However, the company informed us that prioritization of waste avoidance and recycling is key since the production of raw material from recycling generates revenue while the production of final waste is a cost. Paprec informed us that

	corresponding expansion of other waste processing activities is currently considered.
	✓ Waste-to-energy requires natural gas for the operations. In addition, it can lead to broader environmental impacts as well as to toxic residues that should be minimized and managed accordingly. The company informed us that waste is not imported, locally produced and not transported more than approximately 200km.

Table 1. Eligible project categories

Background

Paprec's business model is supporting the move towards a circular economy and facilitates reduced environmental impact in the recycling sector. At the same time, there are both emissions and harmful local environmental impacts associated with waste management. The recovery, reuse and recycling of materials is important in a climate change perspective. The extraction and processing of new resources are responsible for some 50 percent of greenhouse gas emissions[2].

Recycling is important for resource use and for GHG emissions. Between 1995 and 2017, greenhouse gas emissions from waste in the EU fell by 42%, according to estimates by the European Environmental Agency[3]. Emissions from waste largely depend on how the waste is treated: when waste is sent to a landfill, the organic content in the waste decomposes and produces GHG emissions. If it instead is converted into new materials, these emissions are avoided. With increased recycling going forward, the potential is there to bring down emissions from the waste sector even further.

Paprec operates against a backdrop of EU regulations and the incentives and laws of the countries in which it operates (France and Switzerland). The EU's Circular Economy Action Plan[4] was launched in March 2020, following-up on the EU's Circular Economy Package from 2015, and sets out the EU's ambition for cutting back on waste and increasing materials recycling. One of the focus sectors of the EU is the construction industry: as of 2020, EU requires that 70 per cent of waste from the construction industry is either reused or material recycled.

Waste incineration with energy recovery can be a sound environmental and climate friendly option to divert waste away from landfilling. Waste incineration is, however, best combined with ambitious recycling policies. Plastics is a particular challenge for the waste industry as burning plastics produces significant GHG emissions. Moreover, when the capacity of waste incineration is high this capacity might be an incentive to burn waste for energy purposes instead of material recycling. According to the EU Taxonomy, waste-to-energy is not a 'green' technology[5].

France established an anti-waste and circular economy law in February 2020. National regulation require the reduction of household waste by 15% by 2030 compared to 2010 and 100% of plastics recycled by 2025 and non reusable plastic packaging is expected to end by 2040. By 2027, 10% of packaging materials should come from reused materials. The French recycling rate is still relatively low when compared to other EU member states.

[2] European Commission; Circular Economy Action Plan: For a cleaner and more competitive Europe.
[3] https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200123-
[4] https://ec.europa.eu/environment/circular-economy/pdf/new_circular_economy_action_plan.pdf
[5] zero_waste_europe_policy_briefing_sustainable_finance_en.pdf

EU Taxonomy. The issuer has stated in the framework that Paprec intends to align the framework to the extent feasible with the draft EU's developing classification of environmentally-sustainable economic activities and the European Green Bond Standard. In April 2021, EU published its delegated act to outline its proposed technical screening criteria for climate adaptation and mitigation objectives, respectively, which it was tasked to develop after the Taxonomy Regulation entered into law in July 2020[6]. This Taxonomy regulation is based on a proposal from a technical expert group (TEG) for sustainable finance that included a technical mitigation thresholds and "do-no-significant-harm (DNSH)-criteria" for various types of activities[7]. Do-No-Significant-Harm criteria include measures such as ensuring resistance and resilience to extreme weather events, preserving water quality, ensuring recycling and reuse of material used, minimize pollution and protect and restore biodiversity and ecosystems. Waste-to-energy projects and activities related to hazardous waste are not mentioned in the taxonomy. Activities listed in the taxonomy relevant in this context would be:

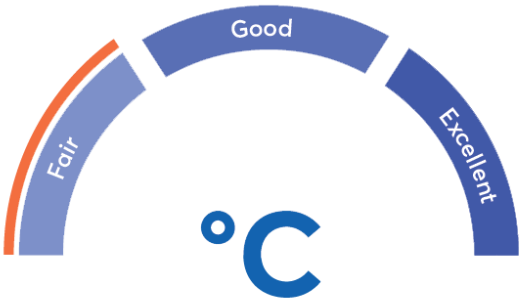
- *Collection and transport of non-hazardous waste in source segregated fractions*
- *Anaerobic digestion of bio-waste*
- *Composting of bio-waste*
- *Material recovery from non-hazardous waste*

Screening against the EU taxonomy has however not been carried out by CICERO Shades of Green.

Governance Assessment

Four aspects are studied when assessing the Paprec's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

Paprec is solely active in the recycling and waste management sector and publishes an annual sustainable development report. While Paprec reports emissions avoided through the waste recycled as well as its own Scope 1 and 2 emissions, the issuer does not further measure or assess its Scope 3 emissions (e.g., from suppliers and third-party transportation. The company has not communicated quantitative targets for emissions and waste recycling. In addition, Paprec does not have a systematic approach to address climate risks and does not implement TCFD recommendations. The selection process is clearly defined but does not include veto power of environmental experts. The company has established companywide impact indicators, but does not publicly report in a dedicated report. The overall assessment of Paprec's governance structure and processes gives it a rating of **Fair.**



Strengths

In a low carbon and climate resilient economy, the vast majority of waste is repurposed or recycled, with the share of waste-to-energy and landfilling minimized. Paprec is working towards this by processing waste according to the waste hierarchy, aiming at reducing landfill volumes and working to improve share of material recovery both by improving their processes and participating in research projects. Paprec informed us it has several ongoing

[6] https://ec.europa.eu/finance/docs/level-2-measures/taxonomy-regulation-delegated-act-2021-2800-annex-1_en.pdf
[7] Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020. https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en

pluriannual cooperative R&D projects, e.g., for electric vehicle batteries and plastics. This is a strength as it is targeted at developing a more circular economy.

Weaknesses

The suggested reporting regime constitutes a weakness. The framework states that Paprec will report on the use of proceeds via a dedicated two-pager within the Group's Sustainable Development report that will focus on the Group's waste-to-energy activities. Since the project category definitions are very broad, there is no clear reporting on what the proceeds have actually been allocated to and which impacts they have resulted in. Previously, the issuer has committed to annual reporting through a dedicated report made available to bondholders, but Paprec has informed us that such a report has not been produced in the last years.

Pitfalls

Paprec has established quantitative targets for processes and at site level, in particular to decrease the volume of recycling rejects. However, the company informed us that these targets are not disclosed. In addition, it constitutes a pitfall that that there is no target for supply chain emissions and fleet emissions given the significant impact of own as well as of third-party transports. In addition, not all of Paprec's plants and to be acquired companies' plants have received environmental certifications. Paprec informed us that the non-certified plants are planned to be certified within three years.

Paprec will invest in the acquisition of two companies that have waste-to-energy operations in the UK, Poland and Azerbaijan. The company informed us that these companies do not own any fossil fuel transportation machinery. However, waste-to-energy often includes the use of natural gas and some machinery powered by fossil fuel might be included. In addition, Paprec's expansion outside of France is based on waste-to-energy plants as a starting point and not on other elements of the waste hierarchy (such as avoidance, recycling etc.). The company has informed us that Paprec has an ambition to develop other recycling services in combination with the acquired waste-to-energy capacity and it is in this governance context that the waste to energy plants could be considered green . In addition, these companies operate currently independently and also include "household waste" as a fuel for the waste-to-energy plants there is a concern that the waste hierarchy is not fully followed.

The company has established several committees but no dedicated green bond committee. In addition, the company has not included dedicated environmental experts in the committee that could veto potentially environmentally harmful decision. While members of the QSE department are part of the committees according to the issuer, final decisions are made by the Board of Directors. Paprec informed us that the committees take into account avoided emissions on a project-basis, but there is no systematic screening of life cycle and supply chain emissions as well as rebound and lock-in risks. This is especially relevant as the company informed us that potentially all of Paprec's business could qualify for green financing. While landfills are expected, but according to the company smaller amounts could be allocated to energy performance improvements at landfills which could have adverse environmental impacts.

Paprec informed us that the company currently does not implement TCFD recommendations and neither uses climate scenarios nor systematic climate risk assessments.

Under this framework, Paprec invests in heavy duty vehicles (Euro 6) that are fossil fuel powered which can constitute a risk of lock-in of emissions. However, the company informed us that alternative solutions are not yet available at scale. The company buys approximately 300 heavy duty vehicles annually. Paprec's Scope 1 and 2 emissions mainly result from heavy duty vehicles from the company's own fleet. In addition, third-party transportation of waste (part of Scope 3 emissions) is not assessed or addressed by Paprec. Paprec informed us it

is exploring electric and hydrogen alternatives for own vehicles and has a dedicated project group on this topic and already owns some hybrid/zero-emission vehicles. In addition, the company includes processing of waste to fuels which results in emissions associated with them during end use. We encourage the company to continue screening technological advancements for future procurement.

With regards to management of proceeds, according to the framework, Paprec's Finance & Treasury Department will track the use of proceeds in a systematic way. However, the issuer will not use an escrow account and has not further specified how exactly proceeds will be tracked. We encourage the issuer to be transparent about how proceeds will be tracked and how unallocated proceeds will be invested.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	Paprec's Green Bond Framework	
2	Paprec's 2019 and 2020 Sustainable Development Report	
3	Annexes Facteurs d'émission retenus pour les énergies consommées	Emission calculation annex
4	CNIM CSR report	
5	Waste sector calculation tool (Excel)	GHG Protocol based tool
6	Power point presentations on Paprec's approach on vehicles	

°CICERO
Shades of
Green

Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).