



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Borrower and Green Loan

VARO Energy
18 July 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Loan
Relevant standards	<ul style="list-style-type: none">Green Loan Principles (GLP), as administered by the Loan Market Association (LMA) (as of February 2023)
Scope of verification	<ul style="list-style-type: none">VARO Energy's Green Loan Credentials (as of June 14, 2023)VARO Energy's asset level information on the Bio Energy Coevorden (BEC) (as of June 14, 2023)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">As long as there is no material change to the Green Loan's Characteristics (as of June 14, 2023)

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SCOPE OF WORK

VARO Energy (“the Borrower” or “the Company”) commissioned ISS Corporate Solutions (ICS) to assist with its Green Loan¹ by assessing three core elements to determine the sustainability quality of the instrument:

1. VARO Energy’s Green Loan Characteristics (as of June 14, 2023) – benchmarked against the Loan Market Association’s (LMA) Green Loan Principles (GLP).
2. The asset level information on the Bio Energy Coevorden (BEC) – whether the project contributes positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Linking the transaction to VARO Energy’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.


VARO ENERGY BUSINESS OVERVIEW

VARO Energy is classified in the Oil and Gas Refining and Marketing industry, as per ISS ESG’s sector classification.

Varo Energy is involved in refining, storing, selling, and supply of oil and fuel products. The major products include diesel, gasoline, heating oil, fuel, LPG, naphtha, jet fuel, etc. The Company has its headquarters in the Netherlands and Switzerland.

¹ There is no formal framework provided by VARO Energy, the current assessment is based on information shared by the Borrower between June and July 2023.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
Part 1: Alignment with GLP	The Borrower has defined a formal concept for its Green Loan regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the LMA Green Loan Principles.	Aligned
Part 2: Sustainability quality of the asset level information on the Bio Energy Coevorden (BEC)	<p>The Green Loan will refinance the eligible asset category. The product-related use of proceeds contribute to the following SDGs:</p> <p>Renewable Energy</p>  <p>The environmental and social risks associated with those use of proceeds categories are managed.</p>	Positive
Part 3: Linking the transaction to VARO Energy's ESG profile	The key sustainability objectives and the rationale for issuing a Green Loan is clearly described by the Borrower. The project financed is in line with the sustainability objectives of the Borrower. At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.	Consistent with Issuer's sustainability strategy

² ISS ESG's evaluation is based on the VARO Energy's Green Loan Credentials (as of June 14, 2023), on the asset level information on the Bio Energy Coevorden (BEC) (as of June 14, 2023), and on publicly available information.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN LOAN PRINCIPLES

This section evaluates the alignment of the VARO Energy's Green Loan (as of June 14, 2023) with the Green Loan Principles.

GREEN LOAN PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by VARO Energy's Green Loan is aligned with the Green Loan Principles.</p> <p>The Borrower's green category aligns with the project categories as proposed by the Green Loan Principles. Criteria are defined in a clear and transparent manner. The environmental benefits are described and quantified.</p> <p>The Borrower discloses that all the proceeds will be allocated to the acquisition of a biogas plant and the loan will refinance 100% of the equity used to finance the project, in line with best market practice.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by VARO Energy's Green Loan is aligned with the Green Loan Principles.</p> <p>The project selection process is defined. ESG risks associated with the project are identified and managed through an appropriate process. Moreover, the project selected shows alignment with the sustainability strategy of the Borrower.</p> <p>The Borrower clearly defines responsibilities in the process for project evaluation and selection and is transparent about it and involves various stakeholders in this process, in line with best market practice.</p>
3. Management of Proceeds	✓	<p>The Management of Proceeds provided by VARO Energy's Green Loan is aligned with the Green Loan Principles.</p> <p>The net proceeds collected are equal to the amount allocated to eligible projects, with no exceptions. The net proceeds are allocated to one tranche and clearly labelled. The net proceeds are managed per loan (loan-by-loan approach). 100% of the proceeds will be immediately allocated and there won't be unallocated proceeds. The</p>

		Green loan will take the form of one tranche only that will be clearly labelled.
4. Reporting	✓	<p>The allocation and impact reporting provided by VARO Energy's Green Loan is aligned with the Green Loan Principles.</p> <p>The Borrower commits to disclose the allocation of proceeds transparently and to provide a single Allocation Reporting Letter post-closing after full allocation of the proceeds. The reporting will be available to the participants in the loan. VARO Energy explains that the level of expected reporting will be at project level and the type of information that will be reported. Moreover, the Borrower commits to report upon the full allocation of the proceeds.</p>

PART II: SUSTAINABILITY QUALITY OF THE ISSUANCE

A. CONTRIBUTION OF THE GREEN LOAN TO THE UN SDGs³



Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of UoP categories for refinancing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of a Borrower's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for refinancing specific products and services is displayed on a 3-point scale (see Annex 1 for methodology):



The Green Loan's Use of Proceeds category has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Renewable Energy</p> <p><i>Operation of dedicated facility for the treatment of separately collected bio-waste through anaerobic digestion with the resulting production and utilisation of methane⁴</i></p>	<p>Contribution</p>	<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="text-align: center;">  <p>7 AFFORDABLE AND CLEAN ENERGY</p> </div> <div style="text-align: center;">  <p>13 CLIMATE ACTION</p> </div> </div>

³ The impact of the UoP categories on UN Social Development Goals is assessed with proprietary methodology and may therefore differ from the Borrower's description in the framework.

⁴ VARO Energy has set the requirements for the biogas plant in accordance with the EU taxonomy criteria for the economic activity 5.7. However, the asset does not fulfill the requirement of biowaste.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH BIO ENERGY COEVORDEN (BEC)

Agricultural waste-based methane production plant

The table below evaluates the asset level information against issuance-specific KPIs. The asset will be located in the Netherlands.

ASSESSMENT AGAINST KPIs

On-site safety

- ✓ The asset is located in the Netherlands, which ensures high health and safety standards in place. Bio Energy Coevorden (BEC)'s Integral Management System (IMS) consists of the management systems in accordance with ISO 9001: Quality, ISO 14001: Environment, ISO 45001: Healthy and Safe Working, and NTA 8620: Risks of Major Accidents. There are basic principles and regulations according to ISO 45001 and NTA 8620 standards for healthy and safe working. There is a procedure in relation to healthy and safe working which covers an emergency plan, in accordance with Article 2.5c of the Working Conditions Decree and ISO 45001. The Quality, Environment, Safety and Health (QESH) department is responsible for ensuring that periodic inspections and tests are carried out with attention to deviations in the areas of the environment, healthy and safe working practices and/or quality. The Company complies with the requirements of the European ATEX 153 directive and has measures in place to control the risk of explosion. Furthermore, the Company mentions that a Task Risk Analysis (TRA) must be carried out in cases of activities characterized by high risk to determine whether a work permit is required. Additionally, there is a Health, Security, Safety and Environment policy⁵ in place.

Conservation and biodiversity management

- ✓ The Borrower states that the Environmental Impact Assessment is fully integrated in the requirements for the environmental permit, covering noise, odor, NOx deposit, environmental safety, etc. under Dutch law and local requirements. The Borrower has a permit under 2.7, Paragraph 2 of the Dutch Nature Protection Act. Additionally, Natura 2000 regions remain unaffected outside their region. . The European Union Directive on Environmental Impact Assessment (EIA) is applicable in Netherland with no local transposition according to EUR-Lex⁶. There are measures in place to prevent odor emission, soil, noise and air pollution.

Environmental aspects of construction (or production) and operation

- ✓ The asset applies cogeneration technology. The description of the cogeneration technology is provided.
- ✓ Bio Energy Coevorden (BEC) has an integral management system that comprises an ISO 14001-compliant management system. Company ensures that the storage and removal

⁵ Health, Security, Safety and Environment policy, <https://www.varoenergy.com/media/1hkxk0c1/varo-hsse-policy.pdf>

⁶ EUR-Lex, <https://eur-lex.europa.eu/legal-content/EN/NIM/?uri=celex:32011L0092>

of Hazardous waste take place in an appropriate manner. In order to prevent soil contamination, the Company has procedures and measures such as the processing of substances hazardous to the soil takes place in closed processes, tanks and at soil-protecting facilities. The Quality, Environment, Safety and Health(QESH) department is responsible for ensuring that periodic inspections and tests are carried out. Additionally, there is a procedure to manage wastewater and odor emissions.

- ✓ The asset met high environmental standards and requirements during the construction phase. There was a noise prevention policy and measures to protect the environment from grinding dust. Additionally, there was a Task Risk Analysis (TRA) in place, intended for the client and contractor to identify and qualify the risks of high-risk activities.

Supply chain

- ✓ The largest procurement item at Bio Energy Coevorden (BEC) is the purchasing of bio waste feedstocks. All companies in the Chain of Custody must comply with the International Sustainability & Carbon Certification (ISCC-EU) and/or NTA 8080 requirements which describes the necessary requirements for a sustainable production process. The Health, Security, Safety and Environment policy⁷ states contractors to manage HSSE in line with this policy. However, it is noted that there is no supplier code of conduct in place binding suppliers to have an Environmental Management System (based on or certified to ISO 14001).

Water & Wastewater Management

- European Energy Directive. The Bio Energy Coevorden (BEC) has a water permit in accordance with the Dutch Water Act and in line with the EU Water Framework Directive. However, the Borrower has not defined water use reduction targets and action plans to achieve reduction targets.

- ✓ The types of water pollutants measured includes Chemical Oxygen Demand (COD), Biological Oxygen Demand (BOD), total nitrogen, total Ammoniacal nitrogen (NH₃-N), Total Phosphorus, Undissolved components, and Calcium, etc. The emissions are within the permissible limits. All process water is captured and returned into the process again as this is usable effluent in the digestate stream. Additionally, domestic (sanitary) wastewater may be discharged directly into the municipal wastewater sewer. Furthermore, there is a Legionella management plan to prevent contamination of Legionella bacteria or other bio-agents and their spread to the environment. There is specialized treatment/technology to tackle the contaminants.

Air emissions

- ✓ Bio Energy Coevorden (BEC) has technologies in place for air treatment and odor removal, which include Acid scrubbers, Biofilters and Active carbon filters. According to the Borrower, an Acid scrubber removes ammonia with a removal efficiency of 99%, biofilters remove odor with a removal efficiency of 70-95% and active carbon filters help

⁷ Health, Security, Safety and Environment policy, <https://www.varoenergy.com/media/1hkhk0c1/varo-hsse-policy.pdf>

to remove odor and hydrogen sulfide with a removal efficiency of 80-95%. Measurement of odor and total nitrogen oxides emissions were carried out.

PART III: LINKING THE TRANSACTION TO VARO ENERGY'S ESG PROFILE

A. CONSISTENCY OF GREEN LOAN WITH VARO ENERGY'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Borrower

VARO Energy has introduced a so-called “twin engine” strategy for their energy transition within and outside of the Company. Engine 1 is dedicated to their conventional energy business and Engine 2 to their sustainable energy business, which consists of five growth pillars: biofuels, biomethane & bio-LNG, hydrogen, e-mobility and carbon removals. In 2023, engine 2 businesses are expected to generate 26% of VARO’s EBITDA and engine 1 will contribute 74%. By 2027 this split is expected to be 50:50.

For the whole company, VARO Energy has the ambition to meet their net zero target by 2040. The Company is committed to reducing their Scope 1 and 2 GHG emissions by 40% by 2030. And for their Scope 3 GHG emissions to reduce carbon intensity by 15%. Furthermore, the Company commits to use in their operations more than two thirds of renewable energy by the end of 2023 and 100% of renewable electricity in operations by 2030.

On the social side, VARO Energy has the target of a <0.010 process safety rate by 2035, a <0.2 total recordable incident rate per 200 000 working hours by 2035, 50% of positions in senior leadership by 2030 are supposed to be women and the gender pay gap to be at 0.9-1.1 in 2030.

For the governance part, VARO Energy aims to reach a target of >20% of bonus scorecards to be linked to ESG targets and with clear weighting on components.

VARO Energy commits to conducting their business with a goal of no harm to people, protecting the environment and respecting the neighboring communities. In order to ensure the quality of the integrated Management System approach to environmental and safety performance VARO Energy has obtain various certificates for their branches:

	Bayernoil Manufacturing hub	Cressier Manufacturing hub	VARO Tankstorage Switzerland	VARO Terminals Germany	VARO Terminals Netherlands	VARO Terminals Belgium	VARO Terminals France
ISO 9001	●	●	●	●	●	●	
ISO 14001		●	●	●		●	●
ISO 45001		●	●			●	
EMAS	●						
ISO 27001	●						

Figure 1 VARO Energy's Environmental and Safety performance certification

VARO Energy is a signatory to several associations in Switzerland, Germany and the Netherlands such as Biofuels Schweiz (Switzerland), en2X (Germany) and PHB (the Netherlands). The Company is issuing annually in line with the GRI standard an ESG report.

VARO Energy manages climate-related risks and opportunities, the actual and potential impact from climate-related risks and opportunities on the operations, strategy and financial planning according to the Task Force on Climate-Related Financial Disclosure recommendations. Details on this are disclosed on the ESG Report 2022, Appendix IV.

The Borrower has never issued any sustainable lending instrument before.

Rationale for issuance

To further broaden their Engine 2 business segment and align with their goals of transitioning in the energy sector to more sustainable resources, VARO Energy has acquired the Bio Energy Covoerden BV plant in the Netherlands with a share of 80%, which will supply 26 million cubic meters of bio methane per year to the European natural gas network and there are plans to expand the facility to produce more than 50 million cubic meters of bio methane per year. In addition, the installation produces fertilizers that are reused in agriculture. Biogas is one of VARO Energy's Engine 2 pillars. VARO has a target of 1 TW/h of biogas manufacturing output by 2026 and the BEC plant is expected to represent approx. 65% of this target.

Opinion: *The key sustainability objectives and the rationale for issuing Green Loan is clearly described by the Borrower. The project financed is in line with the sustainability objectives of the Borrower.*

B. VARO ENERGY'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Borrower is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Borrower's industry

The Borrower is classified in the Oil and Gas Refining and Marketing industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company-specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Worker safety and accident prevention
Protection of human rights and community outreach
Business ethics and relations with governments
Climate protection and contribution to the energy transition
Environmental risks and impacts along the value chain

ESG strengths and points of attention related to the Borrower's disclosures

Leveraging ISS ESG's Research, the following strengths and points of attention have been identified⁸:

STRENGTHS	POINTS OF ATTENTION
<p>The Company has ISO 45001-certified health and safety management system (HSMS) in place for the majority of its operations.</p> <p>The Company has disclosed the health and safety performance metrics such as fatalities of its employees and contractors.</p> <p>The Company has disclosed its policies and procedures pertaining to business ethics covering key issues such as corruption, conflict of interest, antitrust violation, etc.</p> <p>The Company has its majority of operations certified to ISO 14001 environmental management system (EMS). Additionally, the</p>	<p>The Company has limited disclosure on tanker safety and pipeline integrity that includes aspects such as biodiversity conservation, pipeline integrity, and environmental safety standards of its vessels.</p> <p>The Company has reported data on greenhouse gas, NOx, SOx, hazardous waste, and freshwater use. However, the intensity of these environmental KPIs cannot be assessed due to the lack of availability of a suitable normalization factor like throughput or production.</p>

⁸ Please note that Varo Energy BV is not part of the ISS ESG Corporate Rating Universe. The information is based on a disclosure review conducted by the analyst in charge of the Oil and Gas Refining and Marketing sector, based on publicly available information exclusively. No direct communication between the Borrower and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

Company has disclosed GHG emission inventory, emission reduction targets, and action plans.

The Company sources a majority of its bio-based raw materials from suppliers certified to ISCC standard that indicates compliance regarding the sourcing of renewable or bio-based raw materials.

The Company has disclosed information related to environmentally safe operations of its production facilities.

The Company has reported information regarding the promotion of alternative fuels.

The Company has not publicly disclosed supplier standards with respect to environmental and human rights aspects.

Please note that the consistency between the issuance subject to this report and the Borrower's sustainability strategy is further detailed in Part III.B of the report.





Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, ISS ESG assessed the contribution of the Borrower's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along the Borrower's production process.

Social impact of the product portfolio:

Varo Energy B.V. generates revenue by selling oil and fuel products, and it has no positive or negative contribution to achieving social sustainability objectives. Thus, the impact of the product portfolio of the Company on social Sustainable Development Goals is considered neutral.

Environmental impact of the product portfolio

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF REVENUE ⁹	DIRECTION OF IMPACT	UN SDGS
Conventional transportation fuels	90%	OBSTRUCTION	 
Key components for charging systems for electric vehicles	1%	CONTRIBUTION	 

⁹ Percentages presented in this table are not cumulative.

Breaches of international norms and ESG controversies

At Borrower level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Borrower would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top three issues that have been reported against companies within the Oil and Gas Refining and Marketing industry are as follows: Failure to prevent water pollution, failure to prevent air pollution and failure to mitigate climate change impacts.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

DISCLAIMER

1. Validity of the Second Party Opinion (“SPO”): Valid as long as there is no material change to the Green Loan’s credentials (as of June 14, 2023).
2. ISS Corporate Solutions, Inc. (“ICS”), a wholly-owned subsidiary of Institutional Shareholder Services Inc. (“ISS”), sells/distributes Second Party Opinions which are prepared and issued by ISS ESG, the responsible investment arm of ISS, on the basis of ISS ESG’s proprietary methodology. In doing so, ISS adheres to standardized procedures to ensure consistent quality of responsibility research worldwide. Information on ISS’s methodology is available upon request.
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ANNEX 1: Methodology

Green KPIs

The Green Loan KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of VARO Energy’s Green Loan.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting. If a majority of assets fulfill the requirement of an indicator, this indicator is then assessed positively. Those indicators may be tailor-made to capture the context-specific environmental and social risks.

Environmental and social risks assessment methodology

The Environmental and social risks assessment evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green Loan KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” either indicates that no information was made available or that the information provided did not fulfil the requirements of the Green Loan KPIs.

The evaluation was carried out using information and documents provided on a confidential basis by VARO Energy (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the Borrower.

Assessment of the contribution and association to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, the extent to which VARO Energy’s Green Loan contributes to related SDGs has been identified.

ANNEX 2: Quality management processes

SCOPE

VARO Energy commissioned ICS to compile a Green Loan SPO. The Second Party Opinion process includes verifying whether the Green Loan Credentials aligns with the Green Loan Principles and to assess the sustainability credentials of its Green Loan, as well as the Borrower’s sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- Green Loan Principles (GLP), as administered by the Loan Market Association (LMA) (as of February 2023)

BORROWER'S RESPONSIBILITY

VARO Energy's responsibility was to provide information and documentation on:

- Green Loan Credentials
- Documentation on the asset level information
-

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Loan to be issued by VARO Energy has been conducted based on a proprietary methodology and in line with the LMA Green Loan Principles.

The engagement with VARO Energy took place from June to July 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Borrower themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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For more information on this specific Green Loan SPO, please contact: SPOOperations@iss-esg.com

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