

Annual Report

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Accelerating the energy transition

Chair's statement



“I would like to take this opportunity to thank all our people for their hard work over 2023. Their passion and enthusiasm are driving us forward and we at Carlyle and fellow shareholders from Vitol, are pleased to continue to collaborate with such a dedicated team and support their efforts.”

Marcel van Poecke, Chairman

During the past 12 months, VARO has continued its transformation at pace, marked by significant strategic advancements and a robust financial performance despite challenging markets. I am proud of the progress VARO has achieved, over 2023, through its strategic investments in existing infrastructure and continued focus on advancing new businesses in sustainable energy. Our expansion has been met through careful capital deployment in selected acquisitions and major new partnerships, underpinned by over \$3.3 billion in secured financing.

A pragmatic approach to the transition

In last year's report, I talked about the new era of energy market volatility. Ongoing fluctuating demand and energy prices have continued and, while we have witnessed some stabilisation, there is a long way to go before the market becomes more normalised.

For energy businesses, this new reality has given rise to a pragmatic approach to the energy transition driven by the demand of our customers – one that requires a balance between conventional and sustainable energy. We recognise that traditional energy business models are finite, and believe the transition requires a shift towards a multi-energy portfolio that offers a range of customer solutions, as well as provides VARO with resilience and agility.

VARO's twin engine approach ensures an orderly transition that aligns with commercial and societal realities, underscoring the importance of a practical approach. Over 2023, we have made progress across all VARO strategic growth pillars: biogas, biofuels, e-mobility, carbon removals and hydrogen, while maintaining the scale, efficiency and delivery of our conventional energies manufacturing, trading and distribution businesses.

Since 2022, VARO's trajectory under the experienced and energetic leadership of our CEO, Dev Sanyal, has gone from strength to strength. We have numerous 2023 highlights: the acquisition of 80% of Bio Energy Coevorden to develop the largest biogas manufacturing facilities in Northwest Europe; our new partnership with Lufthansa and our plan for a significant investment to build a new SAF (Sustainable Aviation Fuel) manufacturing facility in Rotterdam; in e-mobility, we increased our stake in E-flux (now Road) and acquired elecon; while together with Groupe E and CSEM,

we have commissioned Switzerland's largest ground-mounted solar power facility at our Cressier manufacturing hub to generate renewable electricity on site.

Focused financial and governance approach

VARO's considerable growth and achievements over 2023 stand testament to its disciplined investment and execution. VARO maintained a strong balance sheet and completed a substantial \$3.33 billion financing in July, comprising our first green loan of \$165 million. VARO's approach to careful capital allocation and risk management is driven by a relentless focus on matching evolving customer needs and market trends. Risk management in a transitioning market is vital and VARO is absolutely focused on understanding, monitoring and mitigating risks as part of a robust governance approach, with a corporate governance framework that includes internal controls and governance mechanisms to support ongoing growth, while mitigating risks linked to operational, commercial and trading environments.

Developing our leadership team

Last year, VARO continued to invest in building Executive Board capabilities to support the scaling and integration of our different energy businesses. We welcomed Georges Menane as EVP and Chief Financial Officer, who has brought world-class financial and capital markets expertise and experience in transforming and scaling multinational finance functions. He will play an important role in ensuring that VARO has the financial capability, infrastructure and capacity to deliver its next phase of growth.

By implementing additional changes in the Executive Board, the company is strategically positioned to further support the scaling and integration of its growth pillars. Rick Klop has taken up a new position as EVP and Chief Operating Officer – Markets and Commercial. In this role, he will play a leading role in integrating VARO's new business divisions to maximise commercial synergies between our conventional and sustainable energies activities. Julian Stoll was appointed EVP and Chief Operating Officer – Operations and Infrastructure. Julian will continue to oversee VARO's manufacturing businesses, with a focus on safety and operational excellence, manufacturing and logistics, and major project management of new infrastructure investments.

Connecting with our people

As VARO continues to expand, I enjoy meeting and connecting with our people throughout the year. They are a truly important part of our success. From attending the opening of new offices in Rotterdam and Baar, to VARO's annual Town Hall in December, these opportunities allow me to engage with the many different talents we have at VARO. Looking after our people, investing in their development, and ensuring their safety is a foundation of our growth. I would like to take this opportunity to thank all our people for their hard work over 2023. Their passion and enthusiasm are driving us forward and we at Carlyle and fellow shareholders from Vitol, are pleased to continue to collaborate with such a dedicated team and support their efforts.

Outlook for 2024

We cannot ignore the hurdles our customers face in following their path of decarbonisation. The energy transition will only be sustainable if we find a way to make it affordable and accessible. By prioritising our customers' needs, providing them with energy security and support, VARO is ensuring they have the conventional energy they need today while preparing for a more sustainable tomorrow.

As we step into 2024, VARO is well-prepared to continue playing its part in the energy transition. We will continue to strengthen our businesses across all energies, creating a board portfolio of energy solutions that spans molecules as well as electrons. I maintain every confidence in the company's ONE VARO Transformation strategy.

CEO's statement

2023 has been a year of accelerating momentum for VARO, amidst substantial market volatility. Our strong financial performance is the result of our relentless focus on business fundamentals while ensuring we remained agile in capturing opportunities. It has been the second-best financial performance in VARO's history, underscoring our robust business model and the effectiveness of our strategic initiatives in a dynamic environment.

Throughout the year, we have made significant strides across our five strategic growth pillars by expanding and acquiring new business ventures and options. We have strengthened our position through new strategic partnerships with our "Customer Lighthouses", establishing ourselves as the partner of choice for customers seeking both energy security and decarbonisation solutions. The issuance of our first-ever green loan of



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Dev Sanyal, Chief Executive Officer

\$165 million, as part of a broader \$3.3 billion refinancing, reflects strong market confidence in our transformation strategy. This alignment with financial institutions is a significant stepping stone for VARO and an accelerator to our growth trajectory.

VARO is transforming while continuously delivering value to its customers, shareholders, and stakeholders in a very considered and deliberate way given the volatility we have seen in energy markets. The global energy landscape is facing one of the most significant dislocations due to tragic conflicts in regions like Ukraine and the Middle East, which have substantially altered the energy supply and demand balance and escalated operational costs. Simultaneously, the interplay between demand and regulation also has an impact on the pace of the energy transition. In the face of these unprecedented market dynamics, VARO has demonstrated both agility and resilience, positioning us well both financially and strategically as the market evolves.

Prioritising Safety: A Cornerstone of Sustainable Growth

Doing business safely continued to be a priority for us. This year, we have reinforced our safety foundations by implementing key programs such as Life Saving Rules, defined by the International Association of Oil & Gas Producers, and our Just Culture and VARO Operational Excellence Management System (OEMS). We deployed significant amount of capital towards safety and compliance, comprising nearly half (44%) of this year's total capital expenditure of \$116 million.

I also believe that the strong capabilities of our team in process safety, integrity management, and industrial engineering are critical enablers for successfully building the new infrastructure required for the sustainable energies business of tomorrow.

A Customer-Focused Approach to the Energy Transition

We believe the energy transition will not follow a straightforward linear trajectory. We must acknowledge the challenges our customers encounter as they strive to pursue decarbonisation. That is why we are committed to providing them with supply security and support, ensuring they have the energy they need today while preparing for a more sustainable tomorrow.

Our twin engine strategy, which provides a multi-energy approach, covering both conventional and sustainable energies, resonates well with our customers. In 2023, we continued to strengthen the Customer Value Proposition through the development of what we call "Customer Lighthouses". Working in partnership with our customers to help them in their own transformation. Examples of strategic partners include Lufthansa

in the aviation sector and Port of Rotterdam and Höegh Autoliners in the marine sector.

Optimisation across conventional and sustainable energies

VARO continued to make strong progress in 2023 by supplying our customers with reliable conventional energies, while creating new sustainable energy businesses to help customers decarbonise. Our ONE VARO Transformation strategy optimises our conventional energy operations to make them more reliable, efficient, and decarbonised, while simultaneously investing in new sustainable energy businesses, often on repurposed infrastructure. We continued to leverage our strengths in conventional energies sector and have completed a major upgrade and optimisation of our manufacturing hub at Bayernoil. Additionally, we expanded our biogas footprint by acquiring Bio Energy Coevorden BV, now VARO Biogas Coevorden, the largest biogas facility in Northwest Europe. This, along with the acquisition of Renewable Energy Services, a leading trader of biogas and Green Certificates, has expanded our biogas trading capabilities across 10 European countries. We also announced the construction of a large-scale Sustainable Aviation Fuel (SAF) manufacturing facility in Rotterdam, aimed at meeting up to 7% of the EU's 2030 SAF target.

Our e-mobility pillar received a substantial boost. We increased investment in Road and acquired elexon, the leading European developer of commercial vehicle charging, connecting the hardware and software to meet customer e-mobility requirements.

In hydrogen, we announced our intent to convert our current hydrogen facility in Bayernoil to a green hydrogen facility with the usage committed for our own requirements. This creates the scale and optionality to leverage for potential use in industry and power in future.

Further emphasising our approach to provide customers multiple decarbonisation pathways, we increased our equity in Silvicarbon, our company focused on nature-based carbon removals.

Efforts to decarbonise our own operations included transitioning to green electricity sources at our Cressier and Bayernoil manufacturing hubs, contributing to a significant reduction of 123,000 tons of CO₂. In partnership with Groupe E, we announced the completion of Switzerland's largest ground-mounted solar facility at Cressier, capable of producing approximately 8.4 GWh annually, enough to power about 2,000 households and supply about 7% of Cressier's electricity needs.

Overall, the biofuel ratio in our products increased from 3.9% to 4.6% in 2023, leading to an 11% increase in CO₂ emission

savings at our customers' road fuels, totalling 2.6 million tonnes compared to conventional fuels. We are proud to be driving tangible progress towards a more sustainable future: moving away from a supplier-led relationship to a co-joined, customer-focused relationship.

Nurturing Talent and Our Culture

As VARO navigates this period of extraordinary growth, our transformation is powered by the dedication and expertise of our exceptional team. I would like to take this opportunity to thank our extraordinary people. Their commitment to safety, reliability, and innovation has been instrumental in driving our operational excellence. As we enter a new phase of growth, we remain committed to nurturing our talent, investing in people fundamentals, and fostering a culture of continuous learning.

Financing the Future

Our disciplined approach to financial management has allowed us to navigate the complexities of the energy transition effectively. With high cash generation from Engine 1, we have the financial firepower to scale and to capitalise on emerging M&A and partnership opportunities in Engine 2. We announced a \$3.3 billion refinancing of our business in 2023, with the initial debt launch oversubscribed, and the loan size increased by 13% from the original \$1 billion to \$1.13 billion. We also announced our first green loan of \$165 million, significantly boosting our financial strength to accelerate the transformation of our business. Our successful refinancing initiatives, focused capital management and cost-efficient production underscore our commitment to financial resilience and long-term value creation. This demonstrates a resounding vote of confidence in our strategy from the investor community.

Looking Ahead

As we continue our transformation journey, we face both challenges and opportunities with unwavering determination. The uncertain pace of the energy transition requires a pragmatic approach that includes long-standing, ambitious commitments. By focusing on our portfolio agility and portfolio resilience and pursuing value-creative partnerships and M&A opportunities, we will continue to deliver unparalleled value to our customers and resilient returns for our shareholders. As we enter 2024, our focus will be on accelerating value creation, maintaining operational excellence in our existing and new businesses, and fostering more strategic partnerships to execute our ONE VARO Transformation strategy.

In closing, I extend my deepest appreciation to our supervisory board for their guidance, firm support and trust. Together, we are redefining the future of energy, creating a more sustainable and prosperous world for generations to come.

CEO's Q&A



How does your energy portfolio balance your customers' needs in conventional and sustainable energies?

Our customers want a reliable and secure energy supply so they can operate today, and to be able to access competitively priced, lower-carbon energy to meet their emissions targets for tomorrow. The twin engine approach of our ONE VARO Transformation strategy ensures we can provide the energy our customers need, in the way and in the pace that they want.

We are investing \$3.5 billion over 2022 to 2026, two thirds being in sustainable energies to create a diverse portfolio of energy sources with our twin engine strategy of investing in both conventional and sustainable energies, which meet our customers' present-day needs for energy security, as well as growing demand for sustainable energies in the future.

The key to our approach is our Engine 1 and Engine 2 working together to secure energy in a pragmatic way. For example, this year we announced our plan to make a significant investment in repurposing a facility on an existing Rotterdam site to build a largescale Sustainable Aviation Fuel (SAF) facility, while at our Bayernoil manufacturing hub we are planning to construct an electrolyser that will produce green hydrogen.

How has greater uncertainty in the energy markets impacted your approach to customers?

It is an extraordinary time of change for the energy industry. Global concerns around energy security have developed into a multi-dimensional issue that encompass affordability and sustainability. Given geopolitical and macro challenges, and the immense volatility in the global energy sector, it is clear the energy transition will not follow a straightforward linear trajectory.

Our pragmatic response to navigating the peaks and troughs of this transition is building a multi-energy portfolio for

customers that provides agility and resilience as we navigate through market cycles. We work in partnership with a range of European customers across different industries, including hard-to-abate sectors such as air travel and maritime.

Our entrepreneurial and agile approach allows us to follow the pace set by our customers, and we work in partnership to help them progress their decarbonisation journeys, as well as fulfil their mandates and comply with evolving regulation.

How has VARO developed its approach to customers over the year?

Customers are at the heart of VARO's transformation and our vision to be the energy partner of choice. Our new Customer Value Proposition (CVP) team connects the dots between our ONE VARO Transformation strategy, our different energy solutions and the evolving needs of our customers, as together we navigate a complex legislative framework. I believe that developing a robust CVP is essential for enhancing customer satisfaction, loyalty and trust.

Over 2023, we have strengthened our CVP through the development of "Customer Lighthouses" and strategic potential partnerships, innovating with sustainable and customer-centric solutions to decarbonise sectors – such as transportation and logistics -and meet their existing and future energy needs. VARO established new key "Customer Lighthouses" as well as strategic partnerships with major global organisations including, Lufthansa, Port of Rotterdam and Höegh Autoliners.

Digital technology is a massive enabler in improving our customer experience, so we are embracing the transformative potential of digital innovation to unlock substantial value for our customers. Our new customer portal, myVARO, stands as a testament to our focus on customers, designed to simplify and enhance their digital experience with access to real-time information about market prices or status of orders and transactions and a personalised experience for each customer.

We recently launched the 'VARO Sales Academy', aiming at upskilling our commercial teams in the new, sustainable energies, setting them up for success with our customers.

What are the key ingredients of VARO's culture that are shaping your success?

I am very proud of our many achievements over 2023, which underscore our dedication to being a leading player in the energy transition landscape. I lead a team of extraordinary people at VARO and together we have fostered a culture of professionalism, collaborative spirit and can-do attitude – with customers at the centre of everything we do.

What we represent is entrepreneurship, agility and nimbleness, which I think are very important because they allow us to take decisions, test new ideas and act fast to deliver in a way that is in tune with our customers' needs - rather than just building a business based on what we believe is right.

I'm convinced that our many strengths - operational excellence, trading prowess, customer intimacy, entrepreneurship, agility, and the ability to attract and retain talent - together with our special culture, are key ingredients to our success.

How is VARO ensuring it has the right talent to meet evolving customer needs?

Having the right capabilities is the ultimate key to our success. To enable our teams to navigate extraordinary change in the energy system and accelerate the transition, we need to empower our people, let them innovate and dare to do things differently. This is why we are investing not only in our strategic growth pillars, but also in growing and upskilling our people.

In 2023, we welcomed our new Head of HR, who is leading our programme to equip our people with skills and knowledge in both sustainable energies and conventional energies, and the interface between them. Entering the next phase of our journey, we will be integrating our new activities to accelerate value creation. The role of our leaders to develop and support our people will be a critical enabler in driving the next phase of our transformation.

I also firmly believe that by nurturing the next generation of talent we will achieve the ground breaking progress to drive the energy transition for both VARO and our customers, and through our strong brand, a clear vision and mission and concrete values, we will attract people and customers to help VARO drive its next stage of growth.

