

To: All Stakeholders

Avation PLC, 65 Kampong Bahru Road, Singapore 169370

(AVAP.LSE)

Version 1.3

2021 MSCI rating BB

27<sup>th</sup> October 2021

**Environmental, Social and Governance Report**

Avation PLC is pleased to report on the steps we are taking to achieve a sustainable business model, contribute to a more sustainable environment and strengthen our governance culture. Although this is a continuous process, we aim to update and report to stakeholders semi-annually in line with our financial reporting.

Avation PLC (the Company) is a commercial passenger aircraft leasing company that derives the majority of its revenue from commercial aircraft leasing.

This report is published on the ESG section of our Website: <https://www.avation.net/ESG.html>.

**ESG Rating upgraded to BB**

In 2021, MSCI ESG ratings upgraded the Company’s ESG Rating from B to BB. The table below shows our ESG Rating history since MSCI started covering the Company in June 2019.

Date of MSCI review:	June 2019	April 2020	May 2021
ESG Rating:	B	B	BB
Decision:	Inaugural	Unchanged	Upgrade

Source: MSCI ESG ratings.

**2021 ESG Highlights**

Throughout 2021, our Board and Management continued the evaluation of our business activities and ESG standing.

**❖ We sold the older technology Fokker F100 aircraft**

In the first half of the financial year FY2021, we phased out the remaining older technology, less efficient Fokker 100 aircraft type. The Avation fleet is now comprised of a higher proportion of efficient and new technology aircraft designs, burning less fuel, and improving our environmental fleet metrics.

**❖ New Technology and Reduced-CO2 aircraft types in the fleet**

As of 30 June 2021, newer technology and low carbon emission aircraft types, including ATR and Airbus A220 aircraft, comprise 73% of our fleet by number. We are supportive of ATR's objective of becoming a carbon neutral company by 2030.

**❖ Supplier to customers in emerging and developing regions**

The Company's aircraft portfolio is mostly comprised of regional aircraft (73% by number) that are deployed in emerging and developing regions, allowing greater access to air travel for people in traditionally underserved areas.

**❖ Incorporation of AWG's Aircraft Carbon Calculator for our Fleet**

In the year ended 30 June 2021, we continued our engagement with the Aviation Working Group (AWG) and provided input into the development of the Aircraft Carbon Calculator (ACC), aimed at monitoring carbon emissions of aircraft. We have integrated the AWG ACC into our fleet carbon reporting, so that our fleet's estimated carbon emissions are reported using an industry recognised metric. We believe that the adoption of uniform standards is the best way for the aviation industry to provide relevant information to stakeholders on the environmental impact of their operations.

**❖ Adoption of internal ESG policies**

The Company has adopted a number of policies including: an Environment Health and Safety Policy, a Marriage and Compassionate Leave Policy, an Anti Bribery Policy, a Share Dealing Code and Share Dealing Policy, a Modern Slavery Policy, a Gifts and Entertainment Policy, a Whistleblowing Policy and a Social Media Policy.

**Awarded for the 1<sup>st</sup> Green loan in the Aviation industry**

In 2019, we delivered the 1<sup>st</sup> aircraft that was financed with a Green Loan. The “Green Loan” was provided by Deutsche Bank. Vigeo Eiris, one of the world’s leading institutions for Environmental, Social and Governance ratings, has expressed an opinion that the project of replacing aging regional jets with new ATR 72-600 aircraft is aligned with the Loan Market Association’s “Green Loan Principles guidelines 2018”. In their opinion, Vigeo Eiris stated “We express a reasonable assurance (our highest level of assurance) on the Borrower’s commitments and on the Loan’s contribution to sustainability.”



**Response to the Covid-19 Pandemic**

- ❖ At the onset of Covid-19, our first priority was our concern for our stakeholders: employees, customers, suppliers and investors.
- ❖ Customers: airlines have been impacted by the pandemic and we have worked with them openly and transparently to provide short-term cash flow relief.
- ❖ Suppliers: our OEM’s and finance partners have worked with us to reschedule commitments.
- ❖ Employees: Avation has been conscious of the needs of its’ employees during Covid-19 and has reminded them to take mental health breaks from time to time.
- ❖ Investors: Avation has focused on adapting to the pandemic and ensuring the business remains adaptable through Covid-19.

**Our commitment**

We commit to using resources more efficiently and reducing waste from our operations. We do not operate the aircraft that we own and cannot directly control the emissions of aircraft operated by our airline customers. Our business model is to provide fleet solutions to our customers comprising new and fuel-efficient aircraft (replacing older generation aircraft), which contributes to reducing carbon emissions in the aviation industry and to working towards a more sustainable environment.

Avation commits to supporting the aviation industry in the reduction of global carbon emissions, by building a more fuel-efficient fleet to address climate change and by encouraging industry participants to provide more ESG aviation information for greater transparency and comparability.

Avation is a member of the highly respected Aviation Working Group (AWG) industry body. The AWG is a non-profit legal entity that comprises major aviation manufacturers, leasing companies and financial institutions that contribute to the development of aviation policies, laws and regulations. The AWG has established an ESG sub-group, which Avation is also a member of, to consider, review and discuss ways to address environmental, social and

governance issues related to aviation financing and leasing. The AWG is developing a statement of principles on the impact of environmental regulations and supports global initiatives to lower and offset carbon emissions. This work is designed to facilitate the reduction of the environmental impacts of international financing and leasing.

The Company supports its' employees by providing equality of treatment, mental health support, promoting health and safety, and providing marriage and compassionate leave.

**Environmental report**

The Company values the principles of sustainability and value creation through sustainable means. Our business model is that of an asset owner and while we do not control airline demand for aircraft or the technology serving particular routes, the Company does have control over the aircraft types in which it invests .

We have set out below a summary of our performance review:

- ❖ Avation owns a new technology low carbon emission fleet, including ATR and Airbus A220 aircraft, which by number comprise 73% of Avation’s overall fleet.

In addition, our manufacturer partners have described the environmental benefits of these aircraft as follows:

- ❖ The ATR 72-600 aircraft model has a significant environmental advantage over other turboprops, with 40% less CO2 emissions, representing a 4,000 tons CO2 saving per aircraft per year, per trip on an average route of 300NM (550km).
- ❖ As one of ATR’s significant lessor customers, we support ATR’s objective of becoming a carbon neutral company by 2030.
- ❖ The Airbus A220 aircraft model has 20% lower CO2 emissions per seat than a comparable previous generation jet aircraft.

**Fuel and CO2 efficiency of our Fleet**

Our core fleet is mainly comprised of the most efficient aircraft types, which have lower carbon emissions than older generations of aircraft. Part of our business strategy is to own and invest in a young aircraft fleet, which has a positive impact on carbon emissions. The CO2 data in the table below is calculated with reference to the AWG carbon calculator and internal estimates.

In the year ended 30 June 2021, we continued our engagement with the Aviation Working Group (AWG) and contributed to the development of the Aviation industry-wide Aircraft Carbon Calculator (ACC), aimed at monitoring carbon emissions of aircraft. In addition to our engagement with AWG on the development of this aircraft environmental reporting tool, we will integrate the Aircraft Carbon Calculator into our fleet carbon reporting, so our carbon emissions are reported using an industry-standard basis.

Please find below our aircraft fleet’s aggregate annual CO2 Emissions (tonnes) based on estimates of normal operations prior to Covid-19.

**Fleet metrics at 30 June 2021 based on AWG Carbon Calculator:**

Aircraft Type	Aircraft OEM	Number in Fleet	Aggregate CO2 emissions per annum (tonnes)	Per aircraft per hour flown (tonnes)	Number of seats (Fleet average)	CO2 per hour per passenger (kg)
ATR 72-600	ATR	21	122,359	2.2	70	31.4
ATR 72-500	ATR	5	19,917	2.2	68	32.4
A220-300	Airbus	6	97,362	6.0	148	40.5
A320-200	Airbus	2	38,644	7.3	178	41.0
B737-800	Boeing	1	14,472	6.7	162	41.4
A321-200	Airbus	7	236,200	9.4	225	41.8
A330-300	Airbus	1	50,666	16.9	309	54.7
B777-300ER	Boeing	1	103,560	21.6	370	58.4

Source: Based on AWG Carbon Calculator for Avation PLC Fleet.

The above table is based on actual aircraft utilisation data specific to the airlines who operate the aircraft. Utilisation of each aircraft based internal estimates of normal operations prior to Covid-19.

Below is a review of some of our aircraft, from the perspective of the efficiency gained within each segment:

Aircraft Type	Importance to our Fleet	Efficiency Gain
ATR 72	59% of total fleet by number	40% less CO2 emissions than other turboprops
A220-300	14% of total fleet by number	20% less CO2 emissions per seat over comparable previous generation jet aircraft
A320 Family	21% of total fleet by number	Modern, single-aisle aircraft
B737-800	2% of total fleet by number	Modern, single-aisle aircraft

**Power consumed at our office premises**

We have reduced our power consumption per employee in 2021:

<b>Environment Category</b>	<b>Unit</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Power consumption	kWh	28,012	35,364	43,848	37,920
Staff number	Employees	21 (average)	22 (average)	21 (average)	19 (average)
Power consumption efficiency per employee	kWh/Employee	1,334	1,607	2,088	1,996

In line with global ESG recommendations, we have identified the relevant Task Force on Climate-related Financial Disclosures (TCFD) factors which best describe our business:

<b>Relevant TCFD Factor</b>	<b>Factor</b>	<b>Metrics or remark</b>
Use of efficient modes of transport for employees	Climate-related	During the first financial year under COVID-19 conditions, the majority of our employees worked from home most of the time.
Use of lower-emission sources of energy	Climate-related	The Company believes in using lower-emission sources of energy.  Furthermore, the Company has a work from home policy. During the pandemic, many of our Company meetings have been held over Zoom, thereby reducing transport needs.

Use of new technologies	Climate-related	Our fleet is mainly comprised of modern aircraft. We were, in 2019, proud to be awarded with the aviation industry's first green loan.
Use of supportive policy incentives	Climate-related	During the year, we updated our Environmental, Health and Safety policy. This policy forms part of our broader policies on Environmental, Social and Governance (ESG) matters/issues and our general corporate responsibilities as an employer.
Returns on investment in low-emission technology	Climate-related	As most of our aircraft by number are new-technology, a considerable proportion of our return on investment, as an asset owner, are generated from new- technology assets, including the Airbus A220.
Increased market valuation through resilience planning	Climate-related	As a capital-intensive company, our market valuation is mainly derived from the value of our owned aircraft, which by number is mainly comprised of modern aircraft, whose values tend to be more resilient due to high demand.



**Social report**

**Continual Learning and Management Development Program**

The Company has a well-developed training program, which has served a number of employees. The Company believes in Staff development and applies the latest methods of training and management’s experience to facilitate staff training. So far, 3 of our employees have benefitted from Avation’s Management Development Program. In addition, the Company encourages continual learning and employees have a broad range of access to training opportunities. The Covid-19 pandemic has disrupted regular training activities, but employees have adapted from traditional office based to working from home practices.

Our success is dependant on the contributions of our Staff. Our employees, many of whom have extensive international experience in the aviation industry, have the ability to successfully execute our business strategy.. The Company is an equal opportunities employer.

**Aviation and its’ Social impact**

We are able to provide leasing solutions to airlines who are underbanked or underserved by lenders, thereby satisfying the Sustainability Accounting Standards Board (SASB) recommendation of supporting financial inclusion. Thanks to our access to international capital, we are able to provide fleet management and leasing solutions to our customers.

Our ATR assets drive regional air connectivity, open economic development opportunities, connect people and cultures and boost tourism.

Our aircraft manufacturer suppliers are reputable publicly listed or government-related companies that have a long history in our industry.

We believe our industry serves and fosters social inclusion. Many of Avation’s customers are located in developing countries such as Myanmar, Bangladesh, Vietnam and Fiji. We believe that our leasing activity can significantly benefit communities because we provide aircraft to airlines for people to fly on to pursue business and further education.

We support responsible tourism and technological progress. Our culture is geared towards achieving the highest levels of professionalism and integrity.

**Staff turnover:**

People category	Unit	FY2021	FY2020	FY2019
Staff number (average)	Employees	21	22	21
Turnover rate	%	4.8	4.5	14.0

**Staff diversity and equal opportunities.**

<b>Diversity and equal opportunity</b>	<b>Unit</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Proportion of females in the workforce (%)	%	29.0	27.3	33.3	36.8

In addition to this, the Company believes that it has a strong relationship with its employees and offers staff development opportunities and a Management Development Program for continual learning. Compensation is based on performance and objectives met by Staff.

**Customer experience**

As a global commercial passenger aircraft leasing company, we work with our customers to deliver the highest level of customer satisfaction. We maintain customer data confidentiality and have had no privacy incident.

### **Governance report**

The governance of our Company is designed to enable the best management of our business for the benefit of our shareholders and other stakeholders in line with the objectives set out in this report and all applicable laws and regulations. As an English company we abide by our duty to act for the benefit of the shareholders of the Company as a whole and the other duties and responsibilities set out in the UK Companies Act 2006. The proportion of Non- executive Directors on the Board is 50%. We are a Public Limited Company incorporated in England, listed on the Main Board of the London Stock Exchange with a Standard Listing and are headquartered in Singapore. Our articles of association are available on our website.

At Avation, we aim for corporate governance excellence. This includes high standards of professional conduct for our employees, prudent supply chain monitoring and thorough risk management. We comply with UK corporate governance standards for Standard Listed companies. We carefully select our directors based upon their experience and expertise. The directors are subject to retirement by rotation every three years under the Company's articles of association and upon such retirement each director is put up for re-election at the next annual general meeting of shareholders. The Board has control over all significant transactions, funding decisions and risk management. Our directors have broad international experience, expertise and integrity.

### **Committees**

At Avation, we have the following Committees to ensure our strong governance is applied.:

- ❖ Audit committee
- ❖ Risk committee
- ❖ Remuneration committee

Our non-executive Board members sit on the remuneration, audit and risk committees.

### **Compliance**

Our employees complete Anti-Bribery and Anti-Money Laundering training and in the last 3 years the Company has had no policy breaches and no incidents of Health and Safety accidents. Avation believes that this is in part attributable to our safe workplace, Human Resources officer, and. The Company also has an Anti-Bribery policy.

Staff and management associates are given the opportunity to interact and work closely with Senior Management, the Executive Chairman and Board Directors, who are senior leaders with a great depth of knowledge in the aircraft leasing and aviation industries.

Avation is a beneficiary of the Singapore Aircraft Leasing Scheme ("ALS"), which is approved by the Inland Revenue Authority of Singapore ("IRAS") for aircraft leasing companies headquartered in Singapore. The ALS provides a concessionary tax rate of 8% on qualifying activities.

As of 30 June 2021, 17.3% of our ordinary shares are held by Robert Jeffries Chatfield and 1.2% of our ordinary shares are held by Rod Mahoney.

**Board of Directors composition**

For a Company of 21 employees, the Company believes that a Board of Directors comprising of 4 members is adequate for its purposes and is able to fulfil its objective of acting in the best interest of its shareholders and its other stakeholders.

<b>Board Member</b>	<b>Interest alignment with Shareholders</b>	<b>Participates in Company management</b>
Jeff Chatfield	Yes	Yes
Rod Mahoney	Yes	Yes
Stephen Fisher PhD	Yes	No
Derek Sharples	Yes	No

**Breaches of policy**

During the year to 30 June 2021, the Company had no data breaches. The Company outsources its data security risk management systems, and it is reviewed on a periodic basis. Furthermore, the Company conducts credit analysis on counterparties.

During the year, there were no outstanding legal proceedings against Avation or any proceedings against Avation associated with fraud, anti-trust, anti-competitive behaviours, market manipulation, malpractice, or other related financial industry laws applicable to asset owners. Consequently, there is no monetary loss that has resulted from such actions.

In addition, the Company has a designated Human Resources Officer, responsible for HR policies, who is available to support our staff on mental health and whistle-blower matters where needed. Our Health and Safety policy states our commitment to providing a workplace that supports staff wellbeing.

Please see below our compliance and accident record:

<b>Compliance</b>	<b>Unit</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Number of violations of applicable laws	Number	0	0	0
Number of workplace accidents	Number	0	0	0

We upload this report to our Website and a copy is available on the ESG section of our website, here: <https://www.avation.net/ESG.html>.