

SECOND PARTY OPINION

on the sustainability of Etihad Airways' Transition Finance Framework

Vigeo Eiris is of the opinion that Etihad Airways' Transition Finance Framework is **aligned** with the four core components of the Green Bond Principles 2018 ("GBP") and Green Loan Principles 2020 ("GLP").

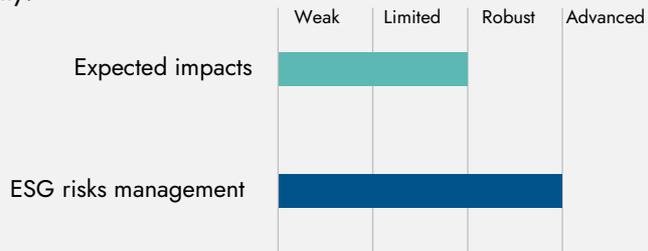


Framework

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak



SDG Mapping



Characteristics of the Framework

Transition Projects	⇒ Investments in next generation aircraft to replace old fleet ⇒ Research and development into Sustainable Aviation Fuels
Project locations	United Arab Emirates
Existence of framework	Yes
Share of refinancing	60% maximum (for the first issuance)
Look back period	36 months

In the absence of any globally accepted principles governing transition finance, this Framework has been assessed against Vigeo-Eiris' standard assessment framework for Green Bonds as per the International Capital Market Association's ("ICMA") Green Bond Principles 2018 ("GBP") and Green Loan Principles 2020 ("GLP"). The expected impacts are assessed based on the ambition of the environmental benefits of the Eligible Projects in comparison with both existing sector commitments (i.e. IATA environmental goals) and the Paris Agreement. We acknowledge the Issuer's efforts to align with and even move beyond the sectors commitments and targets, however the contribution of the Eligible Projects - in line with the current sector's defined targets - will not be fully sufficient to align with the goals of the Paris Agreement.

Issuer

Controversial Activities

The Issuer appears to be involved in one of the 17 controversial activities screened under our methodology:

- | | | | |
|---|--|---|--|
| <input type="checkbox"/> Alcohol | <input type="checkbox"/> Civilian firearms | <input checked="" type="checkbox"/> Genetic engineering | <input type="checkbox"/> Nuclear power |
| <input type="checkbox"/> Animal welfare | <input type="checkbox"/> Fossil Fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography |
| <input type="checkbox"/> Cannabis | <input type="checkbox"/> Coal | <input type="checkbox"/> Human Embryonic Stem Cells | <input type="checkbox"/> Reproductive medicine |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Gambling | <input type="checkbox"/> Military | <input type="checkbox"/> Tar sands and oil shale |
| <input type="checkbox"/> Tobacco | | | |

Controversies

Number of controversies	0
Frequency	N/A
Severity	N/A
Responsiveness	N/A

Coherence

Coherent
Partially coherent
Not coherent

We are of the opinion that the contemplated Framework is coherent with Etihad Airways' strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

Keys findings

Contextualisation

Aviation is one of the most energy and carbon intensive modes of transport. According to IPCC, the aviation sector accounts for 2-2.5% of global anthropogenic CO₂ emissions, whose share is projected to increase to around 3% in 2050. The International Air Transport Association (IATA) has pledged to stabilise carbon emissions from 2020 and to a net reduction in carbon emissions of 50% by 2050 compared to 2005. However, such climate pledges still will not align the sector with the long-term goals of the Paris Agreement. This diminution should be achieved through numerous measures, including improved fuel efficiency, increased use of low-carbon alternative fuels, optimization of trajectories and ground operations (e.g. avoid fuel tankering and electrification of rolling operations) and a shift in air passenger activity to more energy-efficient modes of travel, such as high-speed rail.

VE is of the opinion that Etihad Airways' Framework is **aligned** with the four core components of the GBP 2018 and GLP 2020.

Use of Proceeds – aligned with GBP and GLP

- The Eligible Projects to be financed are clearly defined.
- The Environmental Objectives are clearly defined.
- The Expected Environmental Benefits are clear.
- The issuer has transparently communicated the estimated share of refinancing for the first issuance (maximum 60%) and has set a maximum look-back period equal or of less than 36 months, in line with market practices.

Evaluation and Selection – aligned with GBP and GLP

- The process for Evaluation and Selection is clearly defined and the process for selection is publicly disclosed in the framework.
- The Eligibility Criteria (selection and exclusion) for project selection have been clearly defined by the Issuer.
- The process for Identification and Management of Environmental and Social Risks is disclosed and combines monitoring and identification commitments and measures.

Management of Proceeds - aligned with GBP and GLP

- The Process for the allocation and management of proceeds is clearly defined, detailed and publicly available.
- The Allocation Period has been disclosed (36 months).
- The information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has provided information on the procedure in case of divestment or postponement.

Reporting - aligned with GBP and GLP

- The Issuer has committed to report annually and until full allocation on allocation indicators and until maturity on impact indicators. The report will be disclosed to publicly.

- The reporting will cover relevant information related to the allocation of proceeds and to the expected sustainable benefits of the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible projects will be disclosed publicly.
- An external auditor will verify the tracking and allocation of funds to Eligible projects until full allocation and in case of material changes and the Indicators used to report on environmental benefits of the eligible projects until maturity.

Contact

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SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (hereafter “Second Party Opinion” or “SPO”) on the sustainability credentials and management of the Transitions Instruments¹ (the “Instruments”) to be issued by Etihad Airways (the “Issuer”) in compliance with the Framework created to govern its issuances.

Our opinion is established according to Vigeo Eiris’ Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the ICMA’s Green Bond Principles (“GBP”) voluntary guidelines edited in June 2018, and of the LMA’s Green Loan Principles edited in May 2020 (“GLP”).

Our opinion is built on the review of the following components:

- Issuance: we assessed the Framework, including the coherence between the Framework and the Issuer’s environmental commitments, the Instrument’s potential contribution to sustainability and its alignment with the four core components of GBP 2018 and GLP 2020.
- Issuer: we assessed the Issuer’s management of potential stakeholder-related ESG controversies and its involvement in controversial activities.²

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from Vigeo Eiris’ exclusive ESG rating database, and (iii) information provided by the Issuer through documents and interviews conducted with the Issuer’s managers and stakeholders involved in the Instruments issuance, held via a telecommunications system.

We carried out our due diligence assessment from the 28th September to the 20th October 2020. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. To this purpose we used our reasonable efforts to verify such data accuracy.

Scope of External Reviews

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

¹ The “Transition Instrument” is to be considered as the bond/loan/sukuku to be potentially issued, subject to the discretion of the Issuer. The name “Transition Bond/Loan/Sukuku” has been decided by the Issuer: it does not imply any opinion from Vigeo Eiris.

² The 17 controversial activities screened by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, Tar sands and oil shale, and Tobacco.

COHERENCE

Coherent	We are of the opinion that the contemplated Framework is coherent with Etihad Airways' strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.
Partially coherent	
Not coherent	

Aviation is one of the most energy and carbon intensive modes of transport, whether measured per passenger km or per hour travelling. The major concern for the industry is greenhouse gas emissions and their impact on Climate Change. According to the United Nations Intergovernmental Panel on Climate Change (IPCC), the aviation industry produces around 2-2.5% of the world's man-made emissions of CO₂. Considering the rapid growth of aviation in recent years, and expected continuous trend, the IPCC forecasts that its share of global man-made CO₂ emissions will increase to around 3% in 2050.

The most critical issue related to aircrafts operations is linked to GHG emissions generated from fossil energy consumption. Their environmental impacts could also include noise and nuisance, as well as water pollution (due to aircraft de-icing and cleaning, and other chemical-heavy aircraft operations).

Although aviation can play an important role in local and global economic development and opening up isolated rural areas, the aviation industry faces the challenge of meeting strong passenger growth while reducing its environmental impacts.

In 2004, the 35th Session of the International Civil Aviation Organization (ICAO) Assembly adopted three major environmental goals, namely:

- Limit or reduce the number of people affected by significant aircraft noise;
- Limit or reduce the impact of aviation emissions on local air quality; and
- Limit or reduce the impact of aviation greenhouse gas emissions on the global climate.

In pursuing these essential goals, the International Air Transport Association (IATA) has defined environmental goals namely:

- Improve by 1,5% the annual fuel efficiency by 2020;
- Cap net aviation CO₂ emissions from 2020 through carbon-neutral growth;
- Reduce by 50% net CO₂ emissions from aviation by 2050 (baseline 2005).

Etihad Airways has publicly committed to zero net emissions by 2050, and to halving its 2019 net emission levels by 2035. In order to meet these targets, Etihad has fully integrated sustainability into its business activities, and focused its emission reduction efforts in three areas: sustainable aviation fuels, voluntary carbon-offsets and operational efficiencies (including fleet transformation).

By creating a Transition Finance Framework to issue transition bonds (or Sukuks) /loans to finance/refinance the Eligible Projects defined in the Use of Proceeds section, Etihad Airways coherently responds to its commitment in terms of development of a more sustainable aviation transportation as well as addresses one of the main sector issues in terms of climate change mitigation and sustainability.

FRAMEWORK

The Issuer has described the main characteristics of the Instruments within a formalized Transition Finance Framework which covers the four core components of the GBP 2018 and GLP 2020 (the last updated version was provided to Vigeo Eiris on October 20th, 2020). The Issuer has committed to make this document publicly accessible on Etihad Airways' website, in line with good market practices.

Alignment with the Green Bond Principles and Green Loan Principles

Use of Proceeds



The net proceeds of the Instruments will exclusively finance or refinance, in part or in full, projects falling under one Eligible Category with two Transition Projects ("Eligible Projects"), as indicated in Table 1.

- Eligible projects are clearly defined, the Issuer has communicated the nature of the expenditures, the eligibility criteria and the location of Eligible Projects.
- The Environmental Objectives are clearly defined, these are relevant for all the eligible projects and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible projects in the reporting.
- The Issuer has committed to transparently communicate the estimated share of refinancing prior to each instrument issuance. The issuer has transparently communicated the estimated share of refinancing for the first issuance (maximum 60%).
- The look-back period for refinanced projects is equal or less than 36 months, in line with market practices.

BEST PRACTICES

- ⇒ Relevant environmental and benefits are identified and measurable for all eligible projects.
- ⇒ The Issuer has committed to transparently communicate the estimated share of refinancing prior to each instrument issuance.

Table 1. Vigeo Eiris' analysis of Eligible Projects, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework

- Nature of expenditures: CAPEX and R&D
- Location of Eligible Projects/Assets: United Arab Emirates

ELIGIBLE CATEGORY	ELIGIBLE PROJECTS	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	VIGEO EIRIS' ANALYSIS
Energy Efficiency	Investing in next generation aircrafts (e.g. Boeing 787) to replace old fleet composed of A340, A330 and B777, is estimated to respectively lead to 39%, 23% and 21% reduction of CO ₂ emissions per revenue ton kilometre (RTK).	<p>Development, manufacture and/or installation of energy efficiency aviation technologies and products with a view to improving energy efficiency.</p> <p>Eligible Assets should have an energy efficiency (weighted average) that leads to energy savings of at least 15% against previous technologies.</p>	<p>Climate Change Mitigation GHG emissions avoidance</p>	<p>Eligible projects are clearly defined, the Issuer has communicated the nature of the expenditures and the eligibility criteria and the location of Eligible Projects.</p> <p>The Environmental Objectives are clearly defined, these are relevant for all of the eligible projects and set in coherence with sustainability objectives defined in international standards.</p>
	Research and development into Sustainable Aviation Fuels ³ as defined per the IATA.	<p>R&D in sustainable aviation fuels, including biofuels, for improved fuel efficiency. Direct emissions from the production of biofuels will be at least 80% lower than fossil fuel counterfactual.</p> <p>Example of already identified projects: R&D project for locally sourced biofuel from integrated seawater energy and agriculture systems and R&D project for hydrogen fuel production.</p>	<p>Climate Change Mitigation GHG emissions avoidance</p>	<p>The Expected Environmental Benefits are clear, these are considered relevant, measurable, and will be quantified for all the eligible projects in the reporting.</p> <p>An area for improvement consists in providing details on the calculation on the expected GHG emissions avoidance.</p>

³ These include the development of sustainable alternative fuels, which can be produced in commercial quantities for use not only within the Emirates, but also nationally and internationally.

SDG Contribution

The Eligible Projects are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely: SDG 7. Affordable and Clean Energy and SDG 9. Industry, Innovation and Infrastructure.

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Energy Efficiency		7.3 By 2030, double the global rate of improvement in energy efficiency
Energy Efficiency		9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies

Evaluation and Selection of Eligible Projects



- The Process for Project Evaluation and Selection has been clearly defined by the Issuer in its Framework and will be publicly disclosed. The roles and responsibilities for project evaluation, selection and monitoring are clearly defined and include relevant internal expertise.
- The Eligibility Criteria for asset selection and exclusion are clearly defined for all Eligible Projects.
- The Issuer's commitment and measures related to the management of material E&S risks combine monitoring and identification. Material ESG risks are identified for all Eligible Projects.

Process for Project Evaluation and Selection

The roles and responsibilities for project evaluation and selection are clearly defined and include relevant internal expertise.

For the purpose of the Instruments, an Etihad Environmental Performance Taskforce (the "Taskforce") has been created. This Taskforce is composed of representatives of:

- Sustainability Department
- CSR Department
- Group Treasury Department
- Investor Relations.
- The Taskforce is responsible for:
 - Selecting the Eligible Projects to be included in the Instruments according to a pre-selection of potential Eligible Projects made with the relevant business units in accordance with the selection criteria established in this Framework and Etihad's environmental policy.
 - Monitoring the Eligible Projects portfolio during the lifetime of the Instruments. The Taskforce will be responsible for replacing an Eligible Project if it no longer meets the eligibility criteria or if the Eligible Project has matured.
 - Upgrading the Framework.
 - In case of controversies concerning an Eligible Project, the Taskforce will deliberate on the course of action (status quo, monitoring or exclusion), based on the input provided by an internal exclusion committee which relies on both external quantitative sources and internal qualitative analysis.
- The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:
 - The Taskforce reviews the portfolio of investments quarterly on issues such as: updated information on financial and business operation and on ESG issues.
 - Meeting minutes will be written for each meeting of the Taskforce working groups.

Eligibility Criteria Selection

The process relies on clear eligibility criteria, relevant to the environmental objectives defined for the Eligible Projects.

- The selection criteria are based on definitions in Eligible Projects detailed in the Table 1 in the Use of Proceeds section which is clearly defined.
- The Issuer has set up the following the exclusion criteria:
 - For the Research and development project: aviation fuels derived from non-RSPO certified palm oil, non-waste biofuels that compete with food production and biofuels that negatively impact biodiversity (e.g. habitat loss or displacement of natural ecosystems) will be excluded.

BEST PRACTICES

- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the instrument and has provided details on content/ frequency/duration and on procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the projects throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on a project.

Management of Proceeds



- The Process for the Management and Allocation of Proceeds is clearly defined and publicly available.
- The allocation period will be shorter or equal to 36 months.
- The net proceeds of the Instruments will be tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- The Issuer has committed that, as long as the Instruments are outstanding, the balance of the tracked net proceeds will be periodically adjusted to match allocations to eligible projects made during that period.
- Information on the intended types of temporary placements for the balance of the unallocated net proceeds is publicly disclosed.
- The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the Framework.

Management Process

The allocation and management of the proceeds are clearly defined:

- The net proceeds of the Instruments will be credited to the Issuer's general funding accounts and will be managed in cash or cash equivalents.
- The unallocated proceeds will be held within Etihad's treasury in accordance with Etihad's liquidity management policy.
- In case the Eligible Projects portfolio is smaller than the Instruments net proceeds outstanding, Etihad has committed to fill the gap and load the Eligible Project Portfolio with new Projects or existing unallocated Projects, as soon as possible.
- In case of projects postponement, cancelation, divestment or ineligibility, the Issuer has committed to replace the no longer Eligible Project by a new Eligible Project.

Traceability and Verification

Traceability and verification of both the tracking method and allocation of the proceeds are ensured throughout the process:

- The Treasury, Tax and Finance department is responsible for verifying that the net of proceeds match the Eligible Project Portfolio until the Instruments maturity date.
- The proceeds will be appropriately managed and tracked by a Sustainable Financing Register (the "Register") using an internal accounting system to register and track the net of proceeds. An internal audit committee will track and monitor the net proceeds allocation and management and will report directly to board.

BEST PRACTICES

- ⇒ The Issuer has provided information on the procedure that will be applied in case of project divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the Framework.

Monitoring & Reporting



- The Issuer has committed to report annually and until full allocation on allocation indicators and until maturity on impact indicators. The report will be disclosed publicly.
- The reporting will cover relevant information related to the allocation of proceeds and to the expected sustainable benefits of the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible projects will be disclosed publicly.
- An external auditor will verify the tracking and allocation of funds to Eligible projects until full allocation and in case of material changes and the Indicators used to report on environmental benefits of the eligible projects until maturity.

Indicators

The Issuer has committed to transparently communicate at category and Instrument level, on:

- Allocation of proceeds: The Issuer has committed to transparently communicate at Instrument and Eligible Category level on the allocation of proceeds and environmental benefits.

REPORTING INDICATORS
⇒ The amount or percentage of allocation to the Eligible Transition Portfolio from the proceeds of such Transition Finance Instrument
⇒ The list of Eligible Projects (re)financed, including a brief description
⇒ The geographic distribution of projects/assets funded from the proceeds of any Issuance under this Framework
⇒ The aggregated amount of (re)allocated net proceeds to Eligible Projects
⇒ The proportion of financing vs refinancing (%)
⇒ The balance of the unallocated proceeds and the projects they will be allocated to

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear and relevant.

ELIGIBLE PROJECTS	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Investments in next generation aircrafts	Use of sustainable aviation fuel (adjusted distance travelled using biofuels in km)	Reduced and/or avoided GHG emissions (in t. CO _{2e} /year)
	Fleet performance (in t. CO _{2e} /RTK)	

ELIGIBLE PROJECTS	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Research and development into sustainable aviation fuels	Number of research programs funded Types of research studies launched Qualitative case studies on R&D projects	

BEST PRACTICES

- ⇒ The Issuer will report on the Use of Proceeds at instrument and project level until instrument maturity.
- ⇒ The indicators selected by the issuer are clear and relevant and cover all expected benefits associated with the Eligible Projects.
- ⇒ The issuer report and methodology and assumptions used to report on environmental benefits will be publicly available at least until bond maturity.
- ⇒ External verification of E&S benefits & impacts until instrument maturity.

Contribution to sustainability

Expected Impacts

The potential positive Impact of the eligible projects on environmental objectives is considered to be limited.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Investments in next generation aircraft to replace old fleet	LIMITED	According to the United Nations Intergovernmental Panel on Climate Change (IPCC), the aviation industry produces around 2-2.5% of the world's man-made emissions of CO ₂ . Addressing fossil-fuel consumption is one of the most important issues of the aviation sector. The replacement of the fleet with new aircrafts with an energy efficiency gain superior or equal to 15% appears to at least partially address the issue. The Energy Transition Commission ⁴ has highlighted in its sectoral focus on aviation that new aircrafts design could reduce impact of air travel per 10 to 20 percent. The company's medium- and long-term commitments are in line with IATA targets. However, as of now, even together with additional operational measures the activity cannot currently align with the 2 degrees C trajectory set by the Paris Agreement. In addition, even if potentially providing a relative improvement in fuel consumption per tonnes/passengers transported, the nature of the project and technology chosen has a lock-in effect and may lead to an overall increase of absolute GHG emissions over the lifetime of the investments. For short to medium haul flights – which represent a non-negligible part of the Issuer's activity – alternative technologies are available and offer greater emissions reductions (e.g. turboprop with a fuel consumption reduction superior to 40%).
Research and development into Sustainable Aviation Fuels	ROBUST	Research and development to avoid the consumption of kerosene is one of the most important issues of the aviation sector. The use of alternative fuel being currently marginal, research and development to broaden its deployment should have a positive impact on the sector. According to the IEA ⁵ , the use of low-carbon alternative fuels (such as biofuels or hydrogen) is one of the keys to substitute fossil-based jet kerosene. The category follows the Climate Bond Initiative requirements: the production of biofuel should lead to at least a 80% GHG emissions reduction compared to the fossil fuel baseline. The Issuer has provided information on the type of intended research as well as exclusion criteria for aviation fuels: fuels derived from non-RSPO certified palm oil, non-waste biofuels that compete with food production and biofuels that negatively impact biodiversity (e.g. habitat loss or displacement of natural ecosystems) will be excluded. Producing biofuels for aviation faces the same issues than producing a large amount of biofuels for other uses (e.g. land competition). According to the Food and Agriculture Organization of the United Nations (FAO) the production of biofuels should not be above 41.4 billion liters in 2025 which represent around 3.5% of world oil consumption, therefore it cannot expect to replace a large part of the aviation fuel consumption. In addition, concerning hydrogen, more than 95% of today's production is heavily emitting (e.g. steam reforming, partial oxidation of natural gas or heavy fuel) and according to Air Transport Action Group (ATAG) ⁶ « <i>there are significant technical challenges in designing a hydrogen-powered aircraft for commercial aviation</i> ».
OVERALL ASSESSMENT	LIMITED	

⁴ <https://www.energy-transitions.org/wp-content/uploads/2020/09/Making-Mission-Possible-Full-Report.pdf>

⁵ <https://www.iea.org/reports/aviation>

⁶ https://aviationbenefits.org/media/166152/beginners-guide-to-saf_web.pdf

ESG Risks Identification and Management systems in place at project level

SG risks Materiality of and management

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust.⁷

	ELIGIBLE PROJECTS	
	INVESTMENTS IN NEXT GENERATION AIRCRAFT TO REPLACE OLD FLEET	RESEARCH AND DEVELOPMENT INTO SUSTAINABLE AVIATION FUELS
Environmental Management System and Environmental Impact Assessment	X	X
Eco-design and decommissioning	X	X
Energy use and energy efficiency	X	X
Reduction of GHG emissions	X	X
Pollution prevention and control and mitigation of inconveniences (primarily noise)	X	X
Health and safety of the users and all workers	X	X
Fundamental human rights and labour rights	X	X
Integration of social and environmental factors in supply chain	X	X
Business Ethics	X	X
OVERALL ASSESSMENT	Robust	Robust

Environmental Risks

Environmental Management System and Environmental Impact Assessment

Etihad Airways' parent company, Etihad Aviation Group (EAG), has publicly disclosed its Environment Policy and Sustainability Position Paper, which covers all of its subsidiaries including Etihad Airways. EAG reports that it is currently pursuing stage 2 of the IATA Environmental Assessment (IEnvA), which is an evaluation system designed to independently assess and improve the environmental management of an airline, and also a voluntary programme based on principles in compliance with environmental obligations and a commitment to continually improve environmental management.⁸ IEnvA Standards have been developed to ensure compatibility with ISO 14001:2015 which has been deemed as a key requirement of the IEnvA Program.⁹

⁷ The "X" indicates the E&S risks that have been activated for each Eligible Category.

⁸ <https://www.iata.org/en/programs/environment/environmental-assessment>

⁹ https://www.iata.org/contentassets/d7c439030235477db9b92a932bff4958/iesm_ed_3.6fullversion.pdf

Related to the second Eligible Category, Etihad Airways reports that the Seawater Energy and Agriculture System (SEAS) project follows a thorough environmental impact assessment (EIA) to ensure minimal socio-environmental impacts.

Eco-design and decommissioning

Related to the first Eligible Category, Etihad Airways is involved in the EcoDemonstrator programme, a joint experiment with Boeing, NASA and Safran on operational blue-sky technologies. The experiments were conducted through a short period of time in a controlled environment under the supervision of the stakeholders.¹⁰

Related to the second Eligible Category, Etihad Airways is one of the founding members of the Sustainable Bioenergy Research Consortium (SBRC).¹¹ SBRC is running the Seawater Energy and Agriculture System (SEAS) to generate biofuel from Salicornia grown in fish and shrimp farms.¹² The design of the test facility and the upscale has incorporated an eco-design approach under the administration of Khalifa University. The Issuer's fleet average age around 6 years, the Issuer has stated that all its aircrafts are sold to other airlines before their end-of-life, therefore addressing decommissioning issues.

Energy use and energy efficiency

At the Group level, EAG clearly states in its Environment Policy that it pledges to innovate to reduce its dependency on traditional forms of energy and aviation fuel. The airline is also committed to testing and, when possible, introducing sustainable aviation fuels from various sources into its energy mix. These commitments cover both Eligible Projects.

The EcoDemonstrators programme was also conducted in a controlled and safe environment. The programme focuses on environmentally-friendly upgrades in flight operations that reduce fuel-burn, noise and also the introduction of safety measures to promote cabin hygiene. The SEAS project is monitored and assessed by a team of scientists from Khalifa University, and its progress is communicated to the SBRC Board regularly.

Reduction of GHG emissions

At the Group level, EAG is committed to zero net emissions by 2050, and to halving its 2019 net emission levels by 2035. Related to the two Eligible Projects, the SEAS approach is expected to have a smaller carbon footprint than conventional biofuel facilities, while the EcoDemonstrator programme also promises a lower carbon footprint. Etihad Airways reports however that most of these technologies are not yet commercially mature.

Pollution prevention and control and mitigation of inconveniences (primarily noise)

At the Group level, EAG commits in its Environment Policy to abide by all applicable national and international environmental legislation. The Issuer has set monitoring tools for non-air emissions (e.g. Asbestos, VOC, ozone etc.) to ensure the safety of its employees, however there is no sufficient information on the reduction of non-GHG air emissions (e.g. SO_x, NO_x, etc.) at aircraft level. Related to the two Eligible Projects, the SEAS project outlines in the EIA all the relevant means and controls to prevent and mitigate any socio-environmental impact, while the EcoDemonstrator also aims to mitigate many of the sectors environmental issues: fuel burn (emissions), noise and cabin hygiene.

Etihad Airways also commits to reduce the use of single-use plastics across the business, with a target of an 80 per cent reduction by the end of 2022. To achieve this, the sustainability team will work with all Etihad Airways business units responsible for in-flight services, ground operations, engineering, commercial and office facilities management, to identify current uses of single-use plastics and to recommend commercially viable replacement materials that can be reused and/or recycled.

Related to noise pollution, carriers, including Etihad Airways, will be penalised in the event of noise infractions. Etihad Airways reports that it has been compliant in paying these fines regularly, and in the case where the infraction may be unfounded, it still pays "under protest" to ensure compliance and avoid any reputational risk.

¹⁰ <https://www.etihad.com/en-hk/news/ecodemonstrator-programme-testing-quieter-cleaner-flights-with-etihad>.

¹¹ <https://sbrc.masdar.ac.ae/index.php/about-us/partners>.

¹² <https://sbrc.masdar.ac.ae/index.php/projects/seas>.

Social Risks

Health and safety of the users and all workers

Regarding security and safety of the users (i.e. passengers), Etihad is committed to IATA Operational Safety Audit (IOSA) which is conducted externally by a third party to ensure that occupation health and safety measures are in place.

Regarding health and safety of employees, all EAG employees are required to always follow the relevant health and safety regulations and legislation covering all EAG premises. EAG also commits to act responsibly and do not compromise health and safety anywhere by taking unnecessary risks. In addition, the Issuer has set up an Occupational Safety & Health Management System that covers health and safety risk identification, monitoring and mitigating measures.

Fundamental human rights and labour rights

At the Group level, EAG commits in its Code of Business Conduct to ensure that it is not complicit in any human rights violations. EAG is also specifically committed to a zero-tolerance approach to human trafficking and modern slavery in any of its businesses. In relation to labour rights, EAG commits in its Code of Business Conduct to ensure that its employees are treated with dignity and respect, are working under their own free will, and are being compensated fairly for their effort. It is opposed to slavery, human trafficking, forced or child labour and committed to complying with applicable laws prohibiting such exploitation. These commitment and relevant requirements apply to the Eligible Projects, and also extend to Etihad Airways' suppliers and partners. The Audit Committee of the Board of Directors is responsible for overseeing Etihad Airways' ethics and compliance programme, while the Ethics and Compliance Office manages the programme's day to day operations.

Integration of social and environmental factors in supply chain

At the Group level, EAG's commitments, as stipulated in its Code of Business Conduct, Anti-Slavery Policy and Modern Slavery Act Transparency Statement, also apply to its suppliers and partners. EAG reports that it seeks business partners (agents and other representatives, vendors, and suppliers) who share its values. EAG requires its business partners to undergo an appropriate level of due diligence before doing business with them, and to adhere to its Code of Ethical Purchasing and Supply. EAG commits to take breaches seriously and may decide to review the relevant business relationship if breaches occur. These commitment and relevant requirements apply to the Eligible Projects. However, there is no sufficient information on how these commitments/requirements are implemented in supply chain and whether there is any monitoring and/or verification of compliance.

Business Ethics

EAG has a dedicated Code of Business Ethics to govern all of its business operations. EAG reports that all of the Eligible Projects will require the legal team's approval to ensure that all the projects respect the principles of business ethics, most of which are supported through internal training. Internal audits will be conducted to ensure compliance of the Eligible Projects.

ISSUER

Management of ESG Controversies

As of today, the review conducted by Vigeo Eiris did not reveal any ESG controversy faced by Etihad Airways over the last four years.

Involvement in Controversial Activities

Regarding the 17 controversial activities screened under our methodology, Etihad Airways appears to have one minor involvement in Genetic engineering:

- Genetic engineering¹³: Etihad Airways supplies own-branded food products potentially containing GMOs. Etihad Airport Services Catering (EAS) group company is involved in food catering services for the airline company. No information could be found out on a GMO policy. However, since the Company is headquartered in the United Arab Emirates, a country requiring GM foods to be labelled, we have reasonably assumed that the Company follows these regulations.

The Issuer appears to be not involved in any of the other controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

¹³ According to Vigeo Eiris' methodology, companies involved in food-related activities such as catering, agriculture, food processing are involved directly or indirectly with genetically modified foods and ingredients.

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, Vigeo Eiris provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, Vigeo Eiris' Scientific Council. All employees are signatories of Vigeo Eiris' Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

ISSUANCE

Alignment with the Green Bond Principles and Green Loan Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

The Framework has been evaluated by Vigeo Eiris according to the ICMA's Green Bond Principles - June 2018 ("GBP"), the Loan Market Association's Green Loan Principles - May 2020 ("GLP"), and our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. Vigeo Eiris evaluates the clarity of the definition of the Eligible Projects, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by Vigeo Eiris on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by Vigeo Eiris on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

Vigeo Eiris' assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental and/or social objectives, as well the management of the associated potential negative impacts and externalities.

Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social objectives to be financed by the Issuer is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity; or to respond to an important social need at country level;¹⁴
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

Activities' ESG risk management

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

ISSUER

Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation based on unproven facts.

Vigeo Eiris reviewed information provided by the Issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources is considered as long as it is public, documented and traceable.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the corporate level will reflect the highest severity of all cases faced by the company (scale: Minor, Significant, High, Critical).
- **Responsiveness:** ability demonstrated by an Issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the company for all cases faced (scale: Proactive, Remediate, Reactive, Non- Communicative).

¹⁴ The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

Involvement in controversial activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

VIGEO EIRIS' ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact combined with a weak level of assurance of E&S risk management.	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

DISCLAIMER

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has not carried out any audit mission or consultancy activity for Etihad Airways. No established relation (financial or commercial) exists between Vigeo Eiris and the Issuer. Vigeo Eiris' conflict of interest policy is covered by its Code of Conduct, which can be found at <http://vigeo-eiris.com/wp-content/uploads/2018/07/Code-of-Conduct-Vigeo-Eiris-EN.pdf>.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Instrument, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. The Issuer is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on the financial performance of the Instrument, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

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