

The background of the entire page is a high-angle, aerial photograph of an airplane's wing and tail section, extending from the left side towards the center. Below the wing, a stylized, semi-transparent globe of the Earth is visible, showing the outlines of continents. The sky is a clear, deep blue, and the overall lighting suggests a bright, sunny day. The text "broadening our horizons" is centered in the right half of the image, overlaid on the sky and the upper part of the globe.

broadening our horizons

Scope of the report

This report describes Cathay Pacific's environmental performance and initiatives on social responsibility during 2006 and presents our commitments for 2007. The report concentrates primarily on the core activities of Cathay Pacific Airways Limited. Our activities and commitments to corporate social responsibility are entirely consistent with the policies and practices of the Swire group of companies to which we belong.

Some of Cathay Pacific's Group companies, be they wholly or partly owned subsidiaries or associated companies, are producing their own environmental reports. In 2007 we will be incorporating the data from Dragonair, our most recently acquired subsidiary, into the Swire Environmental, Health and Safety database, using the same measuring mechanisms that we have adopted for our own operations.

The content of this report has been enhanced by the results of our stakeholder dialogue. We have also been guided by the Global Reporting Initiative (GRI) indicators. Whilst we are not able to use all these indicators, and do not claim to be in full accordance with the requirements of the GRI, we have found the indicators helpful in prioritising aspects of this report.

Supporting data for this report can be found at www.cathaypacific.com

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Chairman's message

2006 was our 60th anniversary and saw the delivery of our 100th aircraft and the full integration of Dragonair into Cathay Pacific. The year also saw the recruitment of our 2,000th pilot and we were presented with the prestigious *Air Transport World* and *Official Airline Guide* "Airline of the Year, 2006" awards.

For Cathay Pacific such milestones are indicative of a well managed company with a highly dedicated workforce. They also point towards 60 years of successful growth where our commitment to responsible business has always been paramount. But we are not complacent and we realise that many challenges lie ahead. In particular, we recognise that we must seriously address the impact of aviation on sustainable development.

As a company, we are deeply committed to Hong Kong, where Cathay Pacific was founded. We continue to make substantial investments to develop Hong Kong's aviation industry and enhance Hong Kong's position as a regional transportation hub. But we are also a company with connections to

many other countries and growing markets, particularly in Mainland China following the addition of Dragonair to our network.

As a result of the regulatory requirements involved in the integration of Dragonair into Cathay Pacific in 2006, we donated 64.7 million shares, worth over HK\$181 million, that we held in China National Aviation Company Limited (CNAC) to 70 Hong Kong, Mainland China and Asian charities. The recipients are all worthy organisations and the funds provided by Cathay Pacific will benefit the disabled and disadvantaged, children and the elderly, the arts, education, medical care, the environment and conservation, animal welfare and other worthy causes.

In keeping with our vision to make Cathay Pacific the most admired airline in the world we recognise that corporate social responsibility is an important part of our reputation and brand. In the past Cathay Pacific has published standalone environmental reports but for the first time this year we are reporting on the social and community aspects of our business as well.

Cathay Pacific is committed to being an honest, open and transparent company. Through this report we show how we aim to meet the concerns of our stakeholders and work in partnership with them. Indeed, in so doing we have embarked on a valuable process of stakeholder engagement in order to help us be more accountable.

Our challenge for the future is to meet the expectations of all our stakeholders within the Group and across all our subsidiaries. We recognise that we can only do that with committed, enthusiastic staff and loyal, satisfied customers. To achieve that we must continue to build trust and this report is part of that process. As we continue to broaden our horizons we hope you will join us on that journey.



Christopher Pratt
Chairman



Overview of 2006

2006 annual results		2006	2005	Change
Turnover	HK\$ million	60,783	50,909	+19.4%
Profit attributable to Cathay Pacific shareholders	HK\$ million	4,088	3,298	+24.0%
Earnings per share	HK cents	115.9	97.7	+18.6%
Dividend per share	HK cents	84.0	48.0	+75.0%

We currently serve 104 destinations in 35 countries and territories around the world. Our home, Hong Kong International Airport, is open 24 hours a day and handles over 600 arrivals and departures each day. Each week Cathay Pacific has, on average, 1,250 flight departures. In 2006 we transported 16,728,000 passengers and carried 1,198,703 tonnes of cargo.

Cathay Pacific and its subsidiaries employ over 25,000 people worldwide. More than 11,300 Cathay Pacific staff are Hong Kong-based and a further 7,200 work for our local subsidiaries, making the Cathay Pacific Group one of Hong Kong's biggest employers. As Hong Kong's major airline we provide vital arteries for trade and investment in the region as well as leisure travel for individuals and families.

Cathay Pacific Airways' profit attributable to shareholders was HK\$4,088 million in 2006. Group turnover hit new highs, increasing 19.4% to a record HK\$60,783 million. Our fuel bill for the year was HK\$20,214 million, up 29.7% on the previous year owing to rising oil prices.

Our fleet of passenger aircraft, with an average young age of seven years, includes the most advanced models from Boeing and Airbus which help us to improve our fuel efficiency and cut down on harmful greenhouse gas emissions.

Fleet profile as of 31 December 2006

Aircraft Type	Passenger	Freighter	Total
Boeing 747-200		7	7
Boeing 747-400	22	11	33
Boeing 777-200	5		5
Boeing 777-300	12		12
Airbus 330-300	27		27
Airbus 340-300	15		15
Airbus 340-600	3		3
Total	84	18	102

Our vision is to make Cathay Pacific the most admired airline in the world.



Governance

Cathay Pacific Airways Limited is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services. In addition to our fleet of aircraft, our investments include catering, aircraft maintenance and ground handling companies, as well as our corporate headquarters at Hong Kong International Airport.

Two of the airline's major shareholders, Swire Pacific Limited and CITIC Pacific Limited, are Hong Kong companies listed on the Hong Kong Stock Exchange, as is Cathay Pacific itself. Air China Limited, another major shareholder, is a Chinese company listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. In 2006 Cathay Pacific acquired Dragonair as a wholly owned subsidiary and at the same time enhanced its partnership with Air China through an increased cross-shareholding.

Cathay Pacific complies with the Code on Corporate Governance Practices set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong. Good corporate governance is central to the operation of the Company. Indeed integrity, responsibility and honesty are core business values and are a central part of our corporate image. We aim to act at all times according to the highest standards of business ethics and professional practice. We are committed to being accountable, transparent and fair in all our business dealings. We aim not only to act in the best interests of our shareholders but also seek to take into account the demands and aspirations of all our stakeholders and the environment.

Cathay Pacific has established a comprehensive code of conduct covering all aspects of our business dealings and, in addition, complies with the code of conduct covering all Swire group companies.

Engaging our stakeholders

Ongoing stakeholder dialogue enables us to better define what social responsibility means for our Company.

In preparing this report we wanted to ensure that the coverage reflected the priorities of our stakeholders. Indeed, listening and responding to them is a requisite to demonstrate our commitment to working in an ethical way.

In September and October of 2006 we held a number of focus groups and conducted interviews with employees, members of local non-governmental organisations, representatives of government, the business community, shareholders, local politicians, academics and the media.

The research, undertaken by an independent external consultant, reveals that Cathay Pacific is seen as a successful company with a positive image and brand, and is well managed and governed. Our community involvement, sponsorship and support for charities and NGOs are widely recognised, particularly with respect to our work with children and education. Many of these initiatives are organised by our own staff through volunteering activities.

Most stakeholders perceive us to be committed to sound environmental practices. Some stakeholders indicated concern about our contribution to climate change through the emissions of greenhouse gases. For this reason we are reporting on these issues and our commitments in this area in some depth this year.

Stakeholders sometimes tell us that we do not sufficiently communicate all our efforts and a number of them are unaware of the company's community activities. We hope that expanding our scope of non-financial reporting will lead to enhanced communication regarding our commitment to the communities we serve and our responsibilities to the natural environment, both locally and globally.

Interviews and focus groups with our employees indicate that we are perceived to be a good employer but disputes in the past still affect our reputation for good human resource management externally. Many stakeholders are particularly interested in our

efforts to promote non-discrimination and diversity. We report on our efforts here and on our strong commitment to training, education and health promotion and the general well-being of our most important asset, our staff.

We also recognise that stakeholders are interested in our procurement practices and responsibilities along supply chains. In 2007 we will be launching new initiatives in these areas.

Not only have we reported on the areas where our stakeholders have expressed particular interests, but we have also taken their views into account in formulating our targets and strategies for the future.

Agenda for 2007

We are committed to continuing with our stakeholder dialogue processes. In 2007, a particular focus of these will be our customers

Reflecting Stakeholder Priorities



Protecting the environment

Cathay Pacific is aware of its responsibility to minimise its impact on the environment and we are committed to playing a full and active part in ensuring that the airline industry develops in a more sustainable way in the future. Cathay Pacific works closely with the airline's global industry organisation, the International Air Transport Association (IATA), and the regional Association of Asia Pacific Airlines (AAPA), on a range of initiatives to advance environmental protection related to the industry's impacts. Environmental protection is a key element in Cathay Pacific's strategic thinking.

In 2006, our flights, totalling 331,424,000 kilometres, clearly had an impact on the environment. Our major impacts were due to the emissions from burning aviation fuel, energy consumption from ground facilities and vehicles, noise emissions and waste generation. Inevitably, some of our environmental impacts reach beyond national borders and managing these impacts is crucial from both a regional and global perspective.

In mitigating our environmental impacts we face many challenges. We are committed to being a sustainable and responsible business, while at the same time meeting the growing needs and expectations of our customers. Sometimes, when an environmental performance improvement in one area results in a different impact in another, we carefully consider all options and the overall environmental costs and impacts as part of our decision-making process.

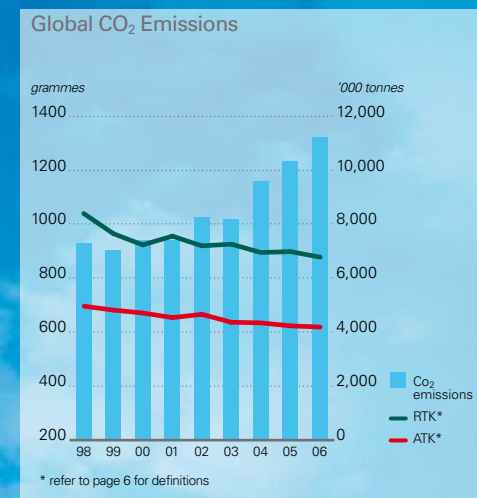
Climate change

In 2006, climate change continued to be at the forefront of government and public concern worldwide, as scientific evidence concerning the potential impacts of greenhouse gas emissions continued to mount. Al Gore's account of the potentially devastating effects of unabated greenhouse gas emissions through his film *An Inconvenient Truth*, and the UK Government's thought-provoking *Stern Review on the Economics of Climate Change*, focused attention on the immediate action needed to avert a potential catastrophe. Not surprisingly, greenhouse gas emitters, including the aviation industry, have been in the public eye and are increasingly under the scrutiny of policy makers. At Cathay Pacific we acknowledge our contribution to global greenhouse gas emissions and are committed to being part of the climate change solution.

Aviation's contribution to climate change

Airlines are responsible for greenhouse gas emissions principally as a result of emitting carbon dioxide (CO₂) from burning large quantities of aviation fuel. To put this in context, in 2006 Cathay Pacific burnt 3,596,000 tonnes of fuel resulting in 11,343,000 tonnes of CO₂ emissions.

The most current publicly available data on aviation's contribution to carbon emissions and climate change is contained in the Intergovernmental Panel on Climate Change (IPCC) estimates for 1992 and subsequent projections to 2050. These estimates indicate that the aviation industry accounts for 2% of man-made CO₂ emissions, representing approximately 13% of the emissions from the transport sector. IPCC has developed a range of growth scenarios. The mid-range reference scenario indicates a three-fold increase in the industry's carbon emissions by 2050, amounting to 3% of the projected total man-made CO₂ emissions.⁽¹⁾



There remains much uncertainty over the non-CO₂ effects of aviation on climate change, which when clarified may be an important consideration when evaluating aviation's overall impact.

The airline industry is aware of these impacts and more importantly recognises its responsibility towards climate change. At Cathay Pacific we continue to work with global industry associations, aircraft manufacturers and government authorities to examine all possible ways to reduce greenhouse gas emissions from our operations.

Cathay Pacific and climate change

In 2006, Cathay Pacific made a start on identifying specific climate change concerns and was part of the Swire group's "Value at Stake" project which analysed mechanisms for greenhouse gas reporting and considered the climate change implications on our business. The potential impacts were assessed against our revenues and reputation.

Following this exercise we developed a clear climate change position as a basis for ensuring progress continues to be made.

The Cathay Pacific Climate Change Position

Substantial reductions in global carbon emissions are urgently required to mitigate the impacts of climate change. Cathay Pacific acknowledges that:

- Aviation is estimated to contribute to approximately 2% of man-made carbon dioxide emissions
- Improved efficiency can be achieved through technological improvements, operations controls and improved air traffic management systems
- Absolute emissions will continue to rise as the industry grows

We are already making a very positive contribution towards addressing climate change by:

- Measuring and reporting openly on our emissions
- Working with industry partners and lobbying regulators to support route improvements and address inefficiencies in air traffic management
- Maximising efficiency through operational efficiency drives and fleet development
- Addressing climate change through the development of a carbon management plan and a carbon offset project

We support the following:

- The important role that carbon trading schemes can play to help secure the required reduction in global carbon emissions at minimum cost
- The funding of carbon emission reduction strategies on the ground from any revenues raised through economic instruments
- The leadership by the International Civil Aviation Organization (ICAO) in establishing a carbon trading scheme for international aviation

Cathay Pacific will work through the IATA and other industry partnerships to facilitate such action.

Our Climate Change Position has enabled us to clarify our approach towards addressing climate change through three key principles

- 1 Maximising fuel efficiency and reducing fuel wastage through fleet modernisation, technical improvements to existing fleet, stringent weight management and the implementation of operational efficiency drives
- 2 Addressing inefficiencies of air traffic management through collaboration and by supporting industry lobbying efforts
- 3 Acknowledging the role of economic instruments such as emissions trading

⁽¹⁾ Details of the scenarios can be found in the IPCC Special Report – Aviation and the Global Atmosphere – Summary for Policy Makers, 1999

Maximising fuel efficiency

The major contribution that Cathay Pacific can make in mitigating its impact on climate change, as well as local air quality, is to maximise fuel efficiency.

Our performance

In 2006, fuel accounted for approximately 30% of our net operating costs. Increasing efficiency is therefore crucial to our business performance as well as being a key factor in reducing CO₂ emissions.

Cathay Pacific has been measuring its performance consistently since 1998. As a result of the various initiatives outlined below, we have improved our overall fuel efficiency by 10.8% relative to ATK and 19.9% relative to RTK during this period. For passenger flights alone we have achieved an improvement of 24.5% relative to RPK.

Taking off the load

The overall weight of an aircraft is a key factor in determining the amount of fuel burned. We have an established aircraft weight task force to identify and assess opportunities for reductions. In 2006, the task force received more than 200 suggestions from staff for ways to lose unnecessary weight on aircraft. One initiative to introduce lighter, more durable cargo containers was initiated and will be completed in 2007. This is estimated to save 2,730 tonnes of fuel and reduce CO₂ emissions by 8,500 tonnes per year.

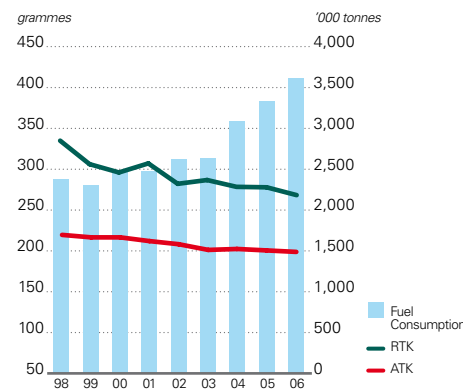
Another initiative involves reducing the weight of the fuselage of freighters. Our freighters now look silver due to a recently initiated programme of stripping bare most of the paint from the aircraft body. The new polished look makes a Boeing 747 about 200kg lighter. This will reduce fuel usage by approximately 600 tonnes per year and CO₂ emissions by over 1,800 tonnes once implemented across the freighter fleet.

Keeping pace with technology

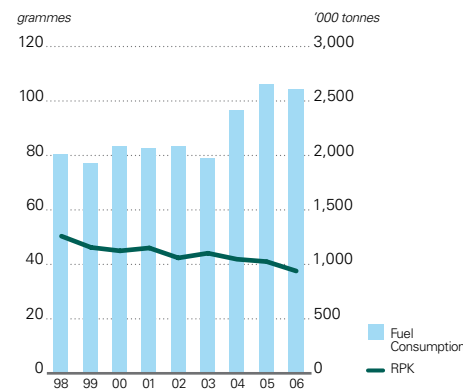
Fleet management is an operational priority which significantly influences our environmental performance as we try to keep the most efficient and technologically advanced aircraft in the skies. Our goal is quieter, fuel efficient flying with the lowest possible air emissions.

As well as investment in new, more efficient aircraft, re-engineering to keep pace with new technology continues to be an important aspect of our aircraft efficiency management. This is particularly important when considering that our aircraft are likely to be in service for at least 20 years.

Aircraft Fuel Consumption and Efficiency All Flights



Passenger Flights



In 2006 we continued to support Boeing's 747 performance improvement programme. The programme aims to reduce aerodynamic drag and therefore the energy and fuel needed to power the aircraft. Three technological advancements have the potential to improve efficiency, namely:

- The addition of large lightweight wing fairings which improve wing efficiency
- Improving airflow by reducing protrusions around the aircraft fuselage
- Improving the design of air conditioning air intakes to minimise disruption to airflow

Providing aircraft for industry programmes such as these reinforces our commitment to integrated industry action.

Definitions

ATK

Available Tonne Kilometres: Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance

RTK

Revenue Tonne Kilometres: Traffic volume, measured in load tonnes from the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance

RPK

Revenue Passenger Kilometres: Number of passengers carried on each sector multiplied by the sector distance

Addressing inefficiencies in air traffic management

Fleet modernisation – The Boeing 777-300ER

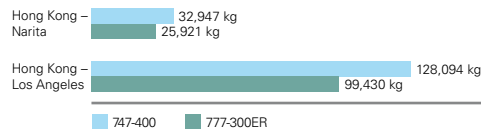


In 2006 we increased our order of 16 Boeing 777-300ERs to 18. These aircraft, in addition to offering heightened passenger comfort, employ advanced technology which has a number of environmental features including considerably lower fuel burn (22 to 24% lower per seat for the longer-range 777s compared to the Boeing 747-400), engine efficiency improvements and design changes that reduce drag and aircraft weight.

This Boeing 777 will use a new type of paint that provides a smoother finish which reduces aerodynamic drag resulting in less fuel burn.

The new aircraft will be introduced in 2007 and will help to ensure the operation of a modern, environmentally sensitive fleet. The aircraft will initially be introduced on Pacific routes where maximum efficiency benefits can be achieved.

Fuel Use Comparison



Inadequate air traffic management systems are the single largest cause of fuel wastage in the aviation industry.

Cathay Pacific is working hard with industry partners and regulatory authorities to reduce the unnecessary fuel burn created by poor air traffic management. As far back as 1999 the IPCC noted that improved traffic management could reduce aircraft fuel consumption by up to 18%. IATA is currently estimating these inefficiency losses as 12% of total fuel consumption.

We face numerous operational constraints relating to inadequate air traffic management (ATM) systems and infrastructure. Improvements, including greater opportunity for flexible and optimised flight paths, which take advantage of day to day wind variability, are fundamental to cost effective and fuel-efficient flying. Also, individual countries often operate different systems and lack the flexibility that modern on-board computerised navigation systems allow, resulting in flight paths that waste fuel. This is further exacerbated by congestion and localised ATM constraints which may force aircraft into holding patterns before landing.

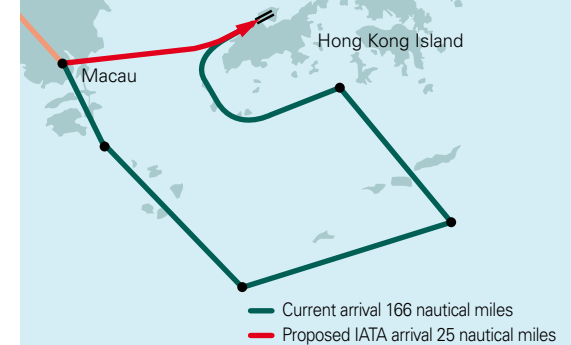
The situation in the Pearl River Delta provides a good example of such inefficiencies. As a result of the inadequate management of airspace from one ATM jurisdiction to another, aircraft are forced to take circuitous routes to and from destinations such as Hong Kong, Shenzhen and Guangzhou rather than taking the most efficient flight path. If the system is rationalised, we estimate that the savings for

Cathay Pacific and Dragonair will be 32,000 tonnes of fuel per year which equates to approximately 100,000 tonnes of CO₂. IATA has estimated the total emissions savings will be the equivalent of taking 200,000 vehicles off the road, which would account for nearly two thirds of Hong Kong passenger cars. Cathay Pacific is continuing to work closely with IATA, the Mainland Chinese authorities and partners in the airline industry to redesign the airspace and optimise flight procedures in the region. We are making considerable progress which we hope to report on more fully next year.

In 2006, after many months of hard work, we achieved one major improvement in Mainland China on the designated Y-1 route. In the middle of the year we began utilising this new route on several of our European services and in the first three months alone saved 120 hours of flight time, equating to a saving of 1,200 tonnes of fuel and more than 3,500 tonnes of CO₂.

Cathay Pacific is also working with IATA on a project to improve routings across the North Pacific. This includes lobbying for the opening of flexible entry/exit points into Russian and Chinese airspace which will improve efficiency on a day-to-day basis. During 2006, computer modelling using the Cathay Pacific flight planning system was employed to identify where the greatest improvements could be achieved. Operational trials will commence during 2007.

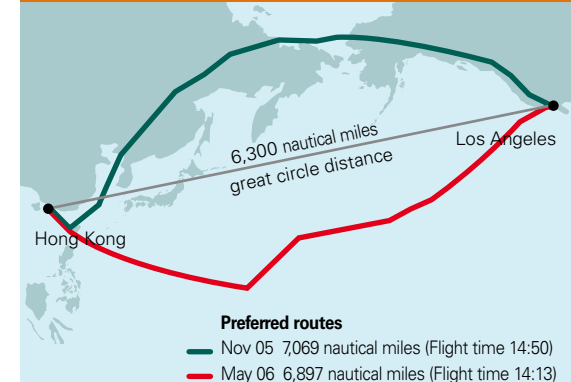
Pearl River Delta



Y-1 Route



North Pacific



The role of economic instruments

It is widely acknowledged that technology and operational initiatives alone will not compensate for increasing CO₂ emissions as a result of the industry's projected growth.

We recognise the potential role that economic instruments may play in controlling emissions within the aviation industry.

Towards the end of 2006 the European Commission published a draft of a proposal for the incorporation of aviation into the European Union Emissions Trading Scheme (EU-ETS). As an airline operating to Europe this will impact Cathay Pacific operations. We recognise that the EU-ETS may be the first but will not be the last regulatory mechanism aimed at reducing the climate change impact of aviation. Thus, as part of our carbon management strategy, in 2007

we will study how to effectively incorporate the challenges of trading into our current accounting systems.

Cathay Pacific is also committing itself to "offsetting" as part of its carbon management strategy. We hope that this will help raise the awareness of employees, passengers and other stakeholders and encourage innovation. As a start, we will develop and implement a system for calculating and subsequently offsetting the emissions resulting from business related travel of our staff. In addition, we intend to develop a system to allow customers to voluntarily offset the emissions arising from their travel.



Alternative fuels

Currently there are no viable alternative non-carbon based jet fuels. Despite extensive research in this area it would appear that the industry is at least 30 years away from coming up with a realistic substitute for kerosene or its synthetic equivalents. Constraints include replicating the performance specifications of jet fuel, and the typical aircraft lifetime in the range of 20 to 30 years. Any new fuel would need to be compatible with existing fleets. In addition, such fuel would need to be introduced globally to facilitate refuelling on long-haul flights.

Climate change

Progress against 2006 actions

Develop formalised climate change position	✓	
With partners, develop industry-specific actions to reduce greenhouse gas emissions	✓	ongoing
Encourage energy efficiency through our supply chains	✓	ongoing

Aviation fuel consumption

Progress against 2006 actions

Continue to improve fuel efficiency against the 1998 baseline	✓	
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Agenda for 2007

Implement mechanisms for offsetting emissions associated with employee business travel and provide a similar "opt-in" scheme for customers

Commence phase-in of more fuel-efficient Boeing 777-300ERs

Take fuel efficiency and emissions as a key consideration in the renewal process of ground vehicles

Continue to improve fuel efficiency against 1998 baseline

Begin operational trial to introduce flexible routes across the North Pacific

Clean air

Over the past year, local air pollution has continued to be an issue of concern in Hong Kong with an increasing number of poor air quality days recorded. This situation is largely a result of the emission of pollutants such as particulates, nitrogen oxides (NOx) and sulphur dioxide (SO₂) from a combination of vehicle traffic and power generation. Depending on atmospheric conditions there is also a significant contribution, including up to 78% of particulates, from neighbouring regions such as Guangdong.

Aviation's contribution to local air pollution is relatively minor. According to the Hong Kong SAR Government's air emissions inventory, civil aviation contributes just 0.84% and 0.3% to local levels of particulates and SO₂ respectively. Nevertheless, we are committed to playing our part in improving air quality in the region.

NOx, the generic term for various nitrogen oxides, are believed to exacerbate respiratory problems. The aviation industry contributes about 5% to local ambient levels and about one third of this, 1,482 tonnes in 2006, is attributable to Cathay Pacific aircraft. This correlates with the fact that our flights account for about one third of flights taking off and landing at Hong Kong International Airport.

The industry's air emissions are carefully regulated through ICAO which requires that newly certified aircraft engines meet increasingly stringent NOx standards.

Cathay Pacific became a signatory to the Hong Kong Clean Air Charter in 2005 and continues to support the requirements of this. In particular, we have improved staff communication of environmental issues including those associated with local air quality, on a new "Environment & You" website on our Intranet. This includes information on the science as well as many ideas for improved energy efficiency both at work and at home.

In 2006 we began to investigate the use of electric vehicles by our airport engineering staff. It is hoped that these vehicles will replace conventional petrol types at some of our outports in 2007.

The Hong Kong Clean Air Charter

Cathay Pacific became signatory to the Hong Kong Clean Air Charter in 2005 and continues to support the initiative. As part of our commitment we carefully monitor and publish information on energy and fuel use, as well as total emissions of air pollutants. We have been adopting energy-efficient measures in our operations and share air quality experiences with others. We have established various communication channels and are developing initiatives to further educate our staff about the impacts of local pollution, its causes and initiatives to reduce our impact both at home and at work.

Progress against 2006 actions

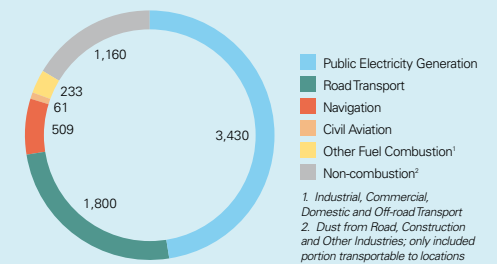
Ensure full compliance with the Hong Kong Clean Air Charter	✓	
Investigate alternative technology for ground vehicles	✓	
Work with local stakeholders to improve local air quality	✓	

Agenda for 2007

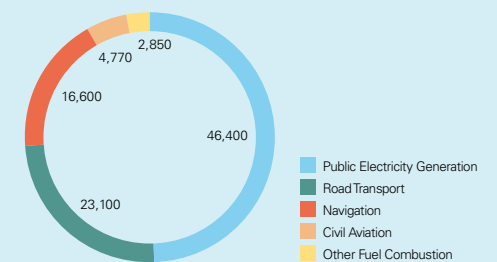
Source local and regional carbon reduction projects for our carbon offset programme
Continue to support the Hong Kong Clean Air Charter and encourage this through our local supply chains

Hong Kong Air Emission Pollutant Inventory (2005*)

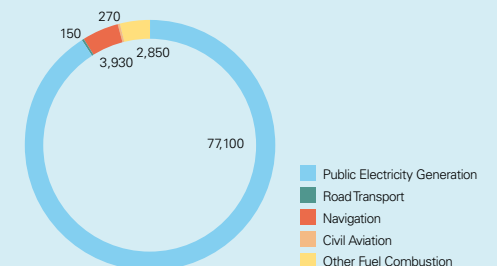
Particulate Matter Emissions in Hong Kong by Source



NOx Emissions in Hong Kong by Source



SO₂ Emissions in Hong Kong by Source



* Latest available data

Keeping the noise down

Noise problems have long been associated with the operation of airlines, particularly for communities living in close proximity to airports.

The industry has spent considerable time and resources to ensure that aircraft noise is minimised. ICAO provides global regulatory control through aircraft noise certification and some airports impose restrictions on certain aircraft based on ICAO standards. Others such as Heathrow and Brussels have imposed even more stringent airport-specific noise standards.

Cathay Pacific supports the “Balanced Approach” for noise mitigation advocated by ICAO. This involves addressing four elements:

- noise at source
- operational procedures
- land use planning measures
- operational restrictions

In line with this approach, we invest in quieter aircraft and continue to collaborate with airport operators and regulators to minimise the impact of aircraft noise on the communities we serve.

In Hong Kong, aircraft noise is monitored by the Hong Kong SAR Government’s Civil Aviation Department (CAD), which maintains 16 fixed noise monitoring terminals. In the event of a noise complaint, CAD investigates the cause and in the case of a legitimate complaint the aircraft responsible will be identified. If a noise problem can be attributed to the operations of a particular airline or a specific aircraft, the CAD will contact the airline to resolve the matter. In 2006, Cathay Pacific received no such complaints from the CAD.

However, in 2006 we did breach noise standards at some airports overseas, most notably at London Heathrow, where we incurred 17 fines at a total cost of GBP10,000. In nearly all cases these breaches were unavoidable, partly due to congestion and also to a policy change at Heathrow requiring the use of more noise-sensitive runways as a measure imposed to diffuse the community noise impacts. Congestion results in frequent delays in departure which force our heavy and noisier long-haul flights into the more noise-sensitive night time zones. The aircraft are frequently unable to attain the necessary distance from the noise monitors to be within the required noise limits despite following all requisite procedures. We are currently in discussion with the airport authority on their current policies and on how to better address these ongoing noise concerns.

Progress against 2006 actions

Continue to liaise with the CAD to reduce noise impact of aircraft operations in Hong Kong	✓
Work with industry groups, including IATA and the AAPA, in the promotion of the “Balanced Approach”	✓

Agenda for 2007

Communicate with airport authorities to more effectively address noise issues
Work with manufacturers and other airline partners on noise-mitigation measures



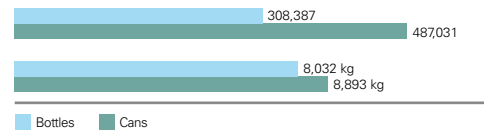
Managing in-flight waste

Reducing and recycling waste materials arising from our in-flight services is a challenge that we have been engaged in for some time. For waste generated on our flights, waste disposal options are subject to the operational requirements of the destination country and frequently there are no recycling systems and facilities available for receiving separated waste. There are also logistical constraints associated with recovering recyclable waste on flights due to the additional space required for storing separated materials.

Nevertheless we recognise that we can do more to tackle waste. Following successful trials on flights into Hong Kong in 2005, we were able to initiate a substantial programme for the collection and recycling of aluminium cans and plastic bottles in March 2006.

We estimate that due to the hard work of our cabin crews as well as cooperation from Cathay Pacific Catering Services, we recovered 64% of plastic bottles and 27% of cans from inbound flights in 2006. This equated to just over 8 tonnes of aluminium (487,031 cans) and just under 9 tonnes of plastic (308,387 bottles). On arrival in Hong Kong the recovered materials are collected by a dedicated waste contractor and taken for recycling.

Inflight Aluminium Cans and Plastic Bottles Collected in 2006



Progress against 2006 actions

Implement a system for sorting and collection of plastic bottles and aluminium cans on all inbound flights	✓	
Develop guidance documents for all outport offices to improve resource use and waste management practices	✓	<i>Incorporated within our dedicated "Environment & You" Intranet site</i>

Agenda for 2007

Consider feasibility of further recovery of in-flight recyclable items
Begin a programme of in-flight customer education relating to waste management aboard the plane



On the ground

Cathay Pacific City

Our headquarters, Cathay Pacific City, is a multi-purpose space, housing the majority of our Hong Kong ground-based employees, as well as providing facilities for the vast majority of our staff training facilities. We operate eight flight simulators, lease out three further simulator bays, and provide substantial operational and safety training facilities within the complex. Management of these facilities is in accordance with the international environmental management system standard ISO 14001. The facility also houses a company hotel, a leisure and fitness centre and restaurants.

Electricity consumption within our headquarters is variable due to the variety of activities which take place. We have, wherever possible, maximised energy efficiency through building design, although over the last few years overall consumption has increased due to increased building usage. In 2006 our building received the Platinum Rating of the Hong Kong Building Environmental Assessment Method (HK BEAM) and a Merit Award from the Hong Kong SAR Government's Electrical and Mechanical Services Department as part of the Hong Kong Energy Efficiency Awards. To ensure we continue maximising energy efficiency, we regularly monitor energy use, manage energy consumption and continue to make improvements wherever possible. We also comprehensively monitor our indoor air quality and continue to meet the requirements of our Indoor Air Quality Certificate (Good

Class) issued by the Government's Indoor Air Quality Information Centre.

We continue to operate a solar panel to heat water for the dishwashing line in the food court. In 2006 we commenced installation of an experimental wind turbine of 1kW generating capacity which will be operational early in 2007. The airport is an ideal location for wind power electricity generation. Through close cooperation with our power provider, the energy generated will feed into the office tower lighting system at Cathay Pacific City. It is hoped that if successful, this pilot project will enable us to consider wind power generation as part of future facilities development.

Ground transportation

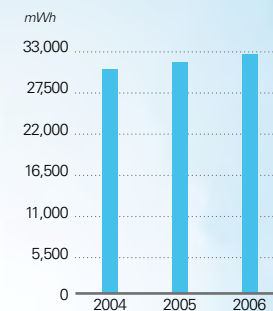
Cathay Pacific directly operates 40 ground vehicles, ranging from small passenger vehicles to 24-seater minibuses. In 2006 we began calculating vehicle CO₂ emissions in accordance with the Greenhouse Gas Protocol. We estimate that these vehicles give rise to the emission of 2,083 tonnes of CO₂ annually.

In 2007 we intend to widen the scope of our measuring and reporting of ground vehicles to include those third-party vehicles which are used to transport staff to and from the airport.

For many companies a significant environmental impact that is often overlooked is travel to and from work by staff. At Cathay City we have a daily workplace population of around 4,000. We estimate that around 87% of our staff use public transport to travel to and from work.

Cathay Pacific City

Electricity Consumption



Water consumption and conservation

In 2006 we consumed about 9,644m³ of potable water and 7.3 million m³ of seawater at Cathay Pacific City. Most seawater was used for cooling purposes. Wastewater from the sewerage system is discharged to the foul sewer and goes into the Airport Authority's treatment system before entering the government system. The seawater used for cooling is discharged back to sea in accordance with the requirements of the discharge licence. No breaches of the licence conditions were identified during 2006.

We use water for washing our aircraft. However we also use dry compounds as much as possible. Currently all passenger aircraft are washed on a wash-wash-wax cycle basis, with the period between each event being approximately 44 days.

Agenda for 2007

Assist in implementing mechanisms for recycling at Dragonair headquarters

Assess the viability of further wind power generation

Focus on paper reduction as part of the 2007 "Clean and Green Office" campaign

Consider the feasibility of recovering heat in the fresh air supply unit at Cathay City, with a potential saving of 38,000 kWh per annum

Improve the accuracy of measuring ground waste and recyclables at Cathay Pacific City

Raising environmental awareness

In 2006 we held an environmental road show in Cathay Pacific City in conjunction with the launch of the new and comprehensive website for our staff entitled "Environment & You". The aim of the site is to raise awareness of environmental issues and provide information on how Cathay Pacific is addressing environmental protection. It provides information on what the individual can do and, through local policy initiatives, what the government is doing. The site is designed to be accessible for the non-technical reader and covers a wide range of topics including the science behind some environmental issues affecting the local and global environment.

Ground waste management

We continue to segregate many types of recyclables from our waste stream including paper, plastics, aluminium cans, printer cartridges, rechargable batteries and compact discs. To continuously improve our performance, we constantly try to raise staff awareness on waste reduction via articles on the Intranet and displaying information on posters in public areas.

Biodiversity



Our headquarters, Cathay Pacific City, is located adjacent to Hong Kong International Airport. We are limited in what we can achieve in terms of biodiversity in this vicinity as the airport takes measures to discourage birds to avoid hazards associated with bird strike. Nevertheless, we are committed to playing our part in protecting biodiversity and supporting wildlife initiatives elsewhere.

2006 saw the completion of a three-year tree planting programme where Cathay Pacific worked in partnership with Friends of the Earth and the Hong Kong SAR Government's Agriculture, Fisheries and Conservation Department. We provided funding that allowed for an additional 10,000 trees to be planted around Hong Kong.

In 2005, the Asian Waterbird Conservation Fund was established with a donation of HK\$500,000 from Cathay Pacific. The Fund is currently administered by WWF Hong Kong to provide financial support for projects that promote the conservation of migratory waterbirds and the sustainable use of their wetland habitats in the East Asia-Australasian Flyway. The Flyway, covering over 57 countries, is used by about 243 species of migratory waterbirds each year, of which around 50 are identified as threatened species.

In the first round of Conservation Fund applications in 2006, grants were awarded to projects that included a public awareness campaign in Southern Thailand, a community-based waterbird conservation project in Bangladesh and conservation and public education activities in Mongolia. In addition four workshops and three field trips have been organised for local communities, students and wetland wardens.

Since 1994, Cathay Pacific has sponsored young people from around Asia to attend the International Wilderness Experience in South Africa. The young people, aged between 16 and 18, not only learn about how humans are impacting on the earth's delicate ecological balance, but also take part in numerous cross-cultural activities. In 2006, 42 young people from 15 different cities, including Hong Kong, took part in the programme.

Agenda for 2007

Commitment to a new three-year programme of tree planting in collaboration with Friends of the Earth

Continue to support and raise funds for the Asian Waterbird Conservation Fund

Safety and health

Safety is our number one priority. We are committed to providing safe and healthy environments for employees and customers. This commitment extends to our numerous workplace locations including offices, check-in counters, airport aprons and onboard our aircraft.

Our passengers

Our commitment to safety ranges from operating a fleet of well-maintained, reliable aircraft to implementing a wide range of programmes to ensure in-flight passenger well-being and comfort. Although most people can undertake extensive air travel with minimal added health risks, this may not be true for everyone, especially those passengers who suffer from chronic medical conditions or have been recently ill. We provide helpful travel health information on our website but encourage passengers to consult their doctors about their fitness to fly or if they have any medical concerns.

In-flight health

Aircraft cabin air quality: Air flow from the air conditioning systems provides a complete replacement of the cabin air every 2 to 3 minutes, with contaminants being removed by a combination of air replacement and filtration. All passenger aircraft are fitted with high efficiency air particulate (HEPA) filters that remove more than 99.9% of particulates and airborne bacteria, and are maintained and changed according to the manufacturer's guidelines.

Onboard medical care: All aircraft are equipped with extensive medical kits including automatic external defibrillators (AEDs). Crew are trained to use AEDs, perform cardiopulmonary resuscitation (CPR) and emergency first aid. To assist them in dealing with in-flight medical emergencies, crew have access to a 24-hour aeromedical advisory service.

Deep Vein Thrombosis (DVT): A thrombosis is the formation of blood clots within vessels that can have fatal consequences if they obstruct the flow of blood to a vital organ. In the context of air travel, the concern is thrombosis occurring in the deep veins of the lower legs. We provide educational information to passengers through our website and in-flight publications on this issue.

Public health and communicable diseases

We work closely with local public health officials, IATA and other agencies, as well as adhere closely to international guidelines from agencies such as the World Health Organization and Centers for Disease Control and Prevention.

An internal cross-departmental task force works on identifying emerging diseases and ensuring the Company's preparedness in dealing with a variety of potentially infectious diseases.

We have developed in-flight procedures for dealing with sick passengers and added additional infection control supplies at airports to minimise the risk of infection to passengers and crew.

We have improved infection procedures through the significant enhancement of training and education to crew on the proper handling of sick passengers to ensure they are well looked after whilst minimising the risk to others.

In-flight food safety

Cathay Pacific only buys its catering supplies from pre-approved in-flight caterers who operate to the highest international standards of hygiene and food safety throughout its network. All caterers are routinely audited for compliance against industry-approved criteria to reinforce our commitment to ensuring the highest levels of care for all our customers. Our onboard chilling systems ensure that food and beverages are maintained well within safe temperatures before service. All our cabin crew receive food-handling training to ensure the safe delivery of meals.

Our range of special meals has been expanded and now includes over 20 different meals for dietary, religious and medical needs.





Safety is our number one priority



Our people

We commit significant resources to various health and safety initiatives for our staff both on the ground and in the air.

Training is essential in ensuring optimum levels of health and safety. Induction training for cabin crew and regular refresher training includes information on travel health, fatigue management, issues related to drugs and alcohol, back care and safe lifting techniques. Both ground and cabin crew are trained in safe manual handling and lifting, and the handling of irate or intoxicated passengers.

A new position of Airline Ground Safety Manager has been created to manage ground safety and occupational health and safety risks. We are committed to decreasing our work injuries, both in terms of incident rates and the duration of disability. We aim to achieve this through better education and training of staff, greater personal ownership and a commitment to working safely.

Within the aircraft cabin we ensure that work procedures are well designed with safety always in mind. In 2006 we invited an external ergonomics expert to take observation flights and to provide feedback on equipment design, safe working procedures, and minimising in-flight injuries. This is enabling us to improve the design of cabins and galleys. We have improved our tracking of work injury data, enabling better monitoring of and a clearer focus on work injury trends. An on-line safety reporting system to facilitate crew reporting is under development.

Cosmic radiation

About 8% of the radiation we are all exposed to on a daily basis is cosmic radiation from space. But at high altitudes this is more prevalent. Since our crew fly frequently, we monitor their exposure to this type of radiation and make this information available to each person. We take all necessary actions to ensure that all crew remain at levels below the recommended occupational limits.

Staff welfare is promoted by numerous internal programmes at Cathay Pacific in the areas of health promotion and injury prevention. They include health talks, workplace and workstation assessments, health and fitness demonstrations and vaccination schemes. A confidential, free-of-charge, psychological employee assistance service is available to all staff and eligible dependants through the Company's Employee Assistance Programme.

A new and revitalised Occupational Health and Safety (OH&S) Review Committee, which emphasises the importance of ground safety issues across all staff categories, was reconvened in 2006. It is comprised of representatives from various staff unions, representatives and managers from key departments within the company as well as health and safety professionals.

Progress against 2006 actions

Implement methodology and standards for data capture and monitoring systems for work related injuries

X *A comprehensive data capture and tracking system is currently under development for completion in 2007*

Agenda for 2007

Improved work injury management programme

Completion of a new safety handbook for cabin crew which emphasises the importance of working safely

Further refinement of the Occupational Health and Safety Management System in conjunction with a new awareness campaign

Community initiatives

At Cathay Pacific we recognise that companies have responsibilities to the societies in which they operate. Our main emphasis in 2006 was on work with young people and disadvantaged groups. We see educational initiatives as integral to a sustainable future.

In 2006 Cathay Pacific was recognised for our commitment to community service and youth development, winning two awards for volunteering initiatives by the Hong Kong SAR Government Social Welfare Department. For the third consecutive year Cathay Pacific was named Champion in the “Highest Service Hour Award (Private Organisation – Best Customer Participation)” in recognition of its various staff volunteering initiatives.

Relating to Cathay Pacific’s integration of Dragonair and the privatisation of the China National Aviation Company Limited (CNAC), we donated CNAC shares worth over HK\$181 million to 70 Hong Kong, Mainland and Asian charities.

We also donated 567 air tickets to help with local community initiatives.

Change for Good

The Cathay Pacific Change for Good inflight fundraising programme in partnership with UNICEF (the United Nations Children’s Fund) continued to help children in over 156 developing countries. In the programme year 2005/2006, we raised nearly HK\$10 million by collecting travellers’ leftover foreign currency, bringing



the total collected since the programme’s inception in 1991 to over HK\$75 million.

In October 2006, a delegation of employees from Cathay Pacific visited the Oriental Negros province in the Isayas region of the central Philippines, seeing at first hand UNICEF projects that have improved the lives of children and their families.

In 2006 Change for Good supported a range of UNICEF projects including support for underprivileged inner city children, combating the abuse of children, indigenous migrant children and their families, children at risk of commercial sexual exploitation, children who work and children with drug addictions.



The Cathay Pacific “I Can Fly” programme

“I Can Fly” aims to nurture enthusiasm for aviation, encourages young people’s self development and supports greater involvement within the community.

In 2006, 1,000 young people aged between 13 and 18 completed the 15-month programme which consisted of a number of aviation activities and community programmes, working together with Cathay Pacific pilots and staff leaders. Aviation activities included training on aerodynamics, aircraft systems and lessons on the weather and radio communications. There were visits to aircraft engineering and cargo handling facilities and the Air Traffic Control Tower at Hong Kong International Airport. Student members with an outstanding performance were rewarded with overseas trips to Boeing in the USA, Airbus in France, or the Flight Training Adelaide flying school in Australia.

Members of “I Can Fly” work with children with disabilities, underprivileged children and the elderly. They are also encouraged to contribute to Cathay Pacific’s other ongoing community-support initiatives.



Life Education Activity Programme (LEAP)

Along with Swire, Cathay Pacific has been LEAP's major sponsor since soon after it was established in 1994. In 2006 we donated HK\$2 million to the programme which provides education on health promotion and drug awareness for students aged five to 15. In 2006, LEAP's educational initiatives reached over 80,000 students including 3,000 youngsters with special needs.

Helping children with disabilities

The Cathay Pacific Wheelchair Bank – the first of its kind in Hong Kong – was set up in 1996 to mark the airline's 50th anniversary. Ten years later we continue to support this initiative that provides specially adapted wheelchairs for children with neuromuscular diseases. To date, a total of HK\$7.15 million has been donated to provide the wheelchairs and all the necessary support. Since 1999, an average of one month's proceeds from each year's Cathay Pacific Change for Good programme has been allocated to the Wheelchair Bank.

Asia Miles

Asia Miles is Cathay Pacific's wholly owned frequent flyer rewards programme. It partners with Orbis, Oxfam, UNICEF and the CARE Housing Society to enable members to donate their Asia Miles to these charities for sending aid workers, volunteers and doctors around the world, or bringing elderly relatives closer together.



Employee volunteering

We recognise that much of the great community work associated with Cathay Pacific is a result of the substantial volunteering activities of our own staff. For example, the Sunnyside Club, a charity established 20 years ago by Cathay Pacific employees, concentrates on improving the wellbeing of children with physical and mental disabilities in Hong Kong.

Staff support the children through monthly donations, fund-raising and charity events.

In 2006, the creative "Marco Polo" initiative was launched. A teddy bear named Marco travelled to a total of 23 destinations across the globe with pilots and cabin crew acting as escorts. In total, Marco travelled 157,000 miles and raised funds from the staff community.

Events and Scholarships

Cathay Pacific plays an active role in bringing world-class sporting and cultural events to Hong Kong and involves the local community wherever possible.

Manchester United Soccer Schools

A Cathay Pacific Scholarship Programme was set up for 30 talented underprivileged soccer players aged 11 to 15. The Hong Kong Children and Youth Services nominated the scholarship recipients.

Hong Kong Sevens

Together with Hong Kong Rugby Football Union and the Education and Manpower Bureau, Cathay Pacific helped bring 600 school students to the Hong Kong Stadium to watch the first tournament day. The students were given a guided tour and learned about the history and development of rugby.

Asian Youth Orchestra

A community concert was organised to entertain an audience of around 500 from local groups, including the elderly, underprivileged and physically challenged. The orchestra rehearsed especially for this unique community activity.

Agenda for 2007

Following the integration with Dragonair, a review of the community projects currently run by both companies will help identify cooperation opportunities and enhance the benefits of these initiatives



Human resources

Cathay Pacific recognises that our employees are the most important asset we have.

Engaging our people

Our employees are central to ensuring that customers are provided with a high quality service that is safe and represents value for money. It takes many different skills to run an efficient airline. Therefore, investing in people will remain one of our key priorities in the future as we strive towards a diverse, satisfied and effective workforce.

The company ensures that in every country in which we operate we meet local employment laws as a minimum requirement. However, in many cases we exceed those requirements because we are committed to rewarding and recognising employees in fair and equitable ways. The company's employment practices provide equal opportunities to all individuals irrespective of gender, race, ethnic origin, family status, religion, disability, sexual orientation and physical features.

Getting feedback from our staff is very important. Staff surveys are conducted on an ongoing basis with the cabin crew community and other staff groups. In addition, we have undertaken staff surveys every two years in most of our overseas locations. In 2006 we began a process of moving towards a more systematic approach to monitoring and understanding employee sentiment and work satisfaction. We will be undertaking comprehensive staff surveys worldwide starting in 2007.

The Betsy Awards for service excellence



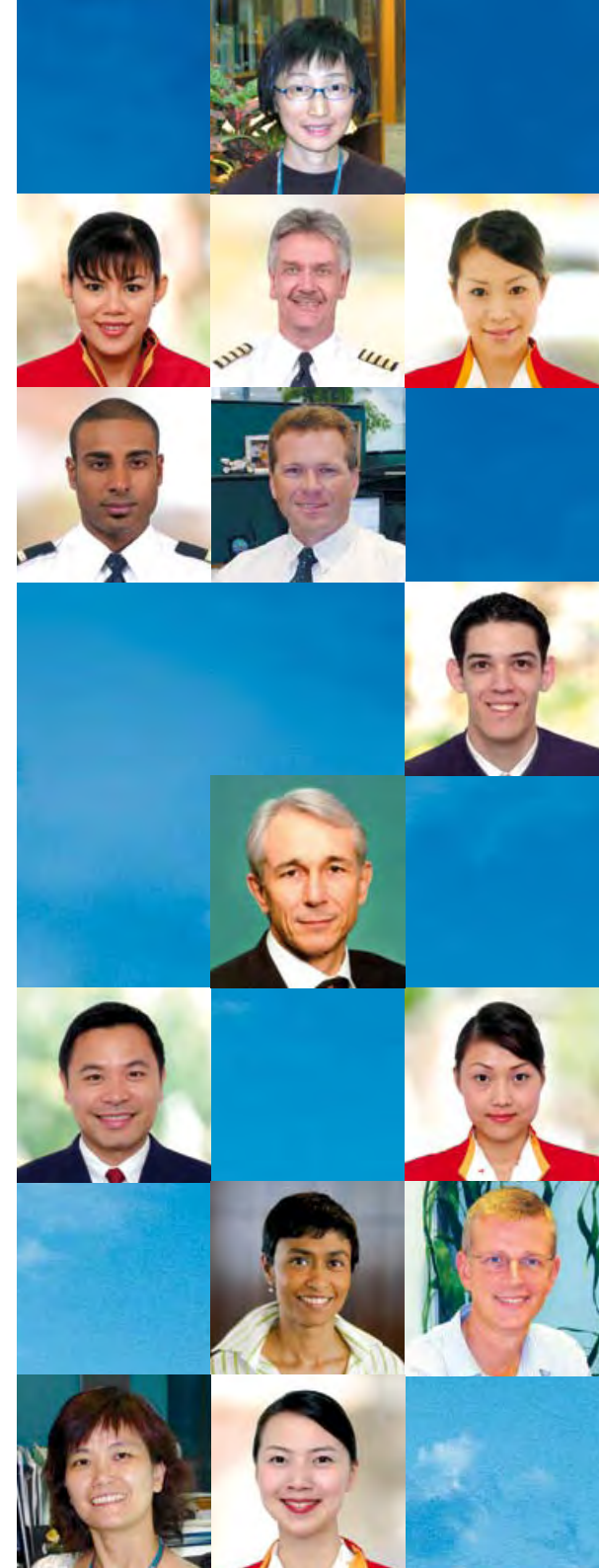
Betsy, a converted Douglas DC3, is fondly remembered as our first aircraft. Sold in 1955, Betsy was discovered, almost 30 years later, flying cargo around the Australian outback. We bought the aircraft back, repainted her in the original 1940s' livery and donated her to Hong Kong's Science Museum. Now the name lives on in the Betsy Awards which are the highest accolades given by the company to recognise staff and service excellence.

The awards express the company's appreciation to individuals and teams for their extraordinary acts of customer service and, at the same time, promote the concept of service excellence within the airline. In 2006, 14 awards were presented to staff for their exceptional service and going way beyond their call of duty.

Diversity

Cathay Pacific supports a working environment that promotes mutual respect and trust. We are proud of our multicultural environment which creates a rich diversity not seen in many companies. In 2006 we employed pilots from 36 different countries and cabin crew representing 33 nationalities. We are pleased to promote diversity in our workforce because we believe this promotes an outward looking international perspective fitting with the visions of the company.

Any type of discrimination based on background, culture or preference is viewed as a serious misconduct and is not tolerated by the company.





We are proud of our multicultural environment.



People development and education

Cathay Pacific sees staff development and education as central to maintaining high levels of customer service. We are also committed to providing our people with ongoing educational opportunities so they can develop their own personal skills and competence.

As part of our commitment to continuing education we hold regular guest lectures at Cathay Pacific City. In 2006, seminars and lunchtime forums brought in external speakers to talk about a range of topics including stress management, cancer prevention, effective communication, personal empowerment at work and in the family, effective parenting and the importance of protecting the environment.

As part of our regular staff development programmes we run workshops and individual coaching and counselling sessions on career development to help staff become better informed and equipped to maximise their opportunities and employability with Cathay Pacific.

The Company operates a Learning Zone which offers access to books, videos, online e-learning modules and other course materials for education and personal development purposes. Our online Learners World offers over 10,000 catalogue items covering topics ranging from specialist courses on technical matters pertaining to our business, to personal development, coping with change, career management, language development and intercultural communications skills.

We have one-to-one mentoring processes as part of our management and leadership development programmes. This extends to developing coaching relationships with senior managers and executives in Hong Kong and outposts.

The Cadet Pilot Programme

To demonstrate our commitment to Hong Kong, and with an eye towards our future, we introduced our Cadet Pilot Programme in 1988. This meticulously designed programme has already put many valuable, dynamic individuals into the cockpits of our aircraft.

Our selection process and training programme are rigorous. Cadets need not have previous flying experience, but have to demonstrate that they are ambitious, enthusiastic and capable. This is a career path programme with an ultimate goal of becoming a Captain, and the chance to be the leading member of our onboard team.

In total we currently have 244 cockpit crew who have graduated from the Cadet Pilot Programme since 1988 and are still working for Cathay Pacific. In 2006, 22 new cadets entered the programme and 15 who completed the programme have started working as pilots. Another five of these graduates will join the company in 2007.

Agenda for 2007

- Undertake comprehensive staff surveys worldwide
- Begin a series of events and initiatives to further promote and enhance diversity

Procurement and supply chains

Of our total expenses of HK\$51,134 million in 2007, over 70% was spent with suppliers.

Cathay Pacific does business around the world and has relationships with over 1,000 suppliers globally. We purchase a wide array of products and services ranging from aircraft and aircraft maintenance, to fuel, IT solutions, office supplies, food and beverages for in-flight catering and branded items such as uniforms for cabin crew. To ensure our operations are conducted in a responsible way, we require suppliers to meet our standards for business, environmental and technical performance. Through product specification we have regularly influenced our suppliers' production processes and the

materials that are used. In 2006 we identified the need for a more coordinated approach to CSR in the supply chain, where we will develop systems to help suppliers understand and meet our increasingly stringent requirements.

We purchase big-budget items such as fuel and aircraft from other large global companies, many of whom report publicly on their environmental, health and safety and social performance. Many of our large global suppliers hold similar values of corporate responsibility as ourselves.

However, we need to ensure that all of our suppliers uphold our values and so we will be implementing plans that address all of our suppliers, large and small.

In 2007, we will develop a set of supplier qualifications that will include principles relating to labour standards, health, safety, and the environment. Additionally, we will develop business processes to anticipate problems and assist suppliers to improve their performance. To this end, we will conduct risk assessments of our supply chain, implement a supply chain code of conduct, and initiate audits of key suppliers.

Agenda for 2007

Implement a code of conduct for the supply chain and begin a process of supplier audits against this code

Develop a set of supplier CSR qualifications



Verification

The Association for Sustainable and Responsible Investment in Asia (ASrIA) was commissioned by Cathay Pacific Airways Limited to verify their Corporate Social Responsibility Report 2006 which focuses on Cathay Pacific's environmental performance and social responsibility.

Process

The objective of our work was to evaluate the scope and the accuracy of the report as well as related disclosures. Accurate and effective corporate social responsibility reports are a direct reflection of a company's willingness to place critical issues in their proper context and to candidly assess actions, systems, and challenges. As a result, our verification efforts focused on the structure of the report and an assessment of the data presentation and sourcing. In our review, we paid particular attention to the presence or absence of ongoing efforts and systems which would have a bearing on credible efforts to meet the company's stated goals and stakeholder expectations. In addition, where possible, we identified areas for potential improvement in future reports.

ASrIA's independent verification process comprised a review of the 2006 report and a detailed examination of selected statements. Information, documents, and data supporting key statements were examined and verified through inquiry and evaluation. In some instances, this resulted in further interaction with management to clarify the nature of the supporting information provided.

Results

Through our verification process ASrIA has concluded that:

- The 2006 Report succinctly covers issues relevant to the purpose of a CSR report in the airline industry.
- Statements and data selected for verification were adequately supported and documented by Cathay Pacific.
- Information and documents provided confirm the existence of systems and ongoing corporate initiatives intended to respond to a clearly defined set of environmental and social concerns.

Recommendations

In future reports, we believe that Cathay Pacific's Corporate Social Responsibility reporting effort would benefit from:

- A clear statement of priorities which offers a framework for assessing management's view of the strategic significance of various initiatives;
- Greater links between issues discussed and financial performance metrics; and
- The inclusion of more voices from stakeholders to lend credibility and transparency to the stakeholder engagement process.



Melissa Brown, *Executive Director*

The Association for Sustainable and Responsible Investment in Asia (ASrIA)
11 May 2007

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