

Our Next Destination

Sustainable Development Report 2009



About this Report

This is our first comprehensive Sustainable Development Report and is part of our continuing commitment to transparency and accountability. We have been reporting on our environmental activities since 1997 and on our corporate social responsibility (CSR) activities annually since 2006. In order to ensure that we report accurately, we have engaged independent consultants, BMT, to verify this report and accountants, PricewaterhouseCoopers, to provide an assurance report on our greenhouse gas (GHG) emissions data.

Scope of the Report

This Report covers all significant environmental, economic and social impacts arising from the activities of the Cathay Pacific Group in the 2009 calendar year. It also presents our commitments for 2010. We have significantly expanded the scope and boundary of this Report from last year and we are now reporting on 100% owned subsidiaries based in Hong Kong. We also report on some associate companies with a view to increasing disclosure in future reports.

We amended our Economic Value Table and Aircraft Operations numbers in the Environmental Indicators Table due to alignment with our Annual Report 2009 and emissions reporting with relevant regulators.

How we Report

The content of this Report has been defined by a process of:

- stakeholder engagement;
- identification of priority areas set out by aviation industry associations and use of a material issues or materiality matrix;
- benchmarking against other airlines; and,
- reference to the Global Reporting Initiative (GRI) 2006 reporting framework (G3) and the AA1000 Accountability standard.

Measuring our Performance

We have included commitments in almost every area of this Report. These enable us to track our performance and help us to better manage efforts across our operations in addressing our key sustainability impacts.

What Others Say About this Report

A committee of stakeholders has reviewed the balance, completeness and responsiveness of this Report. Comments from our Stakeholder Review Committee can be read on page 50.

Global Reporting Initiative

We continue to use the GRI's G3 guidelines and we are once again pleased to announce our achievement of an A+ GRI grade in this Report. This grade is an indication of the comprehensiveness of our reporting approach and is a reflection of our transparency on GRI indicators. It does not reflect actual implementation of sustainable development initiatives. Our implementation is driven internally and guided by international standards and benchmarks such as the FTSE4Good Index.



Report Application Level



Our Online Report

Supplementary information such as the data assumptions and calculation process and the full GRI indicators table can be found online (www.cathaypacific.com/sdreport).

External Recognition



FTSE4Good

CARBON DISCLOSURE PROJECT

Sector Leader



Brand Emissions Leader
(Carbon Intensity: Aviation Sector) by Ends Report 2009

Chairman's Message



As a socially and environmentally responsible company, we believe we also have a duty to be at the forefront of efforts to ensure a more sustainable development path for ourselves and for future generations.

Undoubtedly, 2009 was a challenging year for Cathay Pacific. The year began with a severe global economic downturn which clearly impacted on our financial performance. The first half of the year was particularly difficult for us and we were forced to reduce flights and temporarily park aircraft in response to falling customer demand.

Nevertheless, during this period, Cathay Pacific made a profit and a public commitment to keep the team and our network together. By implementing a company-wide Special Leave Scheme and making key cost savings across the Group, we kept this promise and did not lay off staff in response to the business downturn during one of the most difficult years in our history. We recognise that our industry can be exposed to external shocks that are outside of our control – the challenge is how we respond to these situations.

Whilst tackling the short-term economic challenges, we also demonstrated our commitment to the long term by developing our new Sustainable Development Strategy. The Strategy outlines our aims and objectives for ensuring that sustainable development principles and processes are at the heart of our business model going forward.

Our new Strategy focuses on the operational side of our businesses. It emphasises the need to engage with climate change issues and to play our part in mitigating our own impacts and adapting to future changes brought about by anthropogenic climate change. However, it also places priority on engaging with social and economic sustainability issues, to meet the needs of our customers, communities and shareholders.

At Cathay Pacific we recognise the need to examine both the risks and opportunities inherent in embracing sustainable development. The aviation industry is facing significant environmental challenges, with increasing regulation and costs associated with carbon emissions, set against a backdrop of rising oil prices over the medium term. As a socially and environmentally responsible company, we believe we also have a duty to be at the forefront of efforts to ensure a more sustainable development path for ourselves and for future generations.

We have already started to implement our Sustainable Development Strategy by building awareness within our organisation and by

encouraging our suppliers and contractors to have their own strategies and policies for sustainability in place. We have asked individual departments to identify their own objectives and action plans. In the medium term we will ensure that our investments in new aircraft and associated infrastructure are consistent with moving towards lower carbon operations.

The sustainable development agenda also reinforces our commitment to being an employer of choice, enabling staff to maximise their potential, to investing in communities in which we operate, and to ensuring safety as our first priority. In this Report we highlight our continuing efforts and our progress in all of these areas.

Our Sustainable Development Strategy also commits us to demonstrating leadership both within Hong Kong and throughout the global aviation industry. We will not only meet new regulations but will help to shape the debate, and, where necessary, to challenge those proposed policy changes which we view as counterproductive. Working with our industry partners, it is important that we maintain a global perspective on what is an essential global industry.

As the economy begins to recover we are already planning for the future. During the latter part of 2009 we announced a number of new destinations and we will continue to look towards long-term expansion. But that expansion must be achieved in a sustainable way if we are to maintain the trust of our stakeholders and the loyalty of our customers. That is why this Report focuses on reaching a very important destination for Cathay Pacific: sustainable aviation. This is a long-term objective and there is still a considerable way to go on this particular journey, but we believe that we are on the right path and I look forward to reporting on our continued progress as we move forward.

Christopher Pratt
Chairman

Understanding Our Business

With approximately 26,700¹ employees worldwide, the Cathay Pacific Group helps to meet the world's growing demand for air transport, aiming to do so in a sustainable way. In 2009, Cathay Pacific Airways and its sister airline Dragonair, both with their head offices in Hong Kong, flew to 117 destinations in 36 countries and territories around the world.

Founded in Hong Kong in 1946, the Cathay Pacific Group remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading global transportation hubs.

In addition to our aircraft fleet, our investments include catering services, aircraft maintenance facilities, ground handling and our corporate headquarters at Hong Kong International Airport (HKIA).

Cathay Pacific has its own listing on the Hong Kong Stock Exchange, with Swire Pacific and Air China as its two major shareholders.

Major subsidiaries and associates in 2009 (percentages)

Cathay Pacific Catering Services (HK) Limited	100
Cathay Holidays Limited	100
Hong Kong Airport Services Limited	100
Hong Kong Dragon Airlines Limited	100
Vogue Laundry Service Limited	100
AHK Air Hong Kong Limited	60
Hong Kong Aircraft Engineering Company Limited (HAECO)	15
Air China Limited	18

¹ Includes all subsidiaries worldwide



Our Vision

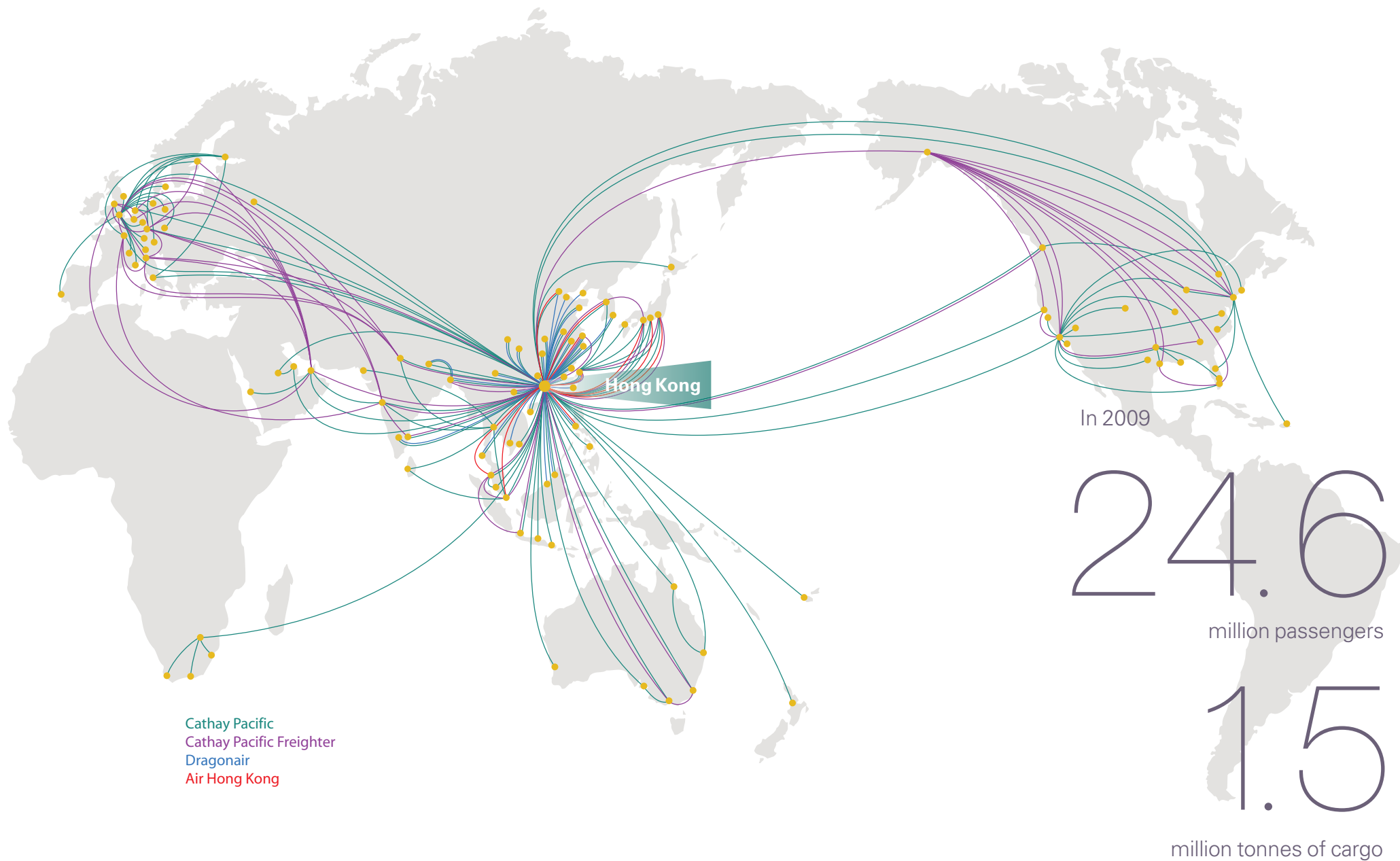
We are fully committed to integrating our environmental and social responsibilities within our overall business strategy and in 2009 we developed a corporate Vision and associated Missions which clearly states this aim.

Our Vision is simple – to be the world's best airline.

In practice, this means we must:

- ensure that safety comes first;
- build a winning team;
- provide outstanding products and services;
- deliver Service Straight From The Heart;
- produce superior financial returns;
- show commitment to our Hong Kong home; and,
- be a socially and environmentally responsible company.

Our corporate Missions will help us to keep up with the changing business environment in which we operate. Despite short-term economic challenges, we continue to focus on how, over the longer term, we continue to operate as an efficient, successful and sustainable airline.



Overview of 2009

There were important changes in the share capital structure of the Group in 2009. Air China and Swire Pacific increased their shareholding in Cathay Pacific to approximately 29.99% and 41.97%, respectively. In the same year, Cathay Pacific decreased its shareholding in the Hong Kong Aircraft Engineering Company (HAECO) by 12.45% to 15%, selling its shares to Swire Pacific.

At an operations level, despite the substantial drop in air traffic, the company was able to make a minor profit. The addition of a one-off gain of HK\$1,254 million on the sale of HAECO shares, gains of HK\$2,758 million on fuel hedging transactions and profits from subsidiaries and associates resulted in a full year consolidated profit of HK\$4,694 million.



The aviation sector's contribution to the global economy

The airline industry stimulates today's global economy by helping to develop trade and tourism, generating market opportunities and fostering intercultural exchanges. According to a study by Oxford Economics² in 2009:

- A total of 2.5 billion passengers are flown worldwide annually;
- Over 5.5 million workers are employed directly in the industry worldwide, with a turnover of more than US\$1 trillion; and,
- If aviation was a country, it would rank 21st in the world in terms of Gross Domestic Product (GDP), generating US\$425 billion of GDP.

Our contribution to Hong Kong

The Cathay Pacific Group is one of Hong Kong's biggest employers. Furthermore, as Hong Kong's major airline we provide vital links for trade and investment in the region as well as leisure travel for individuals and families. Through our passenger and cargo services we connect Hong Kong to the world.

Selected Awards in Cathay Pacific for 2009

Cathay Pacific

Airline of the Year 2009	Skytrax World Airline Awards
First in Asia's 200 Most Admired Companies	Wall Street Journal Asia's annual poll
Asia Miles – Best Frequent Flyer Programme	Business Traveller Asia-Pacific
Best Environmental Performance Airline	Centre for Asia Pacific Aviation
Merit of Highest Hour Award	Hong Kong Social Welfare Department
Best Airline Partner for SME	Economic Digest
Top Service Award – Airline	Next Magazine
Total Caring Award	Hong Kong Council of Social Service

Dragonair

Emotive Brand Award 2008-2009 Airline Category	Yahoo!
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Economic Value Added	2009	2008	% Change
For the year ended 31st December 2009	HK\$M	*(Restated) HK\$M	
Direct Economic Value generated			
Turnover	66,978	86,563	-22.6%
Finance income	588	1,416	-58.5%
Surplus on sales of associated company	1,254	–	NA
Share of profits/(losses) of associated companies	261	(764)	134.2%
	69,081	87,215	-20.8%
Economic Value distributed			
Purchases of goods and services	44,219	76,974	-42.6%
Employee wages and benefits	12,618	12,428	1.5%
Payments to providers of capital	1,998	2,770	-27.9%
Payments to/(from) government providers of capital	283	(1,333)	121.2%
	59,118	90,839	-52.2%
Community investments including charitable donation			
– Direct payment	10	21	-52.4%
– In the form of discounts on airline travel	4	7	-42.9%
	14	28	-95.3%
Economic Value retained			
– Depreciation	5,652	5,169	9.3%
– (Loss)/profit after dividends	4,301	(8,814)	148.8%
Retained for re-investment and future growth	9,953	(3,645)	373.1%

Note: * Refer to 2009 Annual Report Page 53-56 for more information
The above table summarises the distribution of the economic value generated from the Group which includes Cathay Pacific and all its subsidiary companies including Dragonair and Air Hong Kong. Share of losses/profits of associated companies include our share of losses/profits of Air China and HAECO. Please refer to our 2009 Annual Report page 96-97 for details of our principal subsidiaries and associates.

Cathay Pacific Fleet profile as of 31 December 2009

Aircraft Type	BOEING						AIRBUS		TOTAL	
	777-200	777-300	777-300ER	747-400	747-400F	747-400BCF	747-400ERF	330-300		340-300
Passenger	5	12	14	23	•	•	•	32	15	101
Freighter	•	•	•	•	6	13	6	•	•	25
Average age (years)	12.57	8.62	1.36	17.69	10.22	17.26	1.02	8.93	12.22	10.74
Total	5	12	14	23	6	13	6	32	15	126

Dragonair Fleet profile as of 31 December 2009

Aircraft Type	AIRBUS			TOTAL
	A320-200	A321-200	A330-300	
Passenger	9	6	14	29
Average age (years)	8.80	9.05	7.66	9.44
Total	9	6	14	29

²Source: Aviation: the real world wide web, Oxford Economics, 2009

Our Sustainable Development Strategy

Building on our previous efforts on environmental management and CSR, we developed our first ever Sustainable Development Strategy as part of our desire to move towards a more integrated approach. Developing the Strategy was an important step in further embedding sustainability into our business decisions across all our operations.

The Strategy has been driven by the Vision and Missions of the company. We felt there was a need to further enhance our initiatives and to bring our approaches to environmental management, economic development and social responsibility together in a more formal structure, under the umbrella of sustainable development.

We started the process of defining what sustainability means to our company and to develop a new sustainable development policy, to guide future activities. We then assessed the key sustainable development priorities for action across the companies, with a view to developing a set of commitments and departmental action plans. The development of our Strategy will continue throughout 2010. Most significantly, we will be setting key performance indicators (KPIs) and targets for the short, medium and long-term to ensure that we deliver on our sustainable development commitments.

What is material to our business?

The most significant impacts from our industry relate to our use of non-renewable fossil fuels and the consequent emissions of GHGs. Our impacts

also extend to other environmental issues and to our social responsibilities towards the people we employ, the suppliers we use and the communities in which we operate.

Engaging with a wide group of stakeholders in 2009 as part of our five-year Stakeholder Engagement Strategy helped us to better define these impacts across our operations. We also conducted our first internal review of the potential impact that different stakeholder groups pose to our business in relation to our sustainable development performance. Both exercises helped to shape the contents of this Report.

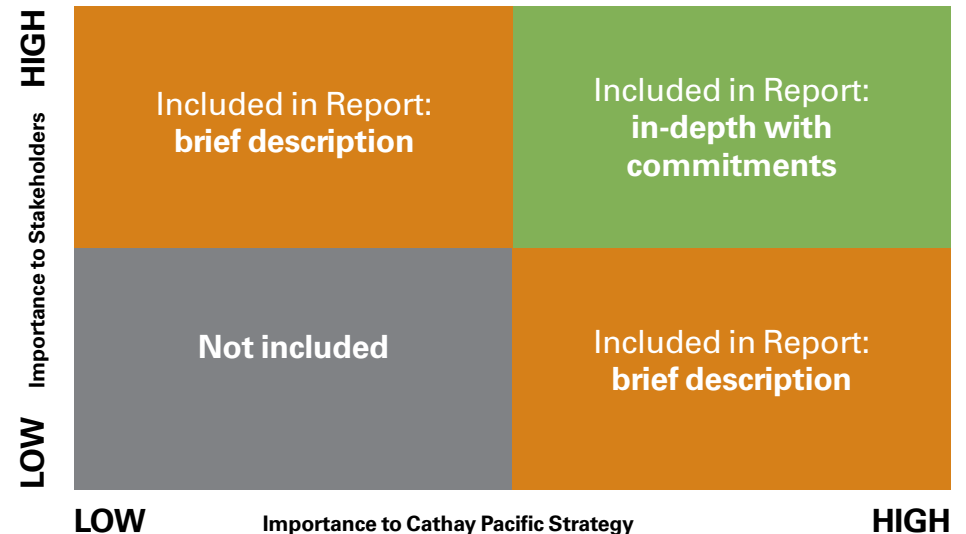
In 2009, we started developing a materiality matrix that defines how we will further refine, on an ongoing basis, the key issues upon which we report. We aim to integrate our materiality matrix into future stakeholder engagement processes to further align business and stakeholder concerns.

We have policies and programmes in place to ensure, for example, that we comply with regulations such as personal data handling and privacy, marketing and communications, public policy, anti-corruption and competition compliance. It is our aim to ensure that we not only comply with relevant regulations, but also exceed them.



In 2009, Cathay Pacific was included, for the first time, in the FTSE4Good Index Series designed to measure the performance of companies that meet globally recognised CSR standards and to facilitate responsible investment in those companies. This achievement was a result of a commitment to review and implement international guidelines and standards within Cathay Pacific.

Stakeholder Materiality Matrix



Corporate governance and risk management

We are committed to sound corporate governance and our systems and procedures are outlined in the Cathay Pacific Code of Conduct on Corporate Governance. We devote considerable time to identifying risks and ensuring that we put in place best practice to mitigate those risks.

The highest governance body is the Board of Directors led by the Chairman and comprising the Chief Executive and five other Executive Directors. There are also 12 non-Executive Directors, four of whom are independent. As well as dealing with our economic performance, the Board oversees the environmental and social initiatives undertaken in the company. More information can be found in our 2009 Annual Report, under the Corporate Governance Section (Pg. 42-46).

We embrace the management of risk as a matter of corporate policy. As a large, international company we strive to identify and mitigate risks and be transparent in reporting on those risks.

In 2009, a new Corporate Risk Management Department was formed, bringing together four functions – risk management, legal, insurance and compliance, which were previously managed separately. This new department now provides a central resource for corporate risk management and advice for the entire Group.

Our risk management system operates in accordance to the Australian/New Zealand AS/NZS 4360:2004 standard. We regularly identify the significant risks we face as a company, which include some environmental and social risks through the annual Risk Register exercise undertaken by the Group. The risk items are then prioritised and assigned to a Director and undergo a process of endorsement by the Audit Committee. We then formulate a strategy in response to these issues.

Competition Compliance

Cathay Pacific and Dragonair have made a strong commitment to comply with the letter and spirit of all applicable antitrust and competition rules.

It is our policy and intent to operate at all times in full compliance with relevant competition laws. Our antitrust policy was updated in 2009. We have launched a series of initiatives designed to support this process, including online and print media highlighting the key points of our policy and associated guidelines. We also further developed a refresher online training course on antitrust.

We have had a mechanism in place to report violations since 2007. We encourage employees to report any apparent or suspected violations of our antitrust policy, associated guidelines or applicable competition laws. Strict confidentiality is ensured and employees reporting violations are protected against retaliation or retribution.

Our Total Commitment

We were awarded the Total Caring Award 2009/10 by Henry Tang, Chief Secretary for Administration of the Hong Kong Special Administrative Region. This is the highest accolade under the Caring Company Scheme, organised by the Hong Kong Council of Social Service (HKCSS) since 2003 to recognise local companies that demonstrate a “continual and sustainable total commitment in caring for the well-being of the community, the employees and the environment”.

The airline was selected from more than 2,000 organisations as the Total Caring Award winner after presenting to an adjudication panel, comprising representatives from various international and local corporate social responsibility organisations, at which the airline demonstrated its continued commitment to being a responsible corporate citizen.



Progress against 2009 actions

- | | |
|--|---|
| Launch an awareness programme with initiatives like video clips, posters and giveaways | ✓ |
| Develop more detailed antitrust compliance materials for specific activities and regions | ✓ |
| Develop online refresher training modules on competition compliance | ✓ |

Agenda for 2010

- | |
|---|
| Further develop our materiality matrix to reflect stakeholder and business concerns |
| Roll-out our Sustainable Development Strategy across the company and develop key departmental short, medium and long-term commitments including targets |

Stakeholder Engagement

Listening and responding to our stakeholders is important in ensuring the materiality of our reporting and driving change within our operations. We continue to engage with a wide variety of stakeholders and in 2009 focused on four important stakeholder groups: customers, suppliers, local and international environmental non-governmental organisations (NGOs), and investors.



Using a combination of focus groups and interviews conducted by an independent consultant, we gained valuable feedback from these stakeholders.

Throughout the year we also participated in a number of business, academic, environmental and NGO-related forums and engaged with other stakeholders through a variety of pathways.

What our stakeholders say

We continued to be recognised for our environmental initiatives, especially in the areas of climate change and fuel efficiency. Overall, we were seen as having a genuine commitment to sustainable development and the stakeholder engagement process itself was well received.

However, it was felt by some stakeholders that Cathay Pacific has placed more emphasis on environmental initiatives than on social and community activities. The degree of awareness about our specific initiatives varied quite significantly, with some stakeholders having very

little knowledge. Improving communications on our sustainable development initiatives will be a key focus for us in the future.

Our engagement methodology

Most stakeholders are cognisant of the challenges that face the airline industry as a whole with respect to sustainability issues. Specific points raised during the dialogue which influenced the theme of this Report include:

- Reporting on climate change, procurement and supply chain stood out as particularly impressive;
- Provide more transparency on inflight waste at the end of each flight and actions taken (Pg. 21);
- Our carbon offset scheme, FLY *greener*, was regarded as a good initiative, but we should engage more with our customers in relation to the scheme and our other CSR initiatives (Pg. 18);
- More clearly define the scope of our GHG emissions reporting and place more emphasis on emissions on the ground than currently reported (Pg.14);
- More proactive reporting on issues such as the impact of noise and air pollution on local communities was requested (Pg. 20);
- The environmental performance table showing figures over the last ten years was seen as very useful. More information on our overall strategy for dealing with climate change was requested (Pg. 25);
- Responsible disposal of spare aircraft parts especially with retired fleets and our work with subcontractors was raised (Pg. 22);
- Emphasise community investment initiatives and the development of flagship social programmes (Pg. 42-47); and,
- Better engagement with suppliers (Pg. 34-35).

As a direct result of previous stakeholder engagement, Cathay Pacific developed a Supplier Corporate, Social and Environmental Responsibility Code of Conduct (Supplier Code of Conduct), boosted initiatives in the area of food safety, expanded on the scope of our GHG emissions and other environmental reporting, and started to improve the way we communicate to our employees and customers regarding our climate change initiatives.

Our five-year Stakeholder Engagement Strategy (Pg. 25)

As part of our efforts to extend our Stakeholder Engagement Strategy, we began a five-year cycle to ensure regular engagement that will cover each stakeholder group at least once every two years. The engagement will be timed to complement the publication of our annual Sustainable Development Report. Although the frequency of engagement is planned in line with the reporting process, it also aims to identify emerging stakeholder issues.

Stakeholder Group	Engagement Pathway
Customers	Focus group meetings and customer satisfaction surveys
Employees	Consultative groups and focus group meetings
Local communities	NGO partnerships and community engagement
Suppliers	Code of Conduct questionnaires, compliance checklists and focus group meetings
Business Partners	Meetings with subsidiaries and joint venture partners on a regular basis
Non-governmental organisations (NGOs)	Focus group meetings and dialogue through industry associations
Investors and their advisors	Interviews and shareholder committee meetings
Government and their regulators	Ongoing dialogue and business associations
Experts	Guest speakers and engaging with scientists

Expanding our sphere of influence

At Cathay Pacific, many of our aircraft support services are outsourced to wholly-owned subsidiaries and our key service providers are responsible for ensuring compliance with relevant legislation and implementing best practices. Our role is to engage with them to ensure that these are followed. We have particular influence on our suppliers that we wholly own or in which we have a significant shareholding.

Most of our subsidiaries are also our first tier suppliers. Our commitment to sustainable procurement extends to raising awareness amongst our procurement teams as well as working with our suppliers to identify areas for improvement. In 2009, we gauged the opinions of a range of first tier suppliers to better understand how they view our sustainable development practices.

Further details are covered in the Supply Chain section (Pg. 34).

Our subsidiaries' management approach

Our subsidiaries adopt similar policies, committees and management responsibility across all areas related to sustainable development, including environmental management, human resource issues, product responsibility and community engagement. Depending on the level of impact, our subsidiaries manage issues relevant to their business, including the development of goals, monitoring data through an environmental, health and safety database and training for staff.



Dragonair cabin crew engagement

Dragonair's first stakeholder consultation session was conducted in March 2009 and attended by Dragonair cabin crew. Findings of the consultation showed that cabin crew at Dragonair were keen to find out more about the airline's environmental and social initiatives. Improving internal communications on sustainable development initiatives will be a focus in the future.



Progress against 2009 actions

Develop a five-year stakeholder engagement strategy



Agenda for 2010

Improving communications to our stakeholders on our CSR initiatives

Key Issues

- the environment
- safety
- our business
- the community



Passenger interface

- health and safety
- security
- human resources
- consumer issues



Aircraft preparedness

- energy use
- waste
- chemicals
- hazardous waste
- occupational health and safety



Airport environment

- air quality
- climate change impacts
- noise impacts
- supply chain
- community investment



Flight

- inflight waste
- carbon emissions
- air quality
- health and safety



Pre-flight planning

- energy use
- carbon footprint
- office waste
- water consumption
- human resources
- supply chain and procurement



Cabin

- inflight waste
- air quality
- occupational health and safety
- human resources
- consumer issues

Destinations

- waste
- energy use
- biodiversity issues
- local compliance and regulations
- NGO partnerships
- community investment

Engaging with a wide group of stakeholders over the years has helped us to better define the social and environmental impacts that are relevant to our business. The diagram illustrates the different sustainability issues across our operations. The initiatives that we have implemented, together with the results and performance achieved, are set out in detail in the following pages.

- **The Environment** The most significant impacts from our industry relate to our use of non-renewable fossil fuels and the consequent emissions of air pollutants and GHGs. Efforts to curb our impact on climate change and air quality have been focused primarily on our aircraft fleet. On the ground, our major environmental impacts are derived from emissions from our vehicle fleet and the use of water and hazardous chemicals in our aircraft and engine maintenance works. We also generate waste from our inflight services.
- **Safety** Flight safety, security and health issues are our first priority. We link our approach to quality and contingency planning. We employ a number of precautionary measures to safeguard the health of our passengers and frontline employees against infectious diseases.
- **Our Business** As a major airline we operate an aircraft fleet, catering services, and ground handling services. Our impact extends to consumer issues, supply chain management and employee concerns. Our business success is very much dependent on our responsibility towards and how we meet the needs of our customers, our suppliers and our employees.
- **The Community** Through our core business we contribute to the development of communities in Hong Kong and around the world. This is extended to our outposts through recruiting and training local staff, supporting local businesses and participating in a variety of partnerships with local charities and NGOs.

Climate Change

One of the biggest environmental challenges facing our business is mitigating the impact of climate change. Managing our carbon emissions and staying abreast of international regulations are at the core of our Sustainable Development Strategy. We believe that our work on reducing emissions, calling for an ambitious global agreement on climate change and formulating a business strategy for sustainable development are extremely important to us.

The air transport sector presently accounts for 2%³ of global man-made emissions. Aviation carbon dioxide (CO₂) emissions are projected to increase to 3% by 2050, implying that aviation is currently a small but growing contributor to climate change. As well as emitting CO₂, aircraft contribute to climate change through the emission of other GHGs formed from fuel combustion in aircraft engines such as oxides of nitrogen (NO_x), as well as soot, sulphate aerosols and water vapour.

These impacts are summarised below.

Non-CO ₂ Emissions	Nature of Impact
NO _x	Increases the GHG ozone: warming effect Destruction of methane: cooling effect
Water vapour	Forms condensation trails: in exhaust air, warming effects dependent on altitude, location and atmospheric conditions
Sulphate Aerosols	Reflect incoming solar radiation: cooling effect
Soot	Small warming effect

Source: IPCC

³ IPCC, 2007 and IPCC-AIE, 2005

8.4%

CO₂ emissions reduction
per ATK since 1998



“The key issue is sustainable growth in the face of increasing concern over global climate change. Sustainable development is already changing our industry and will lead to even greater emphasis on the need for airlines to address emissions and to be part of the climate change solution.”

Mark Watson, Head of Environmental Affairs



Our engagement

We work closely with other airlines and trade associations, including representation on the Environmental Committee of the International Air Transport Association (IATA) and on the Environmental Working Group of the Association of Asia Pacific Airlines (AAPA). These strategic partnerships enable us to effect change on a larger scale and prioritise our global challenges and opportunities.

IATA

Our Chief Executive, Tony Tyler, became Chairman of the IATA Board of Governors in June, the first appointment of a Cathay Pacific Chief Executive to this key position in our global industry body. He is working closely with IATA's Director-General and CEO to ensure that airlines' voices are heard at an international level in relation to how they intend to address climate change.

Copenhagen Communiqué

We were amongst 950 companies that signed the Copenhagen Communiqué on Climate Change calling on world leaders to agree an "ambitious, robust and equitable global deal on climate change". We were part of the IATA delegation at the United Nations climate negotiations in Copenhagen in December 2009, where the industry highlighted its call to be part of a new climate change agreement. We have also advocated our support for IATA's target of stabilising net carbon emissions from 2020 onwards.

Aviation Global Deal Group

As a founding member of the Aviation Global Deal (AGD) Group, we continued our active role in contributing to the international debate to include emissions from international aviation in a global climate change treaty. See Pg. 18 for more details.



Our engagement in Hong Kong

Our Chief Executive has also been a champion for business engagement in climate change issues and in 2009 continued his role as Chairman of the Executive Committee of the Climate Change Business Forum (CCBF) in Hong Kong. This is a business partnership set up to tackle climate change through research, communications and the sharing of best practice.

We were a key sponsor of the third international Greener Skies conference in Hong Kong which highlighted the key issues around aviation and the environment. Amongst the many points highlighted at the conference was the need for better global air traffic management to help reduce emissions and for international aviation emissions to be addressed under a comprehensive global sectoral approach.

Ongoing emissions targets

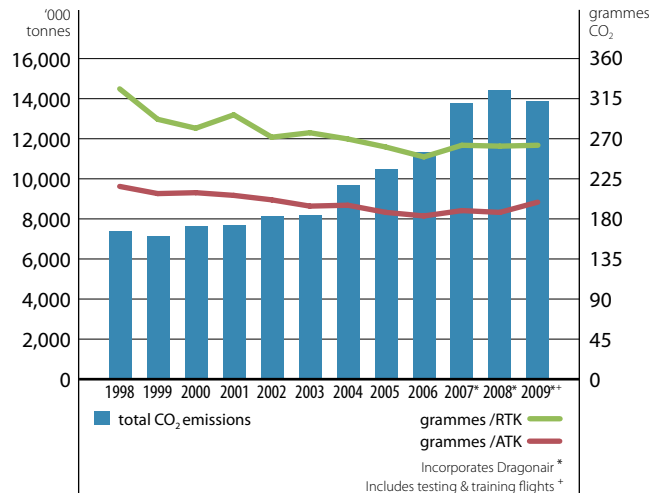
In 2009, the Board of Governors of IATA took a landmark decision to adopt a set of ambitious targets to mitigate GHG emissions from aviation. We fully support these targets:

- an average improvement in fuel efficiency of 1.5% per year from 2009 to 2020;
- a cap on aviation CO₂ emissions from 2020 (carbon-neutral growth); and,
- a reduction in net CO₂ emissions of 50% by 2050, relative to 2005 levels.

Progress against 2009 actions

Consider the implications of possible carbon pricing on investment decisions	ongoing
Work on a global sectoral scheme for addressing aviation's emissions	✓
Ensure that our GHG accounting process is in line with international standards	✓
Undertake a study of climate change impacts to our business	ongoing

Global CO₂ Emissions – Cathay Pacific and Dragonair Fleet



2009 GHG Emissions (tCO₂e)*

Scope 1 jet fuel, ground fuel and Towngas	▲ 13,882,506 (99.64%)
Scope 2 electricity and Towngas	▲ 50,267 (0.36%)

*Details of our GHG emissions are available in www.cathaypacific.com/sdreport

▲refer to PricewaterhouseCoopers report (Pg.52).

Our emissions

Fuel burn from our aircraft is the source of the majority of our emissions and we monitor this in all aspects of our operations. Our emissions performance is reported based on fuel efficiency in relation to payload or per revenue tonne kilometres (RTK) and capacity or available tonne kilometres (ATK).

In 2009, we were responsible for a total of 13.9 million tonnes of CO₂ (tCO₂) from fuel burn, bringing a total efficiency improvement of 8.4% since 1998.

This year a reduction in CO₂ emissions was only recorded per RTK, whilst CO₂ emissions per ATK increased, due to reductions in our capacity as our response to the global economic downturn (e.g. reduced flights and parked aircraft). This led to an increase in passenger and cargo loads per aircraft, increasing weight and consuming more fuel per capacity. This situation led to a decrease in our absolute CO₂ emissions by 4% or 0.54 million tCO₂.

In 2008 we made a commitment to ensure that our GHG accounting process is in line with international standards. We have now developed an emissions inventory procedure fully in line with the World Resource Institute and World Business Council for Sustainable Development's Greenhouse Gas Protocol.

We have been disclosing our GHG emissions profile and risks under the Carbon Disclosure Project (CDP) since 2007. Cathay Pacific was identified in the CDP Asia ex-Japan 2008 report as being one of the leaders in the industrial sector along with Swire Pacific, our largest shareholder. We were also identified by the United Kingdom-based Brand Emissions' Leaders Project as a Brand Emissions' Leader in the Airline Sector. We were recognised for having the most carbon-efficient performance based on the previous year's turnover per CO₂ emissions.

Agenda for 2010

Develop targets for the reduction of major GHG emission sources
Expand GHG reporting to major outports and subsidiaries

Moving towards a low carbon business model

In 2009, we developed our internal assessment of the implications of possible carbon pricing on our business. This assessment is part of our move towards further linking environmental considerations, risk and compliance into our overall business planning.

IATA estimates that the European Union Emissions Trading Scheme (EU ETS) will cost the aviation industry some €3.5 billion. As well as ensuring overall regulatory compliance with the scheme, we are currently assessing the financial costs, administrative and systems-related impacts of compliance. In addition, we are also considering the impact of regional schemes or a new global scheme beyond 2012.

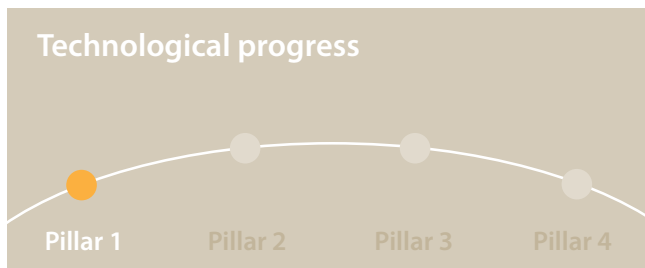
Our business operations therefore face a number of risks related to climate change. In response to these risks and to ensure we better manage our climate change impact, we developed our Climate Change Position⁴ in 2006, which outlines our commitments and is the basis for our work on this issue. We continue to fully endorse IATA's 'four-pillar strategy' to address climate change and we outline below how we are following this strategy to reduce our overall impact.

Four pillars to emissions reduction

IATA has adopted a four-pillar strategy to achieve carbon neutral growth:

- 1 Technology:** Innovation in aircraft and engine technologies, enhancements to the existing fleet and alternative fuels.
- 2 Operations:** Fuel efficiency improvements in ground operations, optimal flight routes and speeds, more efficient aircraft.
- 3 Infrastructure:** Improved use of airspace and airport infrastructures adapted to needs.
- 4 Economic measures:** Promotion of positive economic instruments to provide real incentives for emissions reductions.

We have succeeded in further reducing flight emissions through modernising our fleet, enhancing operational procedures, optimising routes, and further reducing aircraft weight.



Fleet modernisation

We continued our fleet modernisation programme and introduced five more Boeing 777-300 Extended Range (ER) passenger aircraft. In 2010, we will introduce a further five Boeing 777-300 ER passenger aircraft and most of our Trans-Pacific operations will be serviced by these aircraft, which, on these routes, are 26% more efficient than the aircraft that they replace.

We are now using more fuel-efficient ultra long-haul Boeing 747-400 Extended Range Freighters (ERF) in our cargo fleet with the addition of a further four in 2009.

In 2009, we phased out all of our Boeing 747-200F and 747-300F Classic freighters from both Cathay Pacific and Dragonair. We have placed orders for 10 next generation Boeing 747-8 Freighter aircraft, to be delivered commencing in 2011. This will bring significant efficiency gains through the inclusion of new technology on the aircraft, including a new engine, the GENx-2B and a new wing design – an advanced raked wing tip, further reducing fuel consumption and fleet maintenance costs.

New aircraft will also be utilised as far as possible on routes where maximum fuel efficiency gains can be made.

Sample of actual fuel savings (in tonnes fuel) of Boeing 747-400ERF

Hong Kong to Dubai	18 tonnes
Dubai to Hong Kong	13 tonnes
Total saving on a single round trip	31 tonnes
Total CO ₂ saved on a round trip	97.65 tCO ₂

Climate Change Long Term Action Group

In the future, significant reductions in emissions will depend on technological changes and we are working with a number of technology providers to make these a reality. Our Climate Change Long Term Action Group (LTAG), which is composed of senior managers, seeks to support and influence the design of future technologies and maximise environmental benefits. This, in turn, feeds into our Fleet Steering Group which is responsible for the procurement of new aircraft.

“Cathay Pacific has shown leadership regarding optimising efficiency gains, but once they are close to using current technology in the most efficient way, what comes next?”

UK environmental NGO

Sustainable biofuels

We continue to work with relevant partners to identify sustainable biofuels which meet or exceed the energy characteristics of kerosene and offer substantial improvements to emissions performance. However, we are well aware of stakeholder concerns that for such fuel to be viable it must be produced in a sustainable way. In 2009, Cathay Pacific joined the Sustainable Aviation Fuel Users Group (SAFUG), a Boeing-led industry working group united by the desire to accelerate the commercialisation of sustainable aviation biofuels by developing robust, global sustainability criteria and best practices for the aviation biofuels market.

As a member, we subscribe to the sustainability criteria that aviation biofuels must not compete with food and drinking water supplies, biodiversity, and local populations.

We aim to reduce our absolute emissions in the long term and we realise that biofuels are not the only way to achieve this. Nevertheless, we view working towards the adoption of sustainable biofuels as a significant opportunity to address the environmental impact of our operations as part of our support and our drive towards the IATA four-pillar approach and a low carbon business model.

⁴ www.cathaypacific.com/climatechange

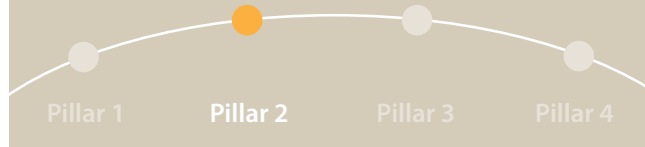


Innovative engine technology

We signed a new agreement with Rolls-Royce to provide performance improvement kits for our fleet powered by its Trent 700 engines. The engine manufacturer will add an Enhanced Performance modification to 24 engines to support the operations of 12 A330 aircraft. The modification, which consists of detailed aerodynamic changes to the engine compressors, will deliver a 1% fuel saving on each engine, equivalent to a total reduction of 3,700 tonnes of fuel consumption and 11,000 tCO₂ emissions per year.



Operational measures



Optimising flight routes and speeds

Beyond engine and airframe technology improvements, substantial environmental gains can be achieved through better airline operations. The IPCC estimates that more efficient aircraft operations can save fuel and CO₂ emissions by up to 6%.

In 2009, we continued to utilise real-time wind data to generate flexible flight tracks for dynamic flight planning. These 'flextracks' are evaluated with the relevant authorities before changes are implemented. We have been monitoring the amount of fuel burn and time saved using these optimised routes and in 2009 saved a total of 218 tonnes of fuel and 688 tCO₂.

Aircraft maintenance and reducing weight

The overall weight of an aircraft is a key factor in determining the amount of fuel burned. Our Aircraft Weight Task Force identifies and assesses opportunities for reductions. In 2006 we reported on an initiative to strip bare most of the paint from the aircraft body, making it lighter and reducing fuel usage. Yet, despite the fuel savings, we have had to revise this decision due to maintenance reasons.

In 2008 we trialled an alternative base coat exterior paint that reduced 23 kilogrammes (kg) on an A340 aircraft. We are now using it on all aircraft within the fleet.

The introduction of lighter weight meal carts and trays over the last few years has also led to weight and fuel savings.



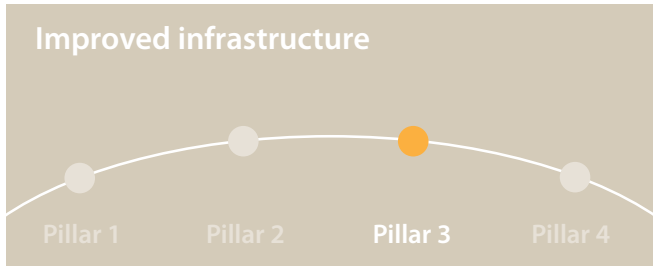
Taxi times

During our stakeholder engagement, one frequent flyer raised their concerns about aircraft taxiing on the runway as a potential waste of fuel. We have looked into this issue and we found that using ground vehicles to tow aircraft onto the runway is not environmentally optimal for Cathay Pacific. Engines need to be run for a few minutes before take off, allowing the core engine to warm up in the most optimum manner and stopping wear, which reduces fuel burn.

We work very hard to minimise taxi times, which at our home port average about 10 minutes, consistent with the optimum engine warm-up time prior to selecting take-off power.

Core washing our engines

Our Engineering Department has been conducting a regular core washing programme for our engines for many years and in 2005 switched to using new core wash equipment. This involves spraying hot water into the engine using a specialist piece of equipment to clean internal surfaces, ensuring the best possible efficiency is achieved. This has resulted in more than five million kg of fuel saved per year through the whole fleet, equivalent to a reduction of about 16,000 tCO₂ per year.



Air traffic management

The IPCC has estimated that globally, there may be as much as 12% inefficiency in air transport infrastructure. This is the single largest cause of fuel wastage in the aviation industry and requires working with governments to address the issue.

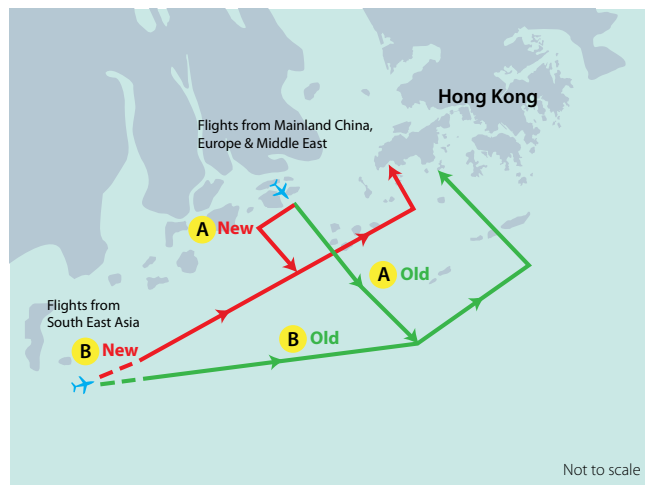
We continue to work with industry partners and regulatory authorities to optimise air traffic control systems and infrastructure.

Some significant developments took place in 2009 including changes to flight paths over the Pearl River Delta (PRD) into Hong Kong. The re-design has significantly shortened the two longest arrival routes inbound from the north and west. The route inbound from Bangkok, for example, is 210 kilometres shorter, saving eight minutes flying time, equivalent to 54,000 tCO₂ emissions a year. All flights inbound from Europe and China and most services from New York and Toronto are seeing improvements. We have been working through IATA and with the Hong Kong Civil Aviation Department (CAD) for several years to achieve route improvements and we welcome this new initiative.

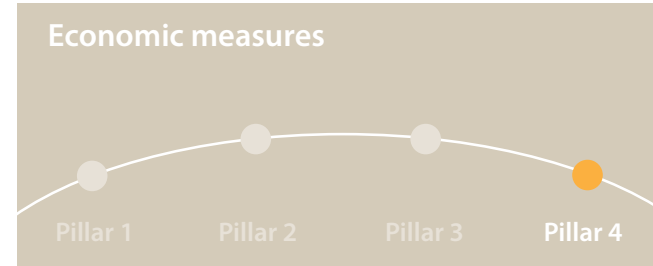
“The PRD has long been seen as one area in which more direct routings could have real significance in terms of reducing unnecessary fuel burn and lowering emissions. Such initiatives will play an important role in assisting in IATA’s commitment to the overall carbon-neutral growth of aviation.”

Mark Watson, Head of Environmental Affairs

Illustrative diagram of new arrival tracks from north & west of Hong Kong



In kilometres	Old track	New track	Saving
Flight via A	329	141	188
Flight via B	494	309	185



We acknowledge the need for aviation to take account of its climate impacts through positive economic measures such as emissions trading.

The EU ETS

In July 2008, the EU adopted the inclusion of aviation into the EU ETS, which will begin in 2012.

We believe that given the nature of the industry, a global sectoral framework is the right approach. We do not support the inclusion of international aviation in a regional scheme such as the EU ETS because this distorts competition for airlines operating to and from that region. There is also no indication that revenues derived from the auctioning of allowances within the EU will be used to fund climate change or environmental projects.

In March we responded to a consultation on the inclusion of aviation in the EU ETS. In October our Chief Executive wrote to the Department of Energy and Climate Change and the Department of Transport in the United Kingdom further outlining our position on the EU ETS. Despite our protests, we have acted in full compliance with this legislation. We received full approval of our monitoring plans in December.

Progress against 2009 actions

- Begin the phase out of our Boeing 747-200 freighters and commence the phase in of more fuel-efficient Boeing 747-400ERFs ✓
- Continue to support and lobby for airspace improvements in the Pearl River Delta ✓

Aviation Global Deal Group

The AGD Group⁵ is an industry coalition that brings together leading international airlines, aviation sector companies and an international environmental NGO. We played a key role in the development of the AGD Communiqué on International Aviation Emissions and Climate Change Policy, which sets out plans for a global sectoral approach for international aviation.

Our goal is to contribute to a pragmatic, fair and effective policy solution that incorporates international aviation into a global climate change agreement.

The AGD Group fully endorses IATA's work in this area and plays an active role in assisting the industry's collective call for aviation to be covered by a global sectoral approach.

“There must be a recognition that international aviation emissions are best tackled at a global level by a single global sectoral agreement, encompassing all air transport operators.”

Tony Tyler, Chief Executive

FLY greener

The FLY greener programme offers passengers the option of using cash or frequent flyer miles to offset the carbon emissions associated with their flight. The key aim behind FLY greener is to help raise awareness amongst passengers and support the development of emissions reduction projects.

⁵ www.agdgroup.org/

To date the uptake has been small, but comparable to schemes offered by other international airlines. In 2009, we focused on educating staff and providing additional channels for passengers to purchase these offsets. We held a number of briefing sessions amongst cabin crew and developed an inflight sales brochure to help them better prepare for the launching of FLY greener in our duty free inflight sales in early 2010.

For corporate offsetting, we produced a brochure for all account managers, reservations staff and sales agents and developed a dedicated website for our corporate clients. We are also producing a brochure to encourage further uptake of the programme.

Going forward, we are committed to exploring new ways of increasing the awareness and uptake of our FLY greener programme.



Windfarm project in Heilongjiang

courtesy of JPMorgan ClimateCare



Key facts

In 2009, 3,263 tCO₂ were offset by our passengers, including several companies in Hong Kong, China and Taiwan.

Cathay Pacific and Dragonair also offset their own staff travel amounting to 8,097 tCO₂ at an approximate cost of HK\$550,000.

Offset projects

In 2009, we diversified our portfolio of offset projects to include 3 different initiatives in Mainland China – a natural gas project in Beijing, a micro hydro power plant project in Guizhou and a group of 20 wind turbines in Heilongjiang. All of these offset credits are certified under the Voluntary Carbon Standard or VER Plus. As part of our commitment to provide credible offsets, we have carefully evaluated the environmental and social impacts of all these projects and we strive to benefit local communities.

Climate change adaptation

Climate change also poses a number of risks to our operations. Risks on the ground include increased frequency and intensity of typhoons which already disrupt our operations in Asia and impact on our global network. In the past few years, whilst these events caused flights to be delayed or cancelled, damage to our infrastructure was minimal.

We are aware that increased physical changes will test our emergency and service disruption responses and these changes have prompted us to re-think our plans (see Pg. 32-33).

Progress against 2009 actions

- Further promote our FLY greener carbon offset programme and encourage uptake amongst partners and corporate customers ✓
- Implementing initiatives that will enable offsets to be bought via different channels ✓

Agenda for 2010

- Launch FLY greener into inflight sales and offer carbon offsets at different customer touchpoints including online bookings and at the airport
- Develop a brochure for corporate clients to encourage further uptake of the FLY greener programme

Environmental Performance

The management of environmental issues is complex within the aviation industry. We believe it is our responsibility to examine where our environmental impacts lie and identify areas where we can make improvements. We are committed to playing a full and active part in ensuring that the airline industry develops in a more sustainable way.

Air emissions

Emissions from flight operations, especially during landing and take-off, can affect local air quality. The Hong Kong SAR Government's air pollutant emission inventory shows that aviation contributed 6% of nitrogen oxides (NOx), 3% of carbon monoxide (CO) and 2% of other air pollutants to local levels of air emissions in Hong Kong.

We can assist in improving air quality by maintaining and operating our fleet to the highest standards. We follow an integrated approach to emissions reduction and many of the initiatives that reduce our climate change impact also serve to reduce our other emissions.



On the ground, we identified which of our inefficient vehicles can be replaced with lower emissions alternatives over time, as part of our vehicle replacement strategy. This strategy is being led by our wholly-owned subsidiary, Hong Kong Airport Services (HAS), which has the largest fleet in the Group. HAS is the largest ramp handling company in Hong Kong, serving 44 airlines. Major activities include the operation of aerobridges and passenger steps, loading and unloading of aircraft and the transportation of crew, baggage, cargo and mail. These activities rely on a fleet of 500 motorised (of which 110 are electric) and 2,200 non-motorised items of ground support equipment and over 3,000 staff. They have set a target to achieve a 5% reduction in emissions per air traffic movement (ATM) and report on their GHG emissions. The biggest contributor to their emissions is fuel use.

The replacement strategy at HAS will see all inefficient vehicles being replaced with the latest emission standards (Euro 4 and 5) by 2011. Electric or other sources of power will also be considered, if manufacturers can produce viable alternatives. At the minimum, we will replace vehicles with those meeting the latest standards.

HAS has undertaken a study on building a refuelling station to minimise travelling time and fuel used and conducted "posi-charger" trials on electric tractors; a new, fast charging machine that can reduce battery charging time from 8 to 2 hours. HAS achieved the Clean Air Charter certification for the first time and is introducing two Euro 4

Our environmental management approach

Our Environmental Policy outlines our commitments which include regulatory compliance, effective environmental management throughout our operations, staff education, development of improvement goals and stakeholder engagement.

Our Environmental Affairs Department ensures the implementation of our environmental commitments and works closely with other departments through the Sustainable Development Steering Committee, Climate Change Long Term Action Group, Dragonair Environmental Committee and the Swire Group Environmental Committee. This Department reports directly to the Management Committee level through our Director Corporate Affairs.

buses for staff transportation between terminals and Cathay Pacific City. It plans to expand the scope of real-time task allocation GPS systems to locate equipment, saving staff time and fuel.



Cathay Pacific Catering Services (CPCS), a wholly-owned subsidiary of Cathay Pacific, is one of the largest flight kitchens in the world. It serves 34 airlines in Hong Kong and other locations. Diesel used by highloaders and boilers are the major sources of direct emissions. Currently, all the new highloaders purchased comply with the Euro 4 standard. All trucks undergo regular checks to ensure the engine is operating normally to prevent incomplete burning of fuel. Emissions from boilers are monitored via continuous emission monitors (CEMs) to ensure normal combustion. CPCS only uses ultra-low sulphur diesel.

In 2009, CPCS utilised refrigerant water heaters in the form of heat pump technology, whereby electricity is efficiently used to perform both cooling and heating functions. A steam recovery system was used to recover unused steam to preheat water to reduce diesel consumption.



Vogue Laundry Service is a wholly-owned subsidiary of Cathay Pacific and operates Asia's largest single-site laundry plant. With over 600 staff it provides a comprehensive range of laundering and dry cleaning services serving over 20 airlines and 25 hotels with a daily output of 77.6 tonnes of laundry.

Vogue Laundry is the only laundry company in Hong Kong to attain the Environmental Management System certification ISO 14001 and Occupational Health and Safety System (OHSAS) 18001 accreditation. There are a number of ongoing environmental initiatives and programmes to reduce energy consumption, such as the use of steam, generated by diesel boilers and an efficient steam trap system which is used during the drying, ironing and finishing processes.

Vogue Laundry continues to implement measures to eliminate emissions of perchloroethylene, a volatile organic compound (VOC) that is used as its major dry cleaning solvent. There are nine machines in total that use perchloroethylene in an 18 to 40 kg system. The perchloroethylene machine is an enclosed system and by adding a carbon absorbing agent (active carbon), this eliminates emissions. By 2008, all old machines had been replaced with a fifth generation carbon absorbing system. Perchloroethylene consumption was found to be 11% less in 2009 than in 2008.

In terms of its vehicle fleet, Vogue currently has 30 vehicles in use including 11 Euro 3 and two Euro 4 vehicles. In 2009, a further two pre-Euro vehicles were removed and plans for more fuel-efficient standards are in place for 2010.

Noise management

We endorse the International Civil Aviation Organisation's (ICAO) Balanced Approach to controlling noise hindrance around airports, which focuses on reducing noise at source, regulating land-use around airports, adapting operational procedures and implementing operating restrictions. We have been working with the Hong Kong Civil Aviation Department (CAD) for several years on noise mitigation.

We encourage CAD and other regulators to follow the ICAO principles of the Balanced Approach, particularly for land-use planning and zoning, which avoids noise sensitive buildings such as schools and hospitals being built on the flight path. We continue to work with manufacturers and other airline partners on ways to reduce noise in our aircraft, including upgrades to our fleet.

Compared to the previous year, in 2009, we reduced our fines relating to noise standard infringements at London Heathrow airport by half and received no fines from New York's John F. Kennedy airport. However we continued to receive noise notifications from Frankfurt and Brussels airports.

Managing waste

Minimising hazardous waste

Some of the chemicals that we use are hazardous and their avoidance is dependent on alternatives being available. Halon, for example, used in our fire extinguishing equipment, is ozone depleting but no approved alternative currently exists. We follow industry practice and recycle this equipment.

We follow specific and well established procedures for the handling of hazardous waste. In our engineering and inflight services manuals, we list the types of hazardous chemicals we use, their associated health and safety precautions and use and disposal procedures.

Careful selection of paint used on our aircraft can contribute to reducing hazardous substances. Dragonair switched to a chromate-free primer on its A320/A321 aircraft. Chromate is a heavy metal and considered as toxic and carcinogenic. The Cathay Pacific fleet and remaining Dragonair A330 aircraft will switch in 2010.



Hong Kong Aircraft Engineering Company (HAECO), in which we have a 15% share, provides aeronautical engineering and maintenance services to airlines. Chemical wastes produced include spent lubrication oil, kerosene and battery acid.

All chemical wastes are labelled, collected and disposed of in full compliance with statutory regulations and recycled whenever practicable. Orientation training is provided to all new staff on environmental protection, including the use of Material Safety Data Sheets (MSDS). These provide detailed information on the physical, chemical and physiological properties of a particular chemical and recommended handling procedures.

Hong Kong Aero Engine Services (HAESL), in which HAECO has a 45% share, provides aero engine and component repair services to Cathay Pacific. Chemicals are used during engine repair services such as cleaning agents. HAESL strives to reduce and minimise its overall impact on the environment through its own internal policies and practices, compliance with legislation and guidelines. Training on chemical awareness is provided to all frontline staff, including proper handling and storage of chemicals.

Steps that have been taken to minimise their environmental impact include identifying more environmentally acceptable materials; adopting alternative working practices to reduce or eliminate toxic chemical waste; treating all water used on-site; recycling lubrication and engine oil; and replacing VOC paint with water-based alternatives.

Stripping aircraft paint can also have an impact. In 2009, we used a new generation peroxide stripper instead of phenolic strippers, which contain phenol, across the fleets. The new stripper contains a low concentrate of hydrogen peroxide which is non-toxic. In addition, the peroxide stripper does not contain methylene chloride, a toxic substance, but instead uses "green" solvent benzyl alcohol. Shifting to the peroxide stripper has helped the waste treatment system significantly.

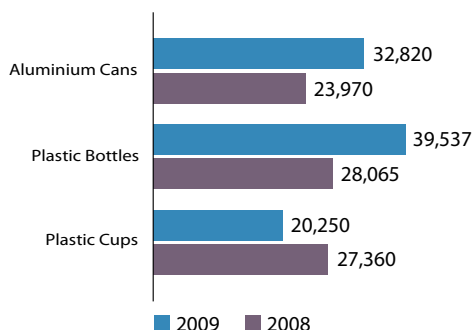
We have moved away from detergent washing to water-only washing, except on Dragonair's V2500 engine fitted to the A320/A321. We will also begin trialling the use of EcoPower, a safe solution to washing engines that does not require toxic chemicals or detergents and is entirely closed-loop where effluent is collected and water is purified for reuse in subsequent washes.

Inflight services – reduce, reuse, recycle

All galley food, newspapers and other wastes in the cabins of inbound aircraft to Hong Kong are collected by our catering division, CPCS. It ensures that inflight magazines and newspapers in good condition are sorted and packed for reuse. All paper waste is stored in a central area within CPCS for subsequent collection by a designated recycler. We also recycle inflight beverage containers, such as aluminium cans and water bottles. Cutlery in economy class is now being reused and recycled at the end of its life.

In 2009, due to the hard work of our cabin crew, we were able to continue our inflight recycling programme on flights to Hong Kong. Dragonair conducted a feasibility study of exploring a similar programme with its caterer and has now implemented a recycling scheme to collect plastic cups and aluminium cans on all inbound flights into Hong Kong. We made efforts to raise awareness amongst our passengers by including an outline of our environmental measures in our inflight Discovery Magazine.

Inflight Waste Recycling (Kg)



Dragonair started inflight recycling on 1 August 2009

We examine ways to use sustainable alternatives to plastic and paper wherever possible. We are actively assessing alternatives to plastic packaging of our inflight magazines and headphones, food packaging and other related items.

Product changes

For all our ultra short-haul economy class flights we removed all aluminium food containers in 2009. Flights to and from Taipei and Manila will see paper containers/bags used for food. On selected long-haul routes, we removed aluminium foils from the breakfast service replacing them with reusable materials. We are looking at streamlining our Asian regional flights to further reduce catering-related weight.

Dealing with food waste

We have been examining ways to reduce leftover food and have developed protocols to load less food on late night flights. We are also planning to prevent the need to throw away certain types of food. Longer term forecasting and better planning gives our caterers more flexibility on what food to provide.

Waste management in our subsidiaries

HAS will be developing a waste management system to be implemented in 2010 across all of its operations. It aims to achieve ISO 14001 certification by 2011. In the meantime, the technical service section, automation and administration sections have been provided with Green Procurement Guidelines based on ISO 14001 principles. HAS has achieved the Wastewise Label for the sixth year running.

Vogue Laundry uses around 2.5 million clothes hangers per year. They encourage customers to return the hangers for reuse and offer a HK\$0.10 per hanger incentive for corporate customers. 62.1% of hangers were reused in 2009.

Jettisons and fuel spills

Fuel jettisons (or fuel dumps) refer to the release of fuel whilst airborne when there is an urgent need to reduce the weight of the aircraft to the maximum landing weight. The dumping of aviation fuel is an extremely rare event. It affects a small number of long-haul flights only when unscheduled landings are required shortly after take-off or due to a diversion to an alternative airport in the event of an inflight emergency. It is recommended that jettisoning fuel should be carried out over the sea, or if this is not possible, above 10,000 feet to allow it to evaporate before it reaches the ground.

Progress against 2009 actions

Consider the feasibility of inflight recyclable items recovery at Dragonair	✓
Continue reducing meal wastage and packaging	✓
Increase awareness of recycling amongst cabin crew and passengers	✓
Assess alternative sources to non-renewable material	ongoing

Agenda for 2010

Streamline our Asian regional flights in terms of services offered to further reduce weight

In such an event, the wake behind the aircraft vaporises most of the fuel into a fine mist which remains in the atmosphere until it is broken down into CO₂ and water by energy generated by the sun. Only a minimal amount of the fuel actually reaches the ground. There were 11 cases of fuel jettisons from Cathay Pacific which led to 507 tonnes of fuel being exited from the aircraft. There were no cases from Dragonair.

Fuel spills refer to the accidental spillage of fuel at airport sites. In 2009, we had four cases of reported spills to regulators at Hong Kong, Melbourne and Amsterdam airports all of which were regarded as minimal risks.

Minimising our water footprint

We now clean and completely seal the aircraft's outer surfaces with a "green" treatment that creates a permanent barrier between the aircraft's outer paint layer and its exposure to the air at altitude. By

reducing the amount of particles which stick to the aircraft and by extending the life of the paintwork, we can reduce exterior cleaning time and defer major re-painting and exterior restoration. This has increased the number of days between each aircraft wash, from 30 to 42. In addition, 7,050 gallons of wax will be saved.

Water taps onboard Dragonair aircraft have been adjusted to reduce the run from 10 seconds to 3 seconds. The same adjustments will be applied to the Cathay Pacific fleet in 2010.

The potable water used for our headquarter buildings at Cathay Pacific City and Dragonair House is supplied by the Hong Kong Government Water Supplies Department. The majority of the potable water is used in our offices, consuming 43,952 m³ in 2009. Wastewater is directed to the Hong Kong Airport Authority's treatment plant prior to discharge. Seawater is used for the air-conditioning systems, supplied by the Airport Authority, and we also make use of excess water from water-

cooled air-conditioning systems for flushing. Both the wastewater and the waste cooling water are tested for compliance with legal requirements.

At Vogue Laundry, one of the most significant environmental challenges is water consumption. A total of 330 million litres of water was used in 2009. Vogue replaced old tunnel washers with Continuous Batch Washing (CBW) systems, which save 3 to 5% of water per kg of linen washed. The water reuse system of the new washers has enabled Vogue to reduce water consumption by 50% since 2003. There are currently four sets of CBW systems in operation which wash and dry one to 1.5 tonnes of linen per hour per system and 24 washing machines in total. 80% of the washing volume is now handled by the CBW systems and in 2009 water consumption was 26% less than in 2008.

At HAS, water management requires a dual approach – responsibly managing water consumption and ensuring the prevention of oil and fuel spilling into drainage systems. HAS continues to prevent water pollution through placing drip trays under electrical vehicles whilst being charged, providing extensive maintenance programmes for all equipment to prevent accidental oil or hydraulic leakage, regularly monitoring hydraulic hoses on ground support equipment and washing vehicles on site during maintenance.

CPCS conducted trials to implement water saving devices in its main plant and washrooms. These devices were able to save 15 to 20% of water compared to normal consumption and they have now been installed in all washrooms.



Optimising the aircraft life-cycle

We are making efforts to reduce the environmental impact of our aircraft at end-of-life by working with members of the Aircraft Fleet Recycling Association (AFRA) in the dismantling process of our retired aircraft. AFRA is recognised as the leading global industry association dedicated to promoting environmental best practice in aircraft disassembly. Salvaging,

recycling and reusing aircraft parts and materials is an important part of this process.

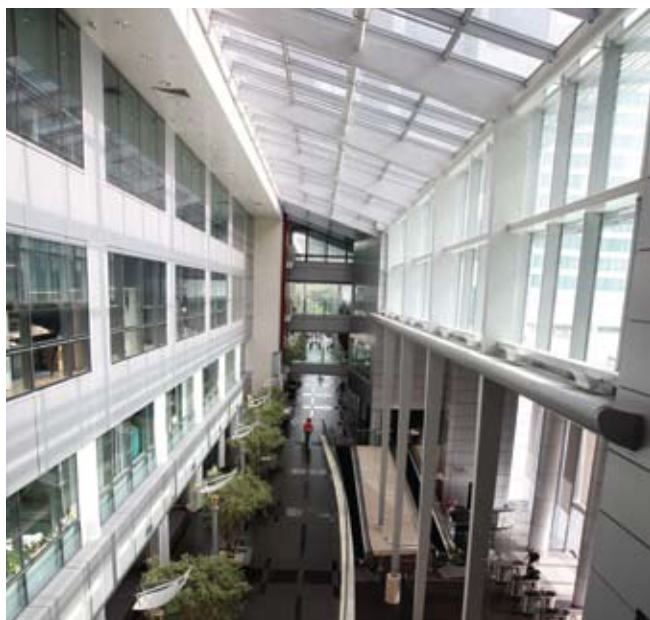
AFRA has set a target to raise the proportion of aircraft material that can be recycled from its current level to 70 to 95% by 2016. Interiors currently make up about 30% of the weight of an aircraft, but very little of the interior is actually recycled. Selected alloys used in aircraft components such as engines can be recovered, melted down and reused by the maker to manufacture new components. We support AFRA's goal and mission, which is the sustainable management of end-of-life airframes and engines.

Progress against 2009 actions

Develop a formal strategy for vehicle replacement across the Cathay Pacific Group	ongoing
Seek new opportunities for collaborating with local business on air quality improvement	✓

Agenda for 2010

HAS to purchase posi-chargers for all electrical vehicles and expand the scope of real-time task allocation GPS system to locate equipment
Vogue Laundry to install a new flash steam recovery system to recover waste steam for use by the boiler to generate hot water. This will achieve a 5% saving in boiler fuel use



Our headquarters

Cathay Pacific City and Dragonair House together cover a total floor area of 193,000 m² and comprise offices, flight training centres, stores, a staff hotel, staff canteens, and other supporting facilities.

The two main environmental concerns for these facilities are energy conservation and waste management. At Cathay Pacific City these are systematically managed through our ISO 14001 certified environmental management system. This was extended to Dragonair House in 2009. We will expand this further to other Cathay Pacific properties.

Cathay Pacific City is equipped with automatic lighting, air-conditioning control systems and motion sensors in conference rooms. In 2009, we installed a solar heat system at Dragonair House and investigated the feasibility of hosting an installation of photovoltaic panels at Cathay Pacific City. In 2009, our electricity consumption increased by around 6% compared to 2008. This increase reflects the expansion of our data centre and equipment requirements in response to business growth, but we will continue to implement measures to reduce its subsequent environmental impacts.

Recycling bins are located at strategic areas in both buildings. In 2008, we identified the opportunity for one department to reduce paper consumption by moving from filing to software solutions and in 2009, it used 50% less paper.

We conduct annual indoor air quality monitoring and received a Good Class level rating for 2009 from the Hong Kong Environmental Protection Department.

Given that both our headquarter buildings are located on Lantau Island, a location considered to be of high biodiversity value, we recognise our responsibility to protect this area by reducing our own environmental impacts. We are also committed to supporting wildlife initiatives elsewhere as highlighted in our partnership work on Pg.24. The key environmental impacts from our headquarter buildings are listed in the Environmental Indicators Table on Pg. 25.

Keeping better track of environmental data

In 2009, we embarked on an ambitious exercise to measure the impact of our business across all our operations, including our wholly owned subsidiaries and all our major outports. We started the process of gathering data on water consumption, energy use, and waste produced and we will report on the findings in our 2010 Report.

We have been tracking environmental data on a regular basis using the Swire Group's Environmental, Health and Safety Database and through our ISO 14001 Environmental Management System, for which Cathay Pacific City was re-accredited in 2009.

The expansion of the data gathering process across all our operations has helped us to identify areas where improvements can be made. Looking ahead, guidance documents for our outport offices on resource use and waste management practices will be developed in 2010 and implemented in 2011.

Progress against 2009 actions

Continue green campaigns at Cathay Pacific City and Dragonair House including further paper recycling and energy saving improvements	✓
Green review of all IT equipment, in particular, data centres at Cathay Pacific City and Dragonair House	ongoing
Investigate expansion of ISO 14001 to other Cathay Pacific Group properties	✓

Agenda for 2010

Develop guidance documents for our outport offices to improve resource use and waste management practices
Develop performance targets for non-GHG environmental data
Track environmental data in our major outports

Partnerships with environmental NGOs

We have been actively participating in a number of initiatives that go beyond our own environmental performance and extend to raising awareness amongst our own staff and the conservation of natural ecosystems. These have ranged from employee volunteering initiatives to partnering with environmental NGOs in Hong Kong and elsewhere.

World Wildlife Fund (WWF)

One of our long standing partnerships has been with WWF, initially in the area of waterbird conservation and more recently in support of their climate change initiatives. As a corporate member, we demonstrated our active support for the Earth Hour campaign. We also implemented a number of other internal initiatives including an inflight entertainment video that highlighted Earth Hour to passengers. We are also working with WWF as part of our staff engagement on biodiversity and conservation issues.

The Climate Group

In 2009, our staff participated in the Hong Kong Carbon Reduction Campaign run by The Climate Group. The campaign aims to catalyse the behaviour of employees towards a low carbon lifestyle, through an educational workshop and a low carbon guidebook and toolkit. 180 of our staff signed up and committed to monitoring their own energy consumption. We also partner with The Climate Group in the AGD Group.

Change for Conservation

Dragonair has partnered with The Nature Conservancy since 2004 on its inflight charity programme to support conservation initiatives in Mainland China. Thanks to the generosity of our passengers, the programme has already raised over HK\$7.4 million as of the end of 2009. Funds collected are being used in watershed protection projects and development of fuel alternatives for local residents in Yunnan.

Other activities

Cathay Pacific staff participated in the annual International Coastal Cleanup initiated by the Ocean Conservancy and, in Hong Kong, managed by the Green Council. It aims to raise awareness and engage



the general public to remove waste and debris from the world's beaches and waterways, to identify the sources of debris, and change behavioural patterns that contribute to pollution. 60 Cathay Pacific volunteers participated in the clean-up of two beaches on Lantau Island where our headquarters is based, and in the space of one hour managed to collect almost one tonne of waste, equivalent to 72 large sacks of waste. In Los Angeles, our outpost staff also supported such an event.

In Cebu, the team organised a beach clean-up in Olango Island Bird Sanctuary with cargo agents. Guest speakers from the Sanctuary conducted briefings on solid waste management and marine conservation. It was the first event of its kind and similar activities will be planned in the future.



Cathay Pacific Holidays offers a full range of leisure holiday choices to more than 60 destinations in China, Asia and beyond. It is in the process of developing a strategy for eco-tourism and is currently studying how to embed environmental initiatives into its package holidays. They will adopt the Cathay Pacific Corporate Code of Conduct and Supplier Code of Conduct and will report on progress in 2010.

Environmental Indicators Table

Aircraft Operations	Units	2009*†	2008 *	2007*	2006	2005	2004	2003	2002	2001	2000	1999	1998
ATK	million	22,249	24,410	23,077	19,684	17,751	15,794	13,355	12,820	11,827	11,630	10,867	10,857
RTK	million	16,775	17,499	16,680	14,452	12,813	11,459	9,371	9,522	8,201	8,650	7,768	7,213
RPK	million	89,440	90,975	81,801	72,939	65,110	57,283	42,774	49,041	44,792	47,153	41,502	40,679

All Flights

Fuel Consumption	thousand tonnes	4,397	4,569	4,371	3,596	3,325	3,077	2,590	2,583	2,431	2,429	2,263	2,343
Fuel Efficiency	grammes/ATK	198	187	189	183	187	195	194	201	206	209	208	216
	improvement since 1998 %	8.4%	13.3%	12.2%	15.3%	13.2%	9.7%	10.1%	6.6%	4.8%	3.2%	3.5%	0.0%
	grammes/RTK	262	261	262	249	260	269	276	271	296	281	291	325
	improvement since 1998 %	19.3%	19.6%	19.3%	23.4%	20.1%	17.3%	14.9%	16.5%	8.7%	13.6%	10.3%	0.0%
Global CO ₂ emissions	thousand tonnes in CO ₂ e ⁽¹⁾	13,852	14,393	13,769	11,327	10,474	9,693	8,159	8,136	7,658	7,651	7,128	7,380
	grammes/ATK	623	590	597	575	590	614	611	635	647	658	656	680
	improvement since 1998 %	8.4%	13.3%	12.2%	15.3%	13.2%	9.7%	10.1%	6.6%	4.8%	3.2%	3.5%	0.0%
	grammes/RTK	826	823	825	784	817	846	871	854	934	885	918	1,023
	improvement since 1998 %	19.3%	19.6%	19.3%	23.4%	20.1%	17.3%	14.9%	16.5%	8.7%	13.6%	10.3%	0.0%
Global NOx emissions	tonnes	65,358	70,546	55,951	52,542	48,566	45,271	38,537	39,213	36,402	38,061	37,800	40,294
	grammes/ATK	3	3	2	3	3	3	3	3	3	3	3	4
	improvement since 1998 %	20.8%	22.1%	34.7%	28.1%	26.3%	22.8%	22.2%	17.6%	17.1%	11.8%	6.3%	0.0%
	grammes/RTK	4	4	3	4	4	4	4	4	4	4	5	6
	improvement since 1998 %	30.3%	27.8%	40%	34.9%	32.1%	29.3%	26.4%	26.3%	20.5%	21.2%	12.9%	0.0%
Global CO emissions	tonnes	11,422	13,436	13,077	10,959	10,190	10,056	8,873	8,268	8,062	8,751	9,827	13,982
Global HC emissions	tonnes	1,344	2,107	2,271	2,233	2,171	2,228	2,112	1,885	2,090	2,560	3,401	5,736

Passenger Flights Only

Fuel Consumption	thousand tonnes	3,476	3,627	3,217	2,825	2,646	2,404	1,953	2,074	2,050	2,068	1,953	2,007
	share of total fuel consumption %	79.0%	79.4%	73.6%	78.6%	79.6%	78.1%	75.4%	80.3%	84.3%	85.1%	86.3%	85.7%
Fuel Efficiency	grammes/RPK	39	40	39	39	41	42	46	42	46	44	47	49
	Improvement since 1998 %	21.2%	19.2%	20.3%	21.5%	17.6%	14.9%	7.5%	14.3%	7.2%	11.1%	4.6%	0.0%

(*) incorporates KA (†) Fuel consumption includes testing, training, and wet-lease flights (1) GWP of CO₂ is 1; assumes that all other GHG gases are negligible as these impacts still uncertain. This year, we have aligned the data in our Annual Report and our public reporting requirements. 1 tonne of fuel = 3.15 tonne of CO₂

Indicators	Units	2009	Indicators	Units	2009	Indicators	Units	2009
Power/Fuel			Paper & Cardboard			Disposed Materials [†]		
Electricity Consumption [†]	mWh	92,860,956	Paper consumed in offices	tonnes	1,579	Office waste disposed of	tonnes	2,079
Ground based activities fuel consumption [†]	litre		Paper & cardboard recycled ⁽¹⁾	tonnes	2,025	Food waste disposed of	tonnes	193
Mobile Combustion – Diesel		9,818	Printer Cartridges			This year, due to change in the scope of reporting, the 2009 data is not directly comparable to those of previous years.		
Mobile Combustion – Unleaded Petrol		677	Printer cartridges purchased	no.	4,874	Data covers our operations in Hong Kong (including 100% owned Hong Kong-based subsidiaries) and six outlets – Amsterdam, Bahrain, Frankfurt, Manila, Rome, and Tokyo.		
Stationary Combustion – Diesel		19,856	Printer cartridges refilled	no.	621	† Covers Hong Kong only * Covers Vogue Laundry only		
Purchased Towngas [†]	unit	119,870	Printer cartridges recycled	pcs	2,786	(1) CPCS receives significant amount of cardboard from its suppliers		
Fuel dumped due to operational reqs	tonnes	507	Refrigerants containing HFCs ⁽²⁾	kg	n/r	(2) We are unable to provide an auditable number this year. We will report on this in future reports.		
% of fuel dumped	%	0.01%	Recycled/Reused Materials			(3) Dragonair started inflight recycling on 1 August 2009		
Water			Aluminium cans recycled ⁽³⁾	kg	31,570			
Seawater consumption	m ³	8,057,000	Plastic recycled	kg	33,347			
Potable water consumption	m ³	823,928	Metal waste recycled	kg	613			
Maintenance water consumption	m ³	152,675	Waste lubrication oil recycled	litre	11,024			
			Hangers used*	no.	2,323,476			

We Put Safety First

At the core of our culture is always a 'safety comes first' philosophy which forms the basis of all of our activities. Our primary goal continues to be zero accidents and injuries.

Operational airline safety

Our Safety Management System (SMS) defines how we intend to manage safety as an integral part of our overall business. The SMS training and information we provide ensures that all employees understand how to manage safety and operational risk in our operations.

We capture inflight data from every flight and encourage staff to report all incidents, hazards, threats, errors and safety concerns. By analysing data we are able to manage safety on both a proactive and reactive basis. We saw a trend of decreasing risk in 2009.

We continue to emphasise Threat and Error Management (TEM) training for pilots, cabin crew and engineers, helping them to manage operational risk more effectively.

Cathay Pacific holds IATA Operational Safety Audit (IOSA) accreditation. There are ongoing observational audit programmes in the cabin and cockpit to assist with the identification of safety issues. We carry out scheduled audits of the ports in which we operate.

Our safety management approach

The Airline Safety Review Committee (ASRC) has met monthly for the past 40 years to guide the management of safety in Cathay Pacific. The ASRC is under direct governance of the Board Safety Review Committee which meets twice yearly and is supported by divisional Safety Action Groups, which meet monthly. The ASRC Chair reports to the Chief Executive after each meeting.

Cathay Pacific and Dragonair share the same goals and this is demonstrated by their adoption and implementation of similar safety policies and procedures.

We have a comprehensive list of safety performance objectives, indicators and targets that combine measures of safety, security, occupational health and safety, quality and contingency planning. These safety performance metrics are documented and reviewed on a monthly basis.

5%

lower lost time injury rate



ISAGO IATA Safety Audit for Ground Operations

Flight safety starts on the ground. ISAGO is an audit programme for ground handling companies serving airlines at airports. The audits are conducted in a globally standardised and consistent manner, using internationally recognised and accepted quality auditing principles.

ISAGO aims to improve operational safety in the airport ground environment and to reduce damage to aircraft and equipment.

Cathay Pacific is fully committed to the ISAGO programme. We have a pool of four auditors, who can conduct audits for IATA. The first 3 ISAGO audits were conducted in 2009, with more planned for 2010.

LOSA Line Operation Safety Audit

LOSA is a formal process that requires expert, trained observers to occupy the jumpseat located on the flightdeck during regular scheduled flights to collect safety-related data on environmental conditions, operational complexity, and flight crew performance.

Whilst accident and incident investigators rely on retrospective analyses of rare and dramatic events, the concept of LOSA is based on the premise that accurate analysis of daily operations can also provide a foundation upon which to define safety strategies and interventions.

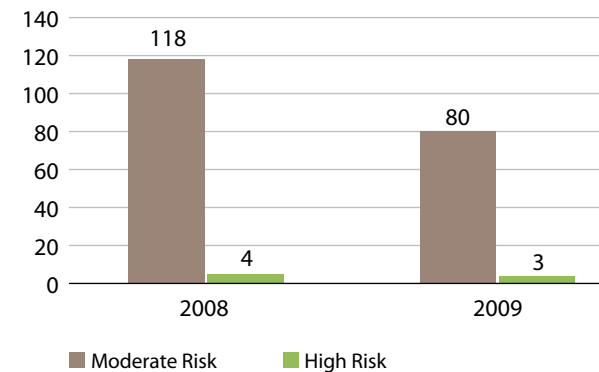
LOSA allows us to better understand the operational threats and errors that must be managed in routine operations. In 2009, Cathay Pacific conducted its third LOSA, one of a small group of airlines to have done so.



“Our major challenge is to maintain a good safety culture across the board – safety should be everyone’s concern and responsibility. We want to encourage staff to report any safety risks as well as keeping themselves safe at work.”

Kwok Chan, Head of Corporate Safety and Quality, Dragonair

Safety Incidents (Cathay Pacific)



Long-haul operations, and flying across multiple time zones can be fatiguing for crew. One of the major safety-related projects that formally began in late 2009 was the development of a Fatigue Risk Management System (FRMS). The FRMS will form an integral part of the Safety Management System, and help better manage any fatigue-related risks through education and training of crew and staff and the more effective management of crew rostering.

One of our safety goals is zero 'high risk' incidents. There were three 'high risk' safety incidents in 2009 compared to four in 2008, representing a 25% decrease. There was also a reduction in 'moderate risk' safety incidents from 118 in 2008 to 80 in 2009, representing a 32% decrease.



Passenger safety

There were zero passenger fatalities in 2009 and zero serious injuries to any passenger that was a result of our operations in Cathay Pacific and Dragonair.

Our aircraft are equipped with multiple first aid, medical and emergency doctor's kits, personal protective equipment as well as Automatic External Defibrillators (AEDs). Our cabin crew are trained in common first aid and cardio-pulmonary resuscitation (CPR), and in 2009 our crew's training coupled with the appropriate use of the AED, combined to save at least one passenger's life.

All Cathay Pacific aircraft are able to call upon ground-based medical assistance through the use of the Medlink system. This system ensures that, regardless of where the aircraft is flying, there is always a medical specialist that can be contacted inflight to assist with the correct diagnosis and treatment of any passenger or crew illness.

When any new cabin product or procedure is introduced into the aircraft, in addition to regulatory certification and requirements, we also conduct our own risk assessments where we may require even more stringent requirements.

Staff safety

At Cathay Pacific and Dragonair airline operations, there were zero staff fatalities in 2009, and zero serious work-related injuries.

2009 saw an emphasis on improving Occupational Health and Safety (OHS) issues, particularly for cabin crew. OHS performance indicators examining both the rate and severity of injuries are tracked on a monthly basis, with all indicators showing improvements in 2009.

This year, we exceeded our target of 5% reduction in Lost Time Injury Frequency Rate (LTIFR) for ground staff, HKIA airport staff and cabin crew. Whilst this is a very pleasing result, we will continue to work towards this goal in the next year. An annual half-day of OHS training for all cabin crew commenced in mid 2009, around half of our cabin crew completed the first year of training in 2009. The focus on this OHS training was on baggage handling and wheelchair transfer techniques. To coincide with this, a Safe Work Practices booklet focusing on baggage handling was produced for crew.

To assist with both of these training initiatives, we have engaged a medical consultant with ergonomic expertise to review and make recommendations on crew service procedures to guard against musculo-skeletal injuries.

In 2010, an OHS e-learning module will be launched for cabin crew. The training will be used for future cabin crew induction and Inflight Services Manager training.

HAS bus accident

HAS is the largest ramp handling company in Hong Kong, and is one of our 100% owned Hong Kong-based subsidiaries. It is with sincere regret that we have to report that on 28 August 2009, a fatal accident in Hong Kong involving a HAS bus saw three HAS staff lose their lives and another 22 injured. HAS provided support to the families of those who died and to those who were injured and hospitalised. In addition to the legally required compensation, HAS made an additional insurance payment to the Mandatory Provident Fund of the deceased staff. HAS will continue to lend support to the families of the deceased and injured staff. The company also made a counselling service available to all employees. We have reminded our staff about the importance of safe driving and emphasised that safety is always our first priority.

In April we launched a new Work Injury Care Programme partnering with a well-known company with expertise in rehabilitation and claims management. We aim to provide post-injury rehabilitation and facilitate timely return to work for injured crew. In 2009, over 1,200 work injury cases participated in the Work Injury Care Programme. The programme has received very positive feedback from crew and has successfully assisted crew in their return to work.

Achievements against Cathay Pacific safety performance targets*:

• Zero accidents	✓
• Zero high risk or severe incidents	3 high risk incidents were recorded
• Regulatory report rates below four per 1000 flights	✓
• 100 % IATA Operational Safety Audit (IOSA) conformance	✓

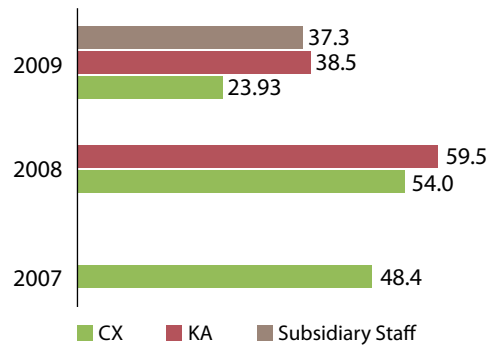
• Reduce LTIFR by 5% per year	✓
• Conduct a LOSA at least once every four years	✓
• Produce a departmental and corporate risk register on an annual basis	✓
• Simulate an aircraft accident in each port once every 24 months	✓

*Relates to Cathay Pacific airline operations, whilst subsidiaries have their own targets.

HKIA's initiatives to reduce work injuries

In order to reduce potential injuries and hazards to a minimum, our team at HKIA embarked on a programme to disseminate safety-related information with the aim of creating a "Safety Culture" amongst the team. As a result of these initiatives, our team at HKIA has significantly reduced their work injury rates.

Lost Time Injury Frequency Rate



Public health

We employ a number of precautionary measures to safeguard the health of our passengers and frontline employees against infectious diseases. In accordance with guidelines of international health agencies and aircraft manufacturers, our aircraft are thoroughly cleaned and disinfected after every flight. Fresh air mixed with filtered air continuously circulates in the aircraft and the entire cabin air volume is replaced every few minutes. We have been a member of the IATA's Medical Advisory Group for the past five years and share best practices for the airline industry in dealing with passenger health and medical issues and communicable diseases outbreaks.

In April 2009, the World Health Organisation (WHO) declared the Pandemic Influenza A (H1N1) situation a Public Health Emergency of International Concern. We rapidly initiated a number of preventive measures to address the threat:

- A Pandemic Influenza Task Force was convened;
- Guidelines were issued in accordance with regulatory agencies and health authorities;
- We made regular communications to staff, passengers and associate companies;
- Specific safe handling guidelines were provided for frontline staff;
- The health message broadcast on all flights was updated;
- Public health alert advisory notices were posted at check-in counters;
- Additional supplies of personal protective equipment (PPEs) such as gloves, face masks, antiseptic supplies and tissues were provided;

- We initiated a health education promotion focusing on good personal hygiene measures, proper cough etiquette, mask use and self-health monitoring; and,
- Additional and specialised hygiene and sanitation for aircraft interior and office facilities were introduced.

In 2010, we will be offering a special subsidy scheme for eligible staff wishing to undergo vaccination against H1N1.



Food safety

At Cathay Pacific and Dragonair, we continue to do our utmost to serve meals that meet the very highest levels of food safety and hygiene. We work with our caterers to create well-balanced meals, to minimise the use of trans-fats and follow our policy on monosodium glutamate (MSG). Our policies on food safety and hygiene are based on recognised standards, such as that of the International Flight Services Association (IFSA) and the Association of European Airlines (AEA) World Food Safety Guidelines. Our caterers must always comply with our strict food safety requirements.

Progress against 2009 actions

Cabin crew to attend a half-day training session on baggage handling skills	ongoing
Release a Company Alcohol and Other Drugs Policy	ongoing
5% improvement in lost time injury rates for Cathay Pacific	✓
Launch of new Work Injury Rehabilitation Programme for cabin crew	✓
Ensure all cabin crew complete a new e-learning module related to OHS	ongoing
Develop a comprehensive programme on assisting passengers with disabilities	✓

Agenda for 2010

Introduce a Fatigue Risk Management System
Measure the safety culture of cabin crew
Launch of new Work Injury Rehabilitation Programme for HKIA airport staff
Develop SMS Company handbook and e-learning for all staff

Focus on Customers

Responding to our customers' needs is at the heart of our business. In 2009, we served approximately 24.6 million passengers located in Hong Kong and 70 other outports.

117
destinations

36
countries
and territories





Our Vision is to be the world's best airline and providing outstanding products and services in a socially and environmentally responsible way is key to achieving this.

Customer satisfaction

Our customer service philosophy is to offer **'Service Straight From The Heart'** – a unique service concept, built around personal recognition at all service touchpoints to make our customers feel comfortable, secure and special.

We set ourselves extremely high targets in customer service, especially in relation to issues such as staff etiquette.

Listening to our customers

Through ongoing dialogue we are able to improve our offering, develop new services and build long-term relationships with customers. We measure satisfaction through our ongoing Reflex Passenger Survey, where we sample our flights daily across all classes, enabling us to collect around 30,000 responses for both Cathay Pacific and Dragonair per month. The purpose of the survey is to evaluate what passengers think about their travel experience with us.

Our 2009 results showed a significant increase in most areas of customer satisfaction relating to our services.

We also held four focus group discussions led by an independent party to obtain feedback from a sample of our Marco Polo Club members (our most frequent flyers) on our products and services and their expectation for the future.

Dealing with complaints

Feedback from our customers is important to us and mechanisms are in place for us to channel criticism or recognition to relevant departments so that we can learn from those areas or motivate the team respectively. Complaint channels such as comment cards, direct conversation with our frontline staff and online feedback forms are available to direct views to our management team and ensure that we are constantly listening to our customers.

Collecting customer feedback through our online channels is the most efficient way for our customers and our team to address issues. In 2009, we invested in a system to channel feedback received through the Cathay Pacific and Dragonair websites to ensure that customer feedback is responded to from one of the 36 countries in which we operate. Any feedback received is investigated and the current service level requires a reply within 14 days. Plans are underway to develop a system to capture customer feedback at all of our customer touchpoints.

We recognise that customers may experience lower than expected service levels and initiatives are in place to ensure that our customers' concerns continue to be proactively resolved – and that our approach and interactions with them are efficient and consistent.

Handling passengers with disabilities – Air Carrier Access Act of 1986

All Cathay Pacific staff in Hong Kong and the United States (US) have completed a comprehensive, half-day training module to better assist them in dealing with passengers with disabilities. All other outpost staff and all new staff will be required to take the training in 2010.

Relevant staff have also attended a one-day complaints resolution workshop to comply with the requirements of the US Department of Transportation in the Air Carrier Access Act of 1986.

Providing a diverse service

We constantly strive to channel service improvements taking into consideration the cultural and demographic diversity of our passengers. We currently serve 20 types of special meals to cater for medical, religious or dietary requirements.



Service beyond the call of duty



Annually we recognise staff who have embodied service beyond the call of duty, through the Betsy award. The Airport Services Manager (ASM) at our Cairns, Australia outpost, Amanda Jessop-Shaw was the top awardee in 2009. Amanda accompanied a 10-year old passenger who was suffering from a severe earache while waiting for the child's mother to arrive two days later. Amanda took the passenger to the hospital and then to a hotel to rest.

"I wanted to give her the appropriate care and attention she needed," says Amanda who, as a mother herself, knew the young passenger would be frightened at being sick and alone in a strange place. "As an ASM it's my job to take good care of our passengers."

Ensuring a responsible service

Protecting data privacy

We are committed to protecting the data privacy of our customers. We have carried out appropriate physical, electronic and managerial measures to safeguard and secure the data we collect from unauthorised access and use.

Chemicals inventory

Cathay Pacific is committed to ensuring product responsibility in all its operations, and, in particular, pays attention to the chemicals used in consumer-facing products or services.

In 2009, a study was carried out focusing on chemicals used in cleaning products, personal care products, inflight textiles, refrigerants, and textiles and furniture used in our lounges. In 2010, a chemicals plan will be developed to help different departments understand their environmental impacts. We already follow procedures for the handling of any hazardous materials and waste including chemicals in our engineering and inflight services operations.

Customer awareness on sustainability issues

Cathay Pacific aims to use different communication channels to raise awareness about sustainable development issues amongst its customers. We published articles in our inflight Discovery Magazine about our environmental and social initiatives and we will continue to develop new ways to increase customer awareness. In 2010, we will use our online Cathay Pacific blog to communicate our progress on sustainable development.

Agenda for 2010

Develop a chemicals plan to help different departments understand the health and environmental impacts of the chemicals they use in their operations

Implement a new system to generate customer trends and feedback

Enrich sustainability content in inflight magazines and the corporate website

Use the online Cathay Pacific blog to communicate our progress on sustainable development issues and reach out to an important customer segment

Getting it right when things go wrong

We have a robust emergency response system that is designed to support and manage service disruptions or major incidents that could occur during our operations. Three major areas were enhanced in 2009:

- An improved information technology platform giving customers more precise and up-to-date information during disruptions;
- Stronger partnership with the HKIA in crowd control procedures and closer coordination among all departments in Cathay Pacific in emergency situations; and,
- Increased manpower through recruiting volunteer non-operational staff who are called upon during emergency situations.

Service disruption

From typhoons to technical delays, we are committed to ensuring disruptions are handled in an effective and timely manner and that passengers are reimbursed appropriately where applicable. We have implemented structured Irregular Operations Plans throughout the network of airports in which we operate that ensure customers are provided with the highest level of service when things do not go as planned. These plans make keeping customers informed of flight irregularities a high priority through a variety of channels such as text messaging and email. The overall objective is that customers will experience a consistent level of service during flight disruptions regardless of where they are in our network.

We developed a Flight Disruption Control System in March 2009. This system enables us to monitor the network with respect to customer handling during significant disruptions. We are then able to ascertain relevant "trouble spots" and to dedicate resources to address the issues accordingly.



To supplement our operational staff, a Service Disruption Support Team with around 100 staff volunteers was established in Hong Kong in January 2009. This team is called upon to perform check-in, reservations and information services during disruptions.

With frequent typhoons already occurring in the region and with more inclement weather expected in the future, outports have prepared Individual Port Irregularity Operations Plans (IROPS) to help better manage flight disruptions. The IROPS specify communication flow, roles and responsibilities, and contain a checklist to follow during disruptions.

In September 2009, Typhoon Ketsana hit the Philippines, causing major disruption and flooding in Metropolitan Manila. Hundreds of passengers were left stranded. Our airport staff worked to get these passengers to hotels and, together with volunteers from our Manila office, they helped to ensure passengers were updated, that efficient check-in procedures were available the following day and baggage arrival without delay.

Emergencies and accidents

Our Crisis Management Centre handles any emergency or accident involving our aircraft anywhere around the world. In such situations our Emergency Plan takes immediate effect and a Crisis Management Team is assembled. We held one such test exercise in 2009.

The Cathay Emergency Passenger Information Centre (CEPIC) is activated as a telephone enquiry centre. The telephone lines are always on 24 hour standby and are used in emergencies only. There are toll-free public hotlines linking all outports with this Centre.

Information is provided to passengers, families, governments and other stakeholders in a timely fashion. 1,200 trained staff volunteers from the Cathay Pacific Care Team provide immediate assistance to passengers and their families involved in the incident. This assistance can include making appropriate arrangements for travel, accommodation, financial and referral services. The team is on-call 24 hours a day, and is available to respond anywhere within the Cathay Pacific network.



"I consider myself exceptionally lucky to be supported by a team that fully understands that service is our business and when things go wrong we all have a duty to go the extra mile to get things back on track."

Ed Higgs, Country Manager, Philippines

Purchasing and Supply Chain

We actively seek to work with suppliers who share our commitment to honesty and integrity in all areas of their business. We also have a strong preference for suppliers who integrate social and environmental policies into their business processes.

Supplier Corporate, Social and Environmental Responsibility Code of Conduct

We ensure that sustainable purchasing and responsible supply chain practices are implemented throughout our procurement process.

Suppliers to Cathay Pacific must provide clear, accurate and appropriate reporting of their progress toward achieving our Supplier Code of Conduct objectives. These include:

- Legal and regulatory compliance
- Environmental management
- No use of forced and child labour
- Appropriate compensation and working hours
- Health and safety
- No discrimination
- Upholding human rights in the workplace
- The highest standard of business ethics
- Extending social responsibility to their subcontractors and service providers
- Maintaining documentation and permitting our inspection

In 2009, we revised and published our Supplier Code of Conduct for all suppliers managed through our centralised purchasing process and we asked for their confirmation of compliance with its principles.

This approach allows us to continue to communicate with our suppliers on sustainable development matters, serving to underline the importance of the issues for us. The approach further helps us to identify any ongoing instances of non-compliance or non-response by our suppliers.

As part of our usual supplier selection process, potential new suppliers must complete our questionnaire to confirm their compliance with the standards in our Supplier Code of Conduct. Whichever supplier is eventually selected, they will be contractually committed to conform to our social and environmental standards from that point onwards.

We are currently developing a programme to roll-out the Supplier Code of Conduct requirements to the rest of our network. Responsibility for managing the roll-out will be devolved to local Cathay Pacific management and a local version of the centralised database will be developed as part of this process.

Some of our suppliers may need our support in achieving the standards required by our Supplier Code of Conduct. For these suppliers we will consider the possibility of phased in adoption of our standards. We will also consider the degree of impact on our business reputation if a supplier is unable to fully comply with our requirements. We began to implement a programme of compliance checking visits in December 2009 with a selected supplier and will expand on this in 2010. We also continued our assessment via the compliance checking form.

Our sustainable purchasing management approach

We aim to ensure that all purchasing practices are governed by the highest professional and ethical standards. Our Airline Purchasing and Aircraft Trading Department manage most of the purchasing requirements for both Cathay Pacific and Dragonair. Our Purchasing Ethics Policy outlines our expectations from our purchasing staff, including compliance with anti-bribery regulations. Our approach on sustainable procurement has been to encourage our suppliers to improve on their sustainability practices through capacity building and sharing knowledge and best practice.

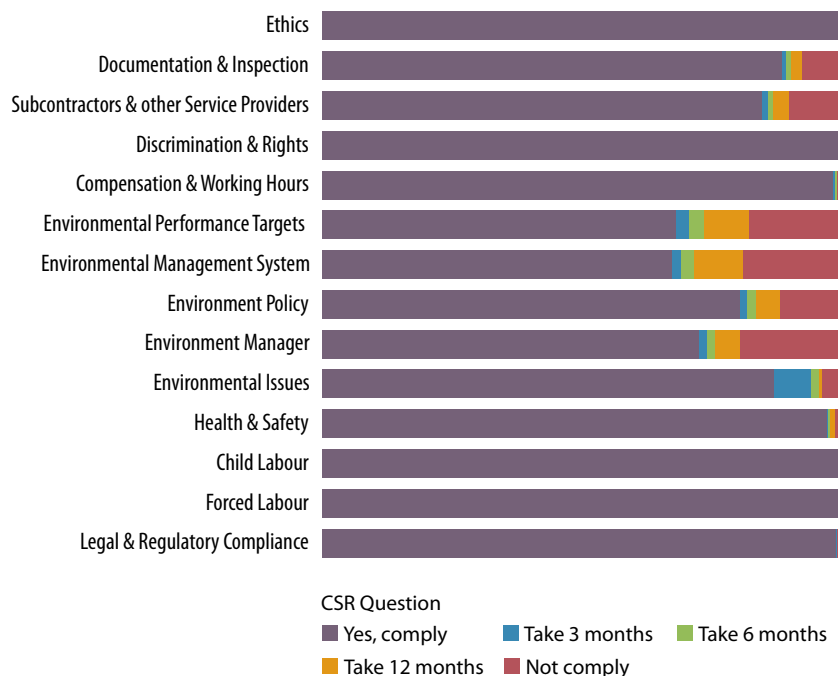
Commitment to the environment

We demonstrate responsible supply chain leadership by letting our suppliers know that we are committed to environmental management in our daily operations. We plan to periodically publish a *Supply Chain Sustainability Newsletter*. The Newsletter may include topics such as helping suppliers to understand the importance of managing waste in their business in a responsible way.

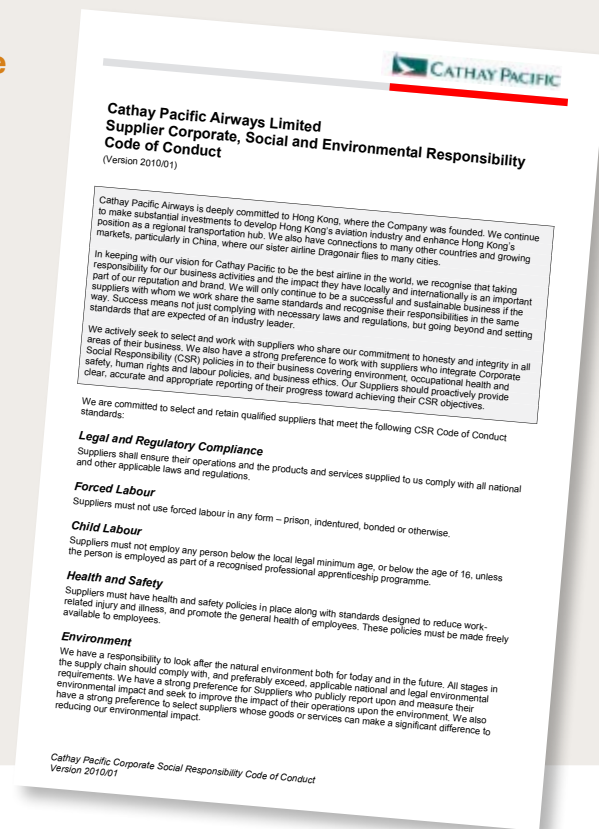
During 2009, we placed a particular emphasis on examining purchasing practices that have impacts on forestry conservation. In the future we will express a preference to work with suppliers offering products that are accredited by the Forest Stewardship Council (FSC). Currently all our office photocopy paper is FSC sourced.

We recognise the importance of sourcing inflight food from sustainable sources and we are working with relevant teams to develop and formalise our approach. At the very minimum, we require our caterers to meet all environmental legislation in their locations and this includes regulations on endangered species.

Supplier Code of Conduct Compliance Levels



Supplier Code of Conduct



Progress against 2009 actions

Carry out site visits of suppliers deemed to be high risk	ongoing
Refresh the Code of Conduct and associated questionnaire and compliance checking form to make more understandable and incorporate a stronger environmental element	✓
Resend the Code of Conduct questionnaire to suppliers and ask them to reconfirm the checklist	✓
Assess high risk suppliers using the compliance-checking form on a more regular basis	ongoing
Implement a process of internal engagement at Cathay Pacific on supply chain risks including outports	initiated

Agenda for 2010

- Develop education and briefing packs on the Supplier Code of Conduct to all Cathay Pacific staff, followed with internal briefing sessions
- Continue to inform the Swire Supply Chain Sustainability Group
- Continue active membership of the Hong Kong Green Council
- Formalise approach on sustainable sourcing of food

Growing a Winning Team

Our dynamic team is one of our greatest strengths. We take pride in the quality of our staff and are committed to attracting and retaining the best talent.



26,700
employees worldwide

Our human resources management approach

Human resources issues are managed by the respective departments in Cathay Pacific, Dragonair and our other subsidiaries. At Cathay Pacific, this is headed by our Director Personnel and at Dragonair, by the Head of Personnel.

Our Corporate Code of Conduct sets out our principles for acting responsibly in the course of achieving our commercial success. This Code of Conduct applies to all staff of Cathay Pacific and our subsidiaries and includes issues related to business ethics, conflict of interest, procurement, insider trading, lobbying, bribery, environment, health and safety, and respect in the workplace. Comprehensive policies have been developed to support the Code of Conduct.

To ensure that staff members are aware of these policies and their implications they are communicated via appropriate channels including orientation and induction sessions and an intranet link provided in employee contracts.

We aim to ensure our employees are productive, competent and flexible and operate within a healthy environment. We ensure this through a series of training and development programmes. We also strive to manage people in a way that recognises diversity.

19,500

employees in Hong Kong

Recruitment and selection

As a major employer which supports Hong Kong, we endeavour to demonstrate good corporate citizenship. We provide equal opportunities to individuals regardless of gender, race, national origin, disability and family status. We have adopted formal mechanisms through which employees can make a complaint of discrimination or harassment in any form.

Local recruitment

The practice of undertaking local recruitment in the communities where we operate has been in place for the past 20 years. If the required skills are available locally, we will give priority to the local labour market, before searching internationally. Vacancies are first opened internally to the company, then to the local community, and then finally, overseas. Most of our overseas hiring relates to skills or experience that is not readily available in the local labour market.



We offer specific programmes to build staff competencies in the following areas:

Career Choices

Brief Description

Management Trainee Programme

(Part of John Swire & Sons Hong Kong, a wholly-owned subsidiary of Swire Pacific)

- To nurture our next generation of business leaders
- Three-year development programme, with classroom training, workshops, and attachments to different facets of our business within and outside of Hong Kong

Engineering Trainee Programme

- A 30-month development programme, with classroom-based aircraft training alongside practical experience in postings to different engineering sections

Cadet Pilot

- A 60-week development programme for becoming a Commercial Pilot
- Residential course at a specialised facility in Australia

Flight Attendants

- Three-year signed contract to train as safety officer, caring team player and ambassador for Hong Kong

Customer Services Officer

- Nine to 12 months development programme on customer service skills within airside duty, and technical check-in procedures training in landside



Our strength, our people

We believe that Cathay Pacific differentiates itself through the interaction with our friendly, professional and intuitive people who will genuinely go the extra mile to care for our passengers and make them feel that they are somebody. Our people deliver this service and we recognise that they are important to our success. An advertising campaign, called 'People & Service,' was launched to communicate this in our key markets through various media such as print, television, outdoor displays, online, and social media. The highlight of the campaign is the opportunity to meet our team through our online minisite at www.cathaypacific.com/people, which features personal stories of our people, along with what they feel motivates them to deliver Service Straight From The Heart.





Response to the economic downturn: Unpaid Leave Schemes

We implemented two different Unpaid Leave Schemes in 2009 as part of our cost saving measures as our response during one of the most difficult years in our history and in the airline industry. With the Special Leave Scheme (SLS), staff were asked to take between one to four weeks unpaid leave, depending on their level of seniority, with senior staff being asked to share more of the burden. The scheme was voluntary but saw a very high take-up rate. In addition, a Voluntary Unpaid Leave Scheme was offered, whereby staff could take up to a further 12 months of unpaid leave.

Employee engagement

Throughout 2009, we consulted with various staff groups on matters relating to crew lifestyle, cabin environment, working conditions, administrative concerns and service and catering procedures.

We recognise that staff representative groups can play a valuable role in helping the company better understand the needs of our employees. We continue to ensure that there are adequate feedback mechanisms for staff available as outlined below.

Cabin crew survey (CONNECT)

More than 30,000 comments have been collected from cabin crew as a result of CONNECT – the Cabin Crew Engagement Survey – in which 3,744 crew provided input. This survey is conducted every 18 months to get a better understanding of the different aspects of their working environment.

“CONNECT was designed to gather individual opinions on what is important to the crew community, how well we are doing and which areas we need to work on.”

Elaine Champion, Cabin Crew Communications Manager



Following the announcement of survey results, the first CONNECT Crew Forum was carried out in October 2009. Over 150 crew were in attendance representing every category and nationality. We believe that it is important to provide an opportunity for our cabin crew members to meet managers and foster understanding, openness and a greater sense of teamwork.

“Asking people for their feedback is only useful to the extent you are prepared to consider and act upon what they tell you.”

Graham Barkus, Manager Organisational Development & Learning

Organisational alignment survey

This staff survey is conducted every two years and aims to assess how closely aligned our organisation is to our company Vision and Missions. It helps us to assess whether staff are provided with enough clarity in terms of the company direction and what is expected of them. It further serves to assess the extent people feel our systems and processes are aligned to our Vision and Missions.

Over 120 questions were included and the results in 2009 were encouraging. We are pleased to report that we have improved on every aspect, including the people and leadership dimensions that reflect the day-to-day emphasis on people management and development.

The survey results will be broken down to departmental and smaller group levels and managers will work with their teams to help them improve on any issues identified.

Sustainability baseline survey

Towards the end of 2009 we conducted a sustainability baseline survey with all our staff. The purpose was to assess the level of awareness of our sustainable development initiatives amongst staff and identify areas where further training and communication is required. The survey is one tool amongst many that has been employed to communicate our initiatives with employees. We will report on the findings and actions taken in 2010.

Cathay Pacific Benefits

Flexible benefits: RightChoice

We are one of the first Hong Kong employers to offer a flexible benefit package, including medical and dental coverage, insurance plans and retirement schemes, which can be tailored to meet individual staff personal circumstances. There is also an option to buy additional leave.

Employee Assistance Programme (EAP)

The EAP is a programme that provides employees with world-wide access to free, confidential, and professional advice, information and counselling services for personal and work-related concerns. It offers assistance for problems like traumatic stress, conflict at work, grief and bereavement, depression or anxiety, job transition or pre-retirement issues. There is also a Manager Help Line specifically for managers and supervisors to discuss and get assistance on work-related issues. EAP helps staff to achieve better life and career goals and job security and promotional opportunities will not be affected by seeking help.

Staggered working hours

Staggered working hours have been in place for all Hong Kong non-operational ground staff since 1996. Section heads and staff are encouraged to work out an arrangement that can be of mutual benefit without adversely affecting the work of the team.

Training and career development

Employee lifelong learning

We promote a culture of continuous learning. All staff members are expected to equip themselves with necessary skills to enhance their career development via the support of online learning materials and training centres. We also arrange learning seminars and lunchtime forums with external professionals.

Managers conduct performance reviews for all staff as part of our mentoring and strategy for career development. We also support ongoing vocational education and career breaks for staff members who wish to pursue external activities for further enhancement of their careers.

Learner's World

Learner's World is our online training platform that allows staff to independently access training, without the constraint of time and place. It offers both personal development and work-related training.

Cultural awareness and language skills

In 2009, Cathay Pacific undertook a number of initiatives to promote language skills within our staff community. We conducted a series of proficiency assessments in various departments and established a "Language Clinic" for selected staff to boost their language skills. An online learning course on cultural awareness has been available since 2006, covering issues such as taboos, social norms, languages, values and religions, different ways of greeting people and reflections on cultural sensitivity. This is aimed at demonstrating the importance of respect and sensitivity to other cultures to avoid any behaviour that some passengers might find offensive.

There are online Mandarin and English courses which focus on specific requirements that support various job functions. In addition to these, there are also a number of generic courses on effective communication available for all staff.

Equipping our airport teams worldwide

Our Airports Training and Development Centre (ATDC) is responsible for driving and enabling the development of skills and competencies required of airport teams worldwide. ATDC works closely with local airport training coordinators, supervisors and managers to ensure training and development approaches, programmes (both technical and behavioural) and capabilities are optimised.

In 2009, we developed a five-year strategy to support the achievement of standards via new hire programmes; cultivate service and irregular operations handling capabilities; develop leaders to manage the business and grow teams; and, foster a day-to-day learning culture.



Creating a learning culture for our cabin crew

Cabin crew compose a significant proportion of our staff and in many ways represent the diverse culture of our business. In 2009 we had just over 9,000 cabin crew recruited from 14 countries, with the majority coming from Hong Kong.

To enable our team to provide the highest quality of service to our customers, we provide cabin crew with a comprehensive training and development programme using a 'blended learning approach' that focuses on knowledge, skills and attitude development. This includes induction and promotion training, annual refresher courses, job coaching, web-based learning and external workshops. We offer a series of voluntary learning options, whereby the employee is able to decide the extent of their additional training. These include workshops and briefings. Our cabin crew may also be given an opportunity to participate as trainers and to take part in marketing events and office secondment programmes, allowing them to understand how other parts of our business are run.



Re-structuring the Information Management Department

We restructured the airline's Information Management (IMT) Department with the aim of introducing a new operating model to meet changing information technology needs.

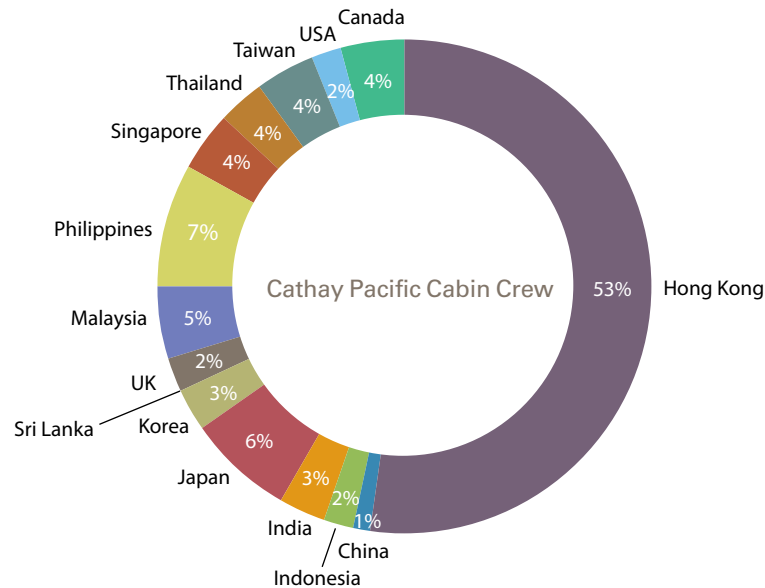
Since the programme was announced in June, we have endeavoured to communicate openly with IMT staff on the changes such as monthly "town hall" meetings and weekly Q&A sessions.

As part of the restructuring programme, staff members were invited to take part in a matching process which objectively assessed their suitability for positions in the new structure. The outcome of the process mean that the majority of existing staff will continue to have a role in the department. However, 53 colleagues – or 1/6 of the departmental workforce – were not assigned to positions. Most had strengths and backgrounds that did not match the targeted skills and background profile of the new organisation; others did not apply for roles because of individual professional aspirations. They all received a separation package that exceeded Hong Kong's employment regulations and an outplacement service was offered to help them find new roles outside the company.

Cathay Pacific Director Information Management Edward Nicol said: "We are offering these colleagues a separation package and will do everything we can to assist them in their career transitions elsewhere which better match their skills and aspirations."

"The objective of this exercise was never to reduce staff numbers," he said. "At the end of the reorganisation, the number of staff in the department remains roughly the same."

Nationality Mix in 2009



"I take great pleasure in coaching and encouraging my trainees to improve. Their success gives me a tremendous sense of job satisfaction and in turn motivates me to excel."

Lucy Tsui, Inflight Service Manager/Learning and Development Executive

Participants consistently highlight how many different skills they learn. Feedback has shown that the coaching and staff development skills have changed the way they approach some of the challenges they face in their day-to-day jobs of managing their team.

In partnership with Ethos, the central learning and development division of John Swire and Sons, a leadership transition programme has also been developed and launched specifically for middle and senior managers in upwards career transitions. The programme combines workshops and executive coaching based on a 360-degree feedback tool that provides feedback on each participant's core strengths and development focus as experienced by their direct reports, peers and managers.

"Through the personality test, 360-degree feedback and one-on-one coaching, I understand myself better, both in terms of my strengths and areas of improvement as a leader."

Ronald Lam, General Manager Sales and Distribution

Retaining talent

Cathay Pacific values the long-term commitment our staff make to the delivery of their work and service excellence. We are proud of our 'family-oriented' culture and we will continue to encourage staff to see the long-term value of working with us. We capture the views of some of our staff that have been working for Cathay Pacific for more than 20 years.

Developing a new generation of leaders

Cathay Pacific aims to ensure that managers not only have the capacity to achieve the best results through the people they work with, but that they themselves grow through acquiring new leadership skills. In our management development strategy, there are three core principles: people are individuals with unique backgrounds, experience and capabilities; emphasis is on interpersonal skills in applying knowledge in new situations; and, training should relate to real work issues through relating directly to participants' own work challenges.

Internal management development processes have been deployed in Hong Kong and outposts, with 350 middle managers participating in 2009. The approach typically involves 90 days of workshops, individual coaching and action learning projects to solve real work problems with peer group support. The managers are equipped with a range of management tools to help cope with changing business environments.



Susan Liao
 Purchasing Manager
 Marketing and Inflight Sales
 Cathay Pacific

Susan joined Cathay Pacific as a Flight Attendant in May 1987, then spent over five years working in Cathay Pacific's loyalty clubs such as the Marco Polo and the Young Discoverer's Club. She then later joined the inflight entertainment team related to developing the interactive system. In late 1998, she moved into purchasing in the marketing department before transferring to Cathay Pacific Loyalty Programmes. In 2004, Susan rejoined the purchasing department for marketing, dealing with a number of diverse projects and learning something new every day.

"I did not fly for very long. When I got married and had children, I started looking for a ground staff role to take care of my family. We have internal vacancies on our intranet and switching jobs is an easy option at Cathay Pacific. Management has been very supportive and you can approach them at anytime.

"Cathay Pacific is like a big family, the norm is that staff tend to work here long term because it provides job stability. If you are willing to work hard, there are many opportunities for you to move around and experience different roles."



Ian Stark
 Airport Services Manager
 Sydney

Ian's career with Cathay Pacific began in 1978 as sales representative in Sydney. After spending 30 years in sales, marketing and commercial management in the Sydney town office, he decided to make a bold move. He became Sydney's new Airport Services Manager, working much closer to customers.

"Cathay Pacific's support for my move to the airport was fantastic. I met virtually every department that I needed to, sat with more people than I can remember, took enough notes to confuse me, and it hasn't stopped since. I am blessed with a very good team.

"I am fortunate that I came to Cathay Pacific when it was very young and my basic manual airline knowledge served myself and Cathay Pacific well. Today though it's all about automation and keeping up with this has definitely helped in providing me with opportunities at Cathay Pacific when they arise.

"Working at Cathay Pacific for more than 30 years has kept me in touch with many human aspects of life because our product is all about customers and customer service development."



Simon Siu
 Project Manager
 Electrical and Mechanical Services,
 Cathay Pacific Cargo Terminal Project

Simon joined Cathay Pacific as a Graduate Trainee in November 1988, and spent three years in different departments mainly on operation, maintenance and transportation. He then served for more than ten years as Assistant Manager in building ticketing offices and the Cathay Pacific City headquarters. In 2000, he was recruited internally as Buildings and Support Services Manager to oversee Cathay Pacific City operations. With his expertise in building and operations, his current challenge is to build a new cargo terminal in Hong Kong.

"Cathay Pacific provides comprehensive training to its staff, I was nominated to attend finance management courses in INSEAD and project management at Richard Ivey Business School. There are also many internal training opportunities including lunchtime staff forums, where staff are always willing to share their experiences and learn from each other.

"I was also the organiser of the Running Club and an active member of the Trailwalker and Green PowerWalk. All these initiatives eventually helped me to develop team playing skills and enrich the sense of belonging to our company."

Progress against 2009 actions

Promote cultural awareness and language skills	✓
Increase awareness of all policies relevant to employees, particularly the company's CSR-related policies	ongoing

Agenda for 2010

- Provide better preparation and support for new recruits of flight attendants, by means of an online website called the Flight Attendant Learning Zone
- Encourage staff in bringing new ideas for operational improvement (e.g. 2010 Chief Executive Award on Innovation)
- Publish e-case studies in Learner'sWorld to share learning on customer service for cabin crew

Investing in Communities

Our community investment in 2009 continued to connect our activities to aviation, education, medical care and the environment. This is rooted in Hong Kong and extends to our outposts where our employees and local offices decide on activities. We support the long-term development of the communities we are a part of and provide an opportunity for our staff to work on meaningful initiatives.



Our community investment management approach

Our commitment to communities is a core part of our Sustainable Development Strategy in addition to our focus on the environment and our employees. Whilst we have priority areas, we also have a flexible approach which enables us to respond to local needs and local priorities. As much as possible we seek to involve and engage our employees in all our community investment.

Through our ongoing dialogue with local communities we can better understand and work to address issues and concerns. Before deciding upon an approach to community involvement, we recognise that we need to understand and assess needs, suitable approaches, and potential impact. In Hong Kong, we partner with local community groups, NGOs and other institutions, such as neighbourhood councils, integrated service centres, district councils, universities and schools.

We understand that our community investment must be measured by the impact we make for local communities. In 2009, we set ourselves a goal to implement a system to measure the impacts and outcomes of our community investment initiatives. This is work in progress and we are currently examining international best practice and appropriate management tools.

How we contribute to local communities

Investing in the future: Education and capacity building

We believe it is essential to contribute to the skills development and capacity building of young people. This is why we support educational programmes at all levels, particularly those linked to the aviation industry. We bring this to life through long-term programmes such as English on Air, I Can Fly, the Dragonair Aviation Certificate Programme, and our support to the Advanced Aviation Education Programme and Life Education Activity Programme (LEAP).

I Can Fly

This unique education initiative aims to increase young people's understanding and skills related to the aviation industry. More than 3,000 students have graduated since its launch in 2003. This year, our San Francisco port launched a local version of the programme. A team of 12 high school students participated in a nine-week programme to explore various careers in commercial aviation, as well as a weekend of community service. The training programme has influenced the graduates' career choices and, as a result, a significant number of alumni went on to pursue a career in the aviation industry.

“Investing in communities is an integral part of our Sustainable Development Strategy. Our initiatives range from flagship programmes such as I Can Fly and English on Air to smaller projects responding to specific needs of local communities”

Quince Chong, Director Corporate Affairs

“I used to be quite nervous talking to strangers, especially in English. Luckily, with a group of friendly and patient volunteers, I enjoyed the programme a lot without feeling nervous.”

Willis Yim, student from the Ho Yu College & Primary School



English on Air

In 2007, Cathay Pacific launched this educational programme to help young people practice their verbal English skills with our multinational English-speaking pilots, cabin crew and other staff whilst visiting Cathay Pacific City. With the support of more than 270 staff volunteers, some 360 students participated in 2009. We introduced a mock interview session to help strengthen the confidence of young people involved in the programme and prepare them for future job searches. Since the programme's launch, more than 700 students have benefited, including students from all seven secondary schools in our neighbouring area of Tung Chung.



Advanced Aviation Education Programme

Since 2000, Cathay Pacific has supported the Advanced Aviation Education Programme, organised by the Hong Kong Air Cadet Corps. The programme covers basic aviation knowledge. 23 young people have travelled to Melbourne with our sponsorship to take part in practical flying training.

Opening our doors to the community

At Cathay Pacific City we open our doors to visitors and partners for non-profit initiatives, making our fully-equipped aviation and training facilities more accessible. In 2009, the well-structured tour programme served more than 7300 visitors from 211 different groups of schools, universities and NGOs.

Life Education Activity Programme (LEAP)

We are a major sponsor of LEAP in Hong Kong. The programme uses mobile classrooms and specially trained staff to teach school children about healthy lifestyles and about the risks of substance abuse, including drugs, tobacco and alcohol. In an average school year we have more than 80,000 students from 170 schools participating. To better serve the primary students in Hong Kong, LEAP introduced a new mobile classroom to its fleet in 2009, bringing the total number to seven. Two new programmes, "Cyber Choices" and "Positive Image," were introduced to the English Secondary Programme in 2009 and their parents programme "Safe and Successful" was enhanced with two additional units on sex education.

Hong Kong Internship Scheme

In 2009, the Hong Kong Government launched the Internship Programme for University Graduates helping new graduates gain employment experience. We supported this programme with special round-trip fares for students travelling to their placements discounted up to 70%.

Dragonair Aviation Certificate Programme

Since the launch in 2006, 50 cadets have graduated from the annual Dragonair Aviation Certificate Programme. The eight-month programme provides cadets a valuable opportunity to discover the different aspects of a commercial airline. The mentorship scheme is an invaluable part of the programme. Some graduates from the programme are already pursuing a career in the aviation industry including working as pilots for Dragonair.

"The Dragonair Aviation Certificate Programme has been very successful in nurturing Hong Kong's future generation of aviators. We see a bright future for Hong Kong as an international and regional aviation hub, which is an ideal place for young people like the cadets to fulfil their dreams and aspirations."

Norman Lo, Director-General of Hong Kong's Civil Aviation Department

Contributing to medical care

We support access to essential medical care services, especially for vulnerable groups. Our long-term commitments include initiatives for the Cathay Pacific Wheelchair Bank, the Hong Kong Society for the Blind, the Sunnyside Club for mentally and physically challenged children, Project Orbis, and The United Nations Children's Fund (UNICEF).



TotalCaring
Award
全面關懷大獎 (2009/10)

We recently received several Caring Company Awards by the Hong Kong Council of Social Service (HKCSS). The HKCSS recognises commitment in three categories – community, employees and the environment. In addition, we received special acknowledgment of our excellence in social and environmental performance through the Total Caring Award (see Pg. 7).

Project Orbis

Since 1989, we have been a major sponsor of Project Orbis – the world's only flying eye hospital. The airline sponsors flight tickets for Project Orbis personnel, enabling the Project's volunteer eye surgeons to fly into Hong Kong and join the Project Orbis aircraft before it visits remote places in countries such as China, the Philippines, Myanmar and Mongolia. In 2009, with our support, nine trips were made for sight-saving programme planning visits and training of eye care professionals.



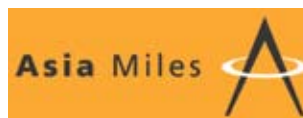


Cathay Pacific Wheelchair Bank

Set up by Cathay Pacific, this Wheelchair Bank raises funds to purchase specially adapted wheelchairs for children with neuromuscular diseases. An average of one month's proceeds from Cathay Pacific's Change for Good inflight fundraising programme is allocated to this initiative each year and, to date, more than HK\$8.7 million has been donated to the Bank. Over the past 13 years, the Wheelchair Bank has helped more than 300 children, supported more than 2,100 clinics and handled over 4,000 spare-part changes and modifications.

Engaging our customers: Change for Good

We launched our flagship inflight fundraising programme Change for Good in 1991, encouraging our passengers to donate their spare change. More than HK\$91 million was donated to the organisation over the past 18 years. The money helps to fund UNICEF's immunisation programmes and other projects in over 150 developing countries. In 2009, 25 Cathay Pacific employees took part in "Change for Good" field trips where they visited various UNICEF-assisted centres and schools in Chiang Rai and Chiang Mai in Thailand. The aim was to better understand issues affecting the children, including early childhood development, basic health care and HIV/AIDS. Employees participated in activities with children from various age groups. Another 15 employees also took part in a **oneworld** trip to work on a range of children's charity projects in the Toey Klong area of Bangkok.



Members of our Asia Miles programme can donate their miles to charitable institutions such as Orbis, Oxfam Hong Kong, Hong Kong Red Cross, UNICEF and the C.A.R.E. Housing Society. Members can also redeem FLY *greener* offsets via the Asia Miles, Cathay Pacific and Dragonair websites. A total of around 1.8 million miles have been redeemed for FLY *greener* offsets in 2009.

Engaging our employees – Staff volunteering

Our Cathay Pacific Volunteers team was set up towards the end of 2007 and now has more than 680 members. Our volunteers have provided social services to the Hong Kong community, including a number of major initiatives in Tung Chung and other locations, such as cooperating with Caritas Hong Kong to collect and distribute recycled computers to underprivileged students from Sham Shui Po and Tin Shui Wai and providing basic computer skills training. We have also expanded our work to support meaningful initiatives worldwide.



Support to the Tung Chung community

Since moving into its corporate headquarters at Cathay Pacific City in 1998, we have provided employment opportunities and infrastructure for the nearby community in Tung Chung. A number of community initiatives such as the English On Air Programme and charity sale were targeted to serve the Tung Chung community. To leverage the strength of our core business, we also helped launch Sunny Enterprise – Healthy Express Synergy in Tung Chung. This is a food processing plant run by the Hong Kong Outlying Islands Women's Association and we helped them by providing management and technical advice. In addition to skills and expertise, we are able to outsource some of our food processing jobs to this innovative social enterprise.



Responding to local needs around the world

We aim to support communities which are confronted with humanitarian crises or other circumstances that threaten to disrupt community life or accentuate social and economic problems, including natural disasters such as flooding, droughts, tsunamis and earthquakes.

Sichuan earthquake relief

Since May 2008, more than HK\$20 million was raised for victims of the Sichuan earthquake by the Group and staff of the Group's two airlines. Most of the money was donated to the Hong Kong Red Cross to boost relief efforts. The donations were used for purchasing emergency relief materials, reconstruction of damaged houses and providing rehabilitation services to the disabled. Continuing the donation effort, more than 6,400 toys and stationery items were donated by staff in July 2009 for children in Sichuan to use in the new school year. 15 Cathay Pacific staff went on a field trip to Chengdu in December 2009.

Taiwan typhoon relief

In September 2009, we donated NT\$2,200,000 matching our staff donations, to help the victims of Typhoon Morakot, which devastated parts of Southern Taiwan. The money was given to the Buddhist Tzu Chi Foundation that has used the

funds in a number of ways to help the victims. The Foundation has helped to build homes in affected villages that can now withstand large seismic tremors and gale-force winds and has built a new community for 1,000 survivors. To give the residents a source of income, the Foundation opened classes in weaving, wood- and stone-carving and the making of beaded accessories. The survivors of the typhoon also included aboriginal people, who are eager to preserve their unique language, culture and way of living, in their new homes. The classes aim to pass on this ancestral knowledge and enable survivors to become financially self-sufficient.

Donations to Sumatra earthquake relief

Staff in Jakarta, Denpasar and Surabaya contributed 29 boxes of clothes and raised money for Yayasan Asa Pradana, an organisation which aids victims of natural disasters. The money was used to buy a generator set for the medical centre, as well as supply urgent medicines needed. There was enough to also make a contribution to the building of a temporary school.

"The team has been deeply touched by the response from all Indonesian staff to the earthquake appeal. The money raised will make a real difference to many devastated lives in the Sumatran province."

Rob Bradshaw, Country Manager, Indonesia



Reaching out to young bushfire victims in Australia

We sponsored free cargo for the Hong Kong Girl Guides' Association to send books to children in Australia affected by the bush fires. Most of the 650 books were collected from the Girl Guides and Brownies in Hong Kong and inscribed with their words of comfort and greetings to children in Melbourne. Cathay Pacific also donated hundreds of playing cards and inflight children's kits.

Charity flights and relief efforts for typhoon victims in the Philippines

Organised by our Philippine cabin crew, over 500 boxes and nearly 100 bags containing donations of food, clothes, blankets and other amenities donated by staff and other local groups were sent to the Philippines in October to help victims of Typhoon Ketsana. Cathay Pacific flew the items to Manila free of charge where they were given to the Caritas Filipinas Foundation to aid those affected by the flooding.

Some Examples of Our Community Involvement Worldwide

1 U.S./ CANADA
Launching local versions of our flagship "I Can Fly" Programme as well as other community-based activities

2 BANGLADESH
Humanitarian relief

3 MAINLAND CHINA
A range of education and volunteering activities

4 JAPAN
Cathay Pacific staff supported the Japan Oxfam Trailwalker

5 TAIWAN
Humanitarian relief for those affected by the typhoon and other activities such as our "Fly Safely Campaign"

6 HONG KONG
Programmes and activities focused on education, medical care and the environment

7 PHILIPPINES
Humanitarian relief and community activities such as beach cleaning and internship programme

8 AUSTRALIA
Humanitarian relief (bushfire victim support)

9 INDONESIA
Humanitarian relief (support for victims of 2009 Earthquake)

10 SINGAPORE
Student internship programme

11 THAILAND
Staff volunteering focused on education and HIV and AIDS

12 INDIA
Support for the local Cancer Patients Aid Association and other volunteering activities

SOUTH AFRICA
Donations to local NGOs and Christmas Party for the Elderly

U.K.
Fundraising for medical assistance

GERMANY
Student internship programme

1 **2** **3** **4** **5** **6** **7** **8** **9** **10** **11** **12**

Social Indicators Table

Indicators	Units	2009 *	2008 ^
Total Group workforce ⁽¹⁾	no.	25,693**	20,673
by Location			
Hong Kong	no.	19,499	14,542
China	no.	840	848
Outports	no.	5,354	5,283
by Employment Type			
Flight Crew	no.	2,934	2,974
Cabin Crew	no.	9,163	9,343
Ground Staff	no.	8,212	8,356
Subsidiary Staff	no.	5,384	n/r
by Gender ⁽¹⁾			
Female	%	54	60
Male	%	46	40
by Age Group ⁽¹⁾			
Under 30 years old	%	27	28
30-50 years old	%	61	62
over 50 years old	%	11	9
Senior Management from Local Community ⁽⁶⁾	%	92	n/r
Employee Yearly Turnover Rate ⁽⁷⁾			
Flight Crew	%	12	11
Cabin Crew	%	2	1
Ground Staff	%	4	6
Subsidiary Staff ⁽⁵⁾	%	5	n/r
Lost Time Injury Frequency Rate ^{(8) (9)}			
Cathay Pacific	rate	37.3	59.5
Dragonair	rate	38.5	54.0
Subsidiary Staff ⁽³⁾	rate	23.9	n/r

Indicators	Units	2009	2008
Number of fatalities due to Group operations			
Staff ⁽¹⁰⁾	no.	3	0
Contractors working within Group premises	no.	0	0
Passengers	no.	0	0
Average hours of training per year			
Flight Crew	hrs	49	79
Cabin Crew	hrs	41	25
Airport Staff	hrs	21	62
Engineering Staff	hrs	325	535
Subsidiary Staff ⁽⁴⁾	hrs	17	n/r
Total online learning enrollments	no.	133,490	125,400
Employees covered under collective bargaining agreement ⁽¹¹⁾	%	1.39	n/r
Employees receiving performance reviews ⁽²⁾	%	100	100
Human rights screening in investment and procurement practices ⁽²⁾	%	100	100
Reported incidents of discrimination	no.	0	0
Non-compliance cases on product responsibility issues ^{(2) (12)}	no.	0	0
Non-compliance cases on applicable laws and regulations ^{(2) (13)}	no.	0	1

* Covers Cathay Pacific (CX), Dragonair (KA), and 100% owned Hong Kong-based subsidiaries

^ Covers Cathay Pacific (CX), Dragonair (KA)

** Only covers CX, KA, CPCS, CHL, HAS, VLS. If taken into account all other subsidiaries, this will total 26,700.

(1) Includes CX, KA, CPCS, HAS

(2) Includes CX, KA, CPCS, HAS

(3) Includes CPCS, HAS, VLS (Vogue Laundry)

(4) Includes CPCS, HAS

(5) Includes CPCS

(6) Includes Directors only

(7) Employee Turnover Rate computed as # of leavers/# of staff for each month and averaged on a yearly basis

(8) LTIFR is computed as (# of injuries resulting in lost time/total workforce hours) x 1,000,000

(9) This is now a combined number for each business unit

(10) Refer to pg. 28

(11) % of employees under collective bargaining agreements are reported where it is applicable and in accordance with local legislation. We only have data for the Canadian outports

(12) Includes cabin product, marketing and customer privacy

(13) Includes anti-competition and corruption

Looking Forward: Our Vision for Sustainable Development



Tony Tyler
Chief Executive

Our new Sustainable Development Strategy is part of Cathay Pacific’s continuing journey towards recognition as a responsible company, committed to taking a lead in the aviation industry. We understand that we have to adapt to a world which is changing fast and in which concern about carbon emissions and climate change will continue to have a significant impact on our business. Our challenge now is to take our new Strategy and do the work necessary to meet the various commitments we have set out in this Report.

The Cathay Pacific brand has always been associated with safety, integrity, reliability, quality, service and care. The same responsibility towards our stakeholders which underlies these values also drives our commitment to sustainable development. In the future, this commitment will also be an important part of our business strategy as we face volatile fuel prices and increasing environmental pressures and regulations.

We must also bear in mind the impact that we have on communities. Travel and tourism can create huge opportunities for economic growth, job creation and wealth generation. But we must be committed to protecting the destinations to which we fly, and help where we can to protect culture, enhance biodiversity and engage with local people to ensure that development is truly sustainable.

Our industry continues to be fragmented and most airlines do not even cover their cost of capital. We are competing on an uneven playing field in which many of our competitors are state-owned and receive significant financial and other support from governments. We need to survive in the marketplace and will do so by being innovative, by continuing to provide an excellent service to our customers and by ensuring that sustainable development is part of our differentiation strategy. Innovation will be a key element of our success, both in how we run our business day-to-day, and in the application of new technologies that can reduce our environmental footprint.

Cathay Pacific plays a strong role within IATA and I have been Chairman of its Board of Governors during 2009. We are committed to working with our industry partners and jointly tackling some of the very challenging environmental issues we face. The IATA approach, based on the four pillars outlined in this Report, provides a useful roadmap for meeting important environmental goals. As an industry we now need to take this roadmap and build it into our individual airline strategies.

Cathay Pacific has also been part of the Aviation Global Deal initiative, representing a small group of airlines and aircraft manufacturers which has been influential in assisting the industry towards setting environmental targets. We have also worked

with industry partners on the adoption of biofuels, although a long-term sustainable solution is still some way off in this area. We will continue to strive to do more through these industry initiatives.

We face stiff competition from other airlines, but we also recognise that there are alternatives to business travel. Video-conferencing is an obvious example, but we believe that travel is exciting and invigorating in itself and that there is always a role for the personal touch in business dealings. Reports of video-conferencing (or other technologies) causing the death of business travel are, I believe, greatly exaggerated!

The long-term health of our business will be sustained through ensuring that we do an excellent job for our customers, and making our services available at a competitive price. To succeed in these efforts, we depend heavily on our high quality workforce. We will therefore continue to recruit the best talent, provide our people with high quality training and reward them appropriately. We will also make sure that we continually enhance our systems, procedures, facilities and products.

The industry faces many social and environmental challenges, many of which we have discussed in this Report. But at Cathay Pacific we have demonstrated that we have taken a lead on many of these issues, and this leadership will help to deliver success for our business and all its stakeholders.

Stakeholder Review Committee

A Stakeholder Review Committee was set up for the first time in 2009 to ensure that our Report is balanced, relevant and responsive. A representative from each stakeholder group engaged during the year was invited to provide feedback – our corporate frequent flyers, environmental NGOs, institutional investors, and suppliers.

Review process

The Committee reviewed a detailed outline of the final version of the report in early 2010 and were asked to respond to two questions:

1. Has Cathay Pacific selected the most important topics for the Report?
2. How well has the Report responded to stakeholder interests?

The Committee's response

Simon Hague

Executive Director, Morgan Stanley

Craig Murdoch

Assistant General Manager Commercial, HAECO

Simon Powell

Head of Sustainable Research - CLSA

Dr. William Yu

Head of Climate Programme, WWF Hong Kong

The views expressed are based on individual's perceptions and do not necessarily represent those of their respective organisations.

We feel that Cathay Pacific has demonstrated a clear commitment to social and environmental responsibility. The Report is well structured and clearly outlines the company's goals and approach. It is clear that their senior management are engaged with the sustainable development challenges facing the company.

Through reporting on subsidiary companies, Cathay Pacific is trying to widen the scope of their responsibilities. We are impressed by the expanded scope of their reporting in 2009. The next step is for Cathay Pacific to start reporting on other parties, including major parts of its Supply Chain and companies where they have major shareholding or other interests.

Cathay Pacific has incorporated different stakeholder interests into their reporting framework. The ongoing engagement with a range of stakeholders demonstrates a willingness to listen and learn from others.

We think that many stakeholders are not fully aware of the scale of efficiency improvements that the airline industry has been making. This is one

of the reasons why it is important for the company to better communicate their achievement in this area, for example, the move to wide-bodied aircraft and the significant reductions in CO₂ emissions per passenger per kilometre that we have seen in the last 20 years. We would suggest that Cathay Pacific report on measures of CO₂ emissions dating back as far as possible along with a chronology of technological changes and major initiatives in future reports, using their own fleet profile as an illustration. A discussion of further possibilities for increasing energy efficiency in the future would be valuable.

As stakeholders, we are also keen to understand more about the risks facing the company and the opportunities to promote good human resource practices that go beyond legal requirements. Cathay Pacific could also expand its reporting on government regulation and details of how the company compares to its industry peers.

Going forward it would be good to see if, as an industry, aviation is looking to partner with other industry groups to achieve mutual sustainable development goals.

Verification Statement BMT Asia Pacific

BMT Asia Pacific Limited (BMT) was appointed by Cathay Pacific Airways Limited (Cathay Pacific) to verify the content of its Sustainable Development Report 2009 and to check its application of the Global Reporting Initiative (GRI) Third Generation (G3) Sustainability Reporting Guidelines.

Objectives

The verification process intends to provide Cathay Pacific's stakeholders with an external assurance of the accuracy and completeness of information presented in the Report.

This Statement is issued based on Independent third-party opinion – BMT was not involved in any aspects on the preparation of the Report.

Approach

- During the verification process, a series of data reviews and on-site interviews were conducted between December 2009 and March 2010 with Cathay Pacific's representatives.
- BMT reviewed the randomly selected statements, claims and reported figures; examined the supporting data and documented evidences, plus data collation systems. Where further investigation was necessary to confirm claims, additional information was requested and reviewed.
- The report content is benchmarked against the GRI A+ application level. As not all of the GRI G3 standard disclosures are presented in the Report, BMT also checked references to Cathay Pacific's Annual Report 2009.

Results and Commentary

Report Accuracy

- Data collection mechanisms and information management systems are considered as robust, systematic and effective. Specific data used to support claims and compile reported figures were correctly retrieved and appropriately interpreted.
- The statement and claims made in the Report examined by BMT represent an accurate account of Cathay Pacific's actions in 2009. For the selected outstanding claims and figures that were deemed questionable during the verification, Cathay Pacific has made amendments in accordance with BMT's suggestions.

Report Coverage and Relevance

- Expanding from Cathay Pacific's previous report boundary, this Report covers the significant environmental, economic and social impacts arising from the activities of the Hong Kong-based 100% owned subsidiaries.
- Cathay Pacific has firstly developed a materiality evaluation process to define what should be considered in the Report. No material factors were found omitted in this process. Most of the concerns raised during stakeholder engagement were addressed in the Report.

Conclusions

- The Sustainable Development Report 2009 has demonstrated Cathay Pacific's dedication in engaging with sustainability issues, which sets a positive example within the aviation industry.
- BMT confirms that Cathay Pacific has achieved GRI Application Level A+ in its Sustainable Development Report 2009.

Recommendations for Future Reports

Cathay Pacific is encouraged to:

- Set up more quantitative targets and goals, and increase reporting transparency on the process of achievements.
- Enhance graphical presentations and historic comparison of environmental and social performance data in order to improve the report readability.
- Report more explicitly on Cathay Pacific's top management response in addressing different stakeholders' concerns.



Derek Ho
Associate Director
BMT Asia Pacific Limited

PRICEWATERHOUSECOOPERS

Independent Assurance Report on Greenhouse Gas Emissions Data to the Directors of Cathay Pacific Airways Limited

Introduction

We have been engaged by the directors of Cathay Pacific Airways Limited (the "Company") to perform an independent limited assurance engagement in respect of the Company's Greenhouse Gas Emissions Data for the year ended 31 December 2009 (the "GHG Data") as set out on page 14 of the Company's Sustainable Development Report ("SDR") and identified with a *. We were not engaged to report on the GHG Data in the years prior to 2009.

Directors' responsibilities

The directors' are responsible for preparing the GHG Data in accordance with the Company's GHG Emissions accounting and reporting policies ("the Reporting Criteria") as set out in www.cathaypacific.com/sdreport.

This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of the GHG Data and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Independent Accountants' responsibilities

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, and to report our conclusion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information". This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain limited assurance on whether any matters come to our attention that causes us to believe that the GHG Data is not properly prepared, in all material respects, in accordance with the Reporting Criteria.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. The procedures selected depend on the independent accountants' judgement. Within the scope of our work we performed amongst others the following procedures:

- Making enquires with relevant management of the Company
- Understanding and evaluating the design of key processes for managing and reporting the GHG Data
- Testing, on a selective basis, the preparation and collation of the GHG Data prepared by management of the Company
- Examination on a test basis of documentary evidence (both management and third party) in respect of the GHG Data
- Undertaking analytical procedures of the GHG Data

Inherent limitations

We draw your attention to the fact that non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. In particular, the conversion of fuel used to determine the greenhouse gas emissions is based upon, inter alia, information and factors derived by independent third parties as explained in the Reporting Criteria. Our assurance work has not included examination of the derivation of those factors and other third party information. It is important to read the GHG Data in the context of the Reporting Criteria.

Conclusion

Based on the results of our procedures nothing has come to our attention that causes us to believe that the GHG Data for the year ended 31 December 2009, is not properly prepared, in all material respects, in accordance with the Reporting Criteria.



PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

16 April 2010

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The detailed GRI Content Index can be found in our online report www.cathaypacific.com/sdreport.

Our 100% owned subsidiaries based in Hong Kong



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Environmental Affairs Department



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Data collection and calculation process

For assumptions and the specific scope of our data collection and calculation process, please refer to our Sustainable Development Report website www.cathaypacific.com/sdreport.

In the past year we have been developing internal checks to ensure that our performance data is as accurate as possible. This is the first year where we have consolidated data from our subsidiaries and some outposts and it has been a challenging experience. In general, we require data owners to confirm the accuracy of their data either through documentary evidence or past operational performance. The Environmental Affairs Department approves and checks the data for any material errors. We realise that we need to improve on this process to ensure that our data collection and calculation process is more robust. We are working with external consultants to ensure that more controls are in place in the medium term.

Acknowledgements

We wish to thank CSR Asia Limited and Sedgwick Richardson for their assistance in the development and preparation of this Report.

We would like to thank Environmental Resources Management and RESET-Hong Kong Limited for their assistance in the collation of environmental data.

We would also like to thank Thomson Ma, ISD for contributing his personal photograph in this Report.



