

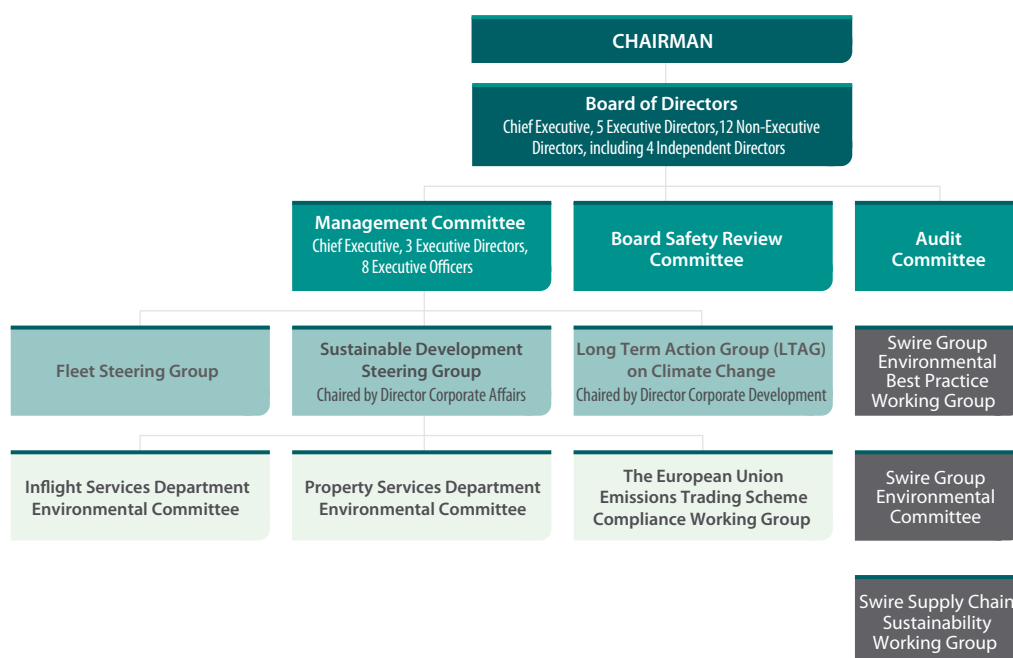
Cathay Pacific devotes considerable effort to putting in place high standards of corporate governance and best practices in accordance with our **Code of Conduct**.

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# 1 Governance of Sustainability

The governance of sustainable development at Cathay Pacific is led by the Chairman, with the Chief Executive being accountable for the Sustainable Development Strategy. A key component of this Strategy is to encourage staff to mitigate or reduce the social and environmental impacts of the decisions they make day-by-day by acting responsibly. This enables us to address and integrate sustainability issues into our business and support our ability to deliver 'economic value' – i.e. profits for shareholders. The following diagram shows the reporting lines of various sustainability committees.



The Sustainable Development Steering Group convenes quarterly to oversee, make decisions and provide guidance on the company's Sustainable Development Strategy, and has a remit over a range of issues, including carbon management, supply chain, procurement, food policy, biofuels, the EU Emissions Trading Scheme, staff engagement and reporting. It is chaired by the Director Corporate Affairs, and comprises General Managers and Heads of Department representing airports, cargo, corporate communications, corporate risk, engineering, finance, flight operations, international affairs, personnel, products, property services, purchasing, and safety.

Further details of our governance structure can be found in the section below on [Approach to Managing Specific Aspects of Our Business](#) and the [Corporate Governance](#) section of our Annual Report 2013 p.39-49.

## 2 Approach to Managing Specific Aspects of the Business

### Corporate Governance and Risk Management

The company's highest governance body is the Board of Directors led by the Chairman, comprising the Chief Executive and three 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.

The Chief Executive is accountable for the Sustainable Development Policy. This Policy is in place to help create long term value by embedding sustainable development principles and practices into the way we govern the company, manage risk and seize opportunity. Our governance structures are linked to the Swire Group's Environment and Risk Management Committees for internal audit purposes.

The [Sustainable Development Policy](#) outlines our commitments such as regulatory compliance, effective environmental management throughout our operations, staff education, stakeholder engagement and the target-setting process.



Want to find out more?  
Go to our [Sustainable Development Policy](#).

### Environmental Management

The Environmental Affairs Department works with the operational teams, as well as with the Cathay Pacific Environmental Committee, Sustainable Development Steering Group, the Climate Change Long Term Action Group, the Flight Efficiency Working Group, and the Swire Group Environmental Committee. The Department reports directly to the Director Corporate Affairs.

An Environmental Management System (EMS) based on ISO14001:2004 standard has been in existence since 1997. Internal audits are undertaken twice a year and audited externally every three years to monitor the design and implementation of the EMS against relevant environmental regulations and policies. Opportunities for continual improvement are also identified during the audits.

### Safety Management

The Airline Safety Review Committee (ASRC), which has been meeting monthly for 44 years to guide the management of safety in Cathay Pacific, is supported by six departmental Safety Action Groups and Committees, four of which (Flight Operations, Engineering, Cabin and Ramp/Cargo) also meet monthly, a Fatigue Risk Management System (FRMS) Committee that meets bi-monthly, and an Occupational Health & Safety (OHS) Committee that meets quarterly.

The ASRC is made up of Directors and General Managers from key operational areas as well as the heads of the Quality, Medical, Corporate Risk and Security departments and Airline Safety Managers. Senior representatives from HAECO and HAS (Hong Kong Airport Services) also attend the committee meetings. The ASRC Chairman reports to the Chief Executive after each meeting. The ASRC is under direct [governance](#) of the Board Safety Review Committee (BSRC), which meets twice yearly, and is chaired by an independent safety expert, David King, who reports on safety performance to the main Cathay Pacific Board. David is a retired Chief Inspector of the UK's Air Accidents Investigation Branch (AAIB) and Visiting Professor at Cranfield University.

## Sustainable Procurement Management

We aim to ensure that all purchasing practices are governed by the highest professional and ethical standards. Our Airline Purchasing and Aircraft Trading Department manages 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 to sustainable procurement has been to encourage our suppliers to improve on their sustainability practices through capacity building and sharing knowledge and best practice.

The teams in our Purchasing Department understand the need to apply sustainable purchasing and responsible supply chain principles, wherever practical. Suppliers to Cathay Pacific must provide clear, accurate and appropriate reporting of their progress towards achieving our Supply Chain Sustainability Code of Conduct objectives. This is regularly highlighted during the internal purchasing conferences.

## Human Resources Management

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

The Corporate Code of Conduct sets out our principles for acting responsibly in the course of achieving our commercial success. The Code 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 following issues:

- Recognition of human rights
- Non-acceptance of child/forced labour
- Non-discrimination
- Freedom of association
- Public policy position
- Anti-corruption and bribery
- Competition and Anti-trust
- Labour and management relations
- Training and education
- Performance management
- Diversity and equal opportunity
- Compensation management
- Grievance and fair disciplinary procedures

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, flexible, and operate within a healthy environment. This is achieved via a series of training and development programmes. We also strive to manage people in a way that recognises diversity.

## Community Investment Management

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

Through ongoing dialogue with local communities, we can better understand and work to address issues and concerns relevant to their needs. 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.

Our community investment must be measured by the impact we make for the local communities. We apply international best practice and appropriate management tools to help us measure the impacts and evaluate outcomes of these initiatives.

## Subsidiaries Management

Our subsidiaries adopt similar policies, committees and management responsibility across all areas related to sustainable development as Cathay Pacific, including environmental management, human resources issues, customer service, 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.

### 3 Risk Management

The Corporate Risk Management Team within Corporate Finance coordinates risk register reviews, and provides advice on a range of functions and activities for Cathay Pacific, Dragonair and the wholly-owned subsidiaries from risk management perspectives. The internal Corporate Risk Register is reviewed and presented to the Audit Committee annually. Our risk management and processes were established based on the AS/NZS 4360:2004 risk management standards.

#### Promoting Risk Awareness

Following the rollout of the current risk management framework within Cathay Pacific departments in Hong Kong, this framework has been progressively introduced to certain subsidiaries and regional outposts since 2011. Risk management workshops have been held for departments, subsidiaries, outposts or with business units' particular functions/operations to promote awareness and help them understand, assess and respond to risks. Risks are eventually scored, ranked and documented in the risk registers of the business units and fed into the Corporate Risk Register.

#### Ownership and Governance

Specific risks identified in the Corporate Risk Register are owned by specific Directors. Action plans to respond to the risks are then developed via discussion with the relevant departments, subsidiaries or outposts, and with endorsement from the Directors. Each action plan is documented together with target completion dates and the responsible parties, with progress monitored regularly to reduce the risk exposure of the Cathay Pacific Group.

Our strategy towards specific types of risks, such as financial reporting and internal control, sustainable development and operational safety, are reviewed by specific committees. The Audit Committee reviews the completeness and accuracy of the company's accounts, adequacy and effectiveness of the internal control and risk management systems. Sustainable development risks relating to commercial and operational delivery are assessed by the Sustainable Development Steering Committee. Airline operational safety risk is reviewed monthly by the Airline Safety Review Committee, which is chaired by the General Manager Corporate Safety and comprises Directors, senior management of all operational departments as well as our operational partners.

#### Incorporating Climate Change Risks

As awareness on sustainability grows, we recognise the importance of incorporating climate change issues into business plans. The Environmental Affairs Department works with all relevant departments to identify the key business units with risk exposure to climate change, and promote awareness of these issues when the departmental risk registers are being reviewed.

## 4 Corporate Compliance

It is the policy and intent of Cathay Pacific, Dragonair and the Hong Kong-based 100% owned subsidiaries to operate in full compliance with all applicable laws and regulations at all times.

To support clear communication and ensure awareness of our antitrust policy and guidelines, we hold face-to-face workshops, online training for new joiners and provide regular refresher online training for all employees. We encourage employees to report any apparent or suspected violations of our antitrust policy and associated guidelines, with strict confidentiality ensured.

In 2013, we completed a corruption risk assessment across the Group in relation to the UK Bribery Act, US Foreign Corrupt Practices Act (FCPA) and the HK Prevention of Bribery Ordinance. We published a new internal Anti-Bribery Policy and are gradually implementing an enhanced compliance programme across the business units.

On 1 April 2013, new provisions on the regulation of direct marketing activities in Hong Kong came into force. We have reviewed and revised Cathay Pacific and Dragonair's privacy policy and guidelines, reviewed the procedures to manage customers' consent and ability to opt-out and provided training to all relevant employees.