

We recognise that the degree to which our suppliers integrate Sustainable Development principles and practices into their businesses plays an important role in our overall sustainability performance. This is closely related to our operational efficiency and helps us better manage our risks.

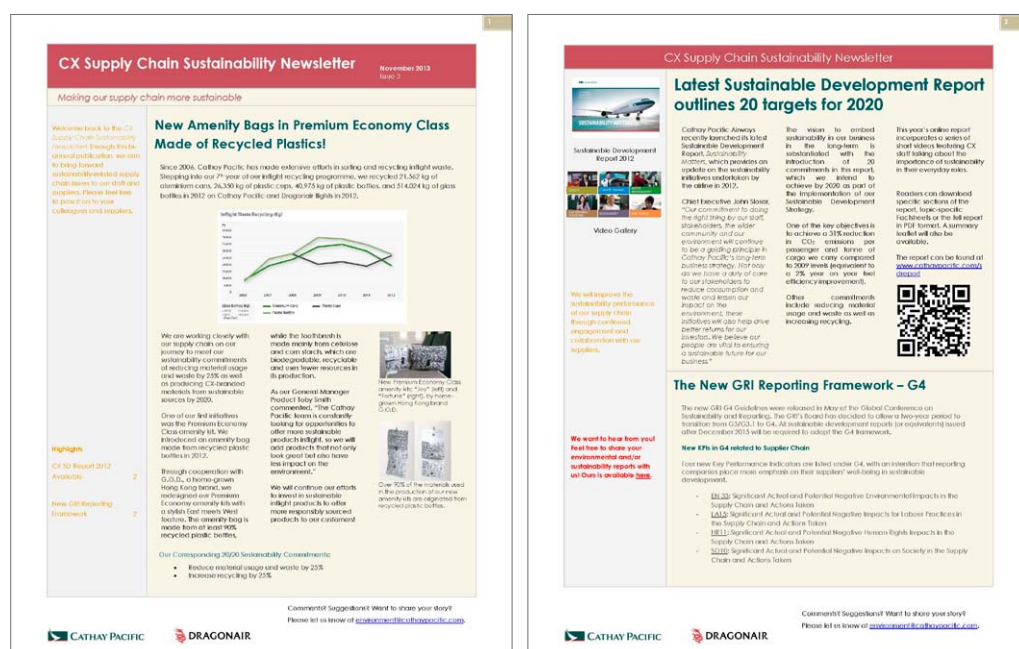
Content

- | | |
|-------------------------------|--|
| 1 Engaging with Our Suppliers | 3 Involving the Local Community |
| 2 Sustainable Sourcing | 4 Applying the Supply Chain Sustainability Code of Conduct |

1 Engaging with Our Suppliers

Our aim is to enhance the sustainability of our supply chain through encouraging and applying ongoing compliance with our Supply Chain Sustainability Code of Conduct, and with continued engagement and collaboration with our suppliers. We manage our sustainable development risks related to our supply chain by actively working with suppliers who share our standards for issues related to the environment, health & safety, human rights and labour practices, business ethics and the community.

Since 2011, we have been publishing an annual Supply Chain Sustainability Newsletter, with the most recent in November 2013. It aims to help both staff and suppliers understand the importance of sustainable purchasing and responsible supply chain practices, and encourage suppliers to share with us how they are responding to their own sustainability impact challenges. The newsletter provides suppliers with information on what matters to us, and in return we invite them to share what matters to them.



Our third Supply Chain Sustainability Newsletter

2 Sustainable Sourcing

Building on our efforts to establish sustainable sourcing guidelines, we continue to examine opportunities for using alternative materials with lower environmental impacts. Some examples of successful applications in recent years include switching from plastic to corn starch and cellulose in manufacturing the toothbrushes and shoehorns in our inflight amenity kits. In 2013, we published internal guidelines outlining our preferred specifications to replace, remove or reduce plastic items wherever practical. We are also committed to focus on finding solutions and alternatives for single use plastic items throughout our supply chains. Our teams are also working with suppliers to expand our inflight catering offering of sustainably sourced seafood on a greater number of routes. In the long term, we aim to utilise more alternatives with sustainability attributes and expand our support of products that adhere to relevant sustainability credentials by organisations such as the Fairtrade Foundation, the Forest Stewardship Council (FSC) and the Marine Stewardship Council (MSC).



The Premium Economy amenity kit for Cathay Pacific, designed by Hong Kong home-grown brand G.O.D. in collaboration with Watermark Products, is made from at least 90% recycled plastic bottles. The design took inspiration from the vibrant culture of Hong Kong, where East meets West and age-old traditions blend with cutting-edge technology.

The toothbrush in this kit is made mainly from corn starch and cellulose, which is biodegradable, recyclable and uses less resource in its production.

In 2013, we continued trialling the implementation of selected items contained in the HKSAR Government's [green purchasing guidelines](#). While these guidelines were developed specifically for the HKSAR government's use, they have been a useful reference for our procurement specifications. This year, we adopted the relevant parts of these guidelines in the design of our new airport lounges and purchase of new IT equipment.

In 2014 and 2015, we aim to develop guidelines for textiles, food and cosmetics; this is in line with our 2020 commitment to offer sustainable products and services to our customers.

New First Class Sleep Suits



As part of the First Class refresh in 2013, the new contemporary design sleep suits were made from 100% organic cotton by Hong Kong brand PYE.

PYE's wholly owned vertical supply chain ensures that sustainable production methods are practiced from start to finish. Green manufacturing at PYE starts with cotton farming and extends to spinning, weaving, dyeing, knitting and apparel and accessories production.

For example, PYE grow organic cotton using environmentally friendly farming methods such as natural pest control and drop irrigation. This reduces water consumption and pesticide use. In addition, the sleep suits are not pre-washed to reduce water consumption. A hangtag on the suits encourages passengers to care for their sleep suits in an ecofriendly way, such as washing with cold water and line drying to save energy.

Making Our Airport Lounges Sustainable



Cathay Pacific First and Business Class lounges in San Francisco International Airport

As the first Cathay Pacific branded passenger lounge in the United States, the San Francisco lounge was also our first to pursue Leadership in Energy and Environmental Design (LEED) certification, integrating energy and environmental principles into its design and operations. This was made possible in partnership with our architectural and engineering contractors. By engaging our suppliers, we are leveraging on their expertise in design and construction to assist us in building a lounge that is more energy and water efficient, with reduced material usage, wastage, and improved indoor air quality for our customers. Using the San Francisco lounge as a blueprint, we plan to adopt a similar approach for new or refurbished lounges in the future. Our airport lounge at Charles de Gaulle, Paris, is also pursuing LEED certification.

3 Involving the Local Community

With financial support from the Hong Kong Government's Home Affairs Department, and in association with the Hong Kong Outlying Islands Women's Association Limited (OIWA Limited), our subsidiary CPCS collaborated with local community service centres in Tung Chung in 2009 to establish an inflight cutlery, headset-packing and vegetable semi-processing facility. The aim of the initiative is to support women's development, promote harmonious families, and build inclusive communities. It provides training and full or part-time employment near these women's homes so they can also look after their families. Feedback from the community has been positive, and in 2013, 40 to 45 part-time housewives were hired and worked at the facility. Involving local communities by leveraging on our operations on Lantau Island aligns with suggestions raised by stakeholders during previous focus groups, as well as last year's focus group with our suppliers.



CPCS working with the local community

4 Applying the Supply Chain Sustainability Code of Conduct

Since the launch of our Supply Chain Sustainability Code of Conduct in 2007, we published a revision in 2009 to include our standards for *business ethics* to reflect our strong preference to work with suppliers who share our commitment to honesty and integrity. Along with our Sustainable Development Strategy, we reviewed the Code of Conduct to align the expectations we have of our suppliers with our Sustainable Development Policy in 2012. It is available internally through our intranet and shared with our existing and potential suppliers, both locally and at our outposts.

The Code of Conduct forms part of the supply tenders and contracts managed by our local offices. Suppliers, both new and existing, are expected to confirm their compliance with the standards described in our Code by completing a self-assessment questionnaire. Compliance with the Code of Conduct is also included as a contractual requirement for all suppliers.

We continue to refine and develop our approach to the compliance checking process. Using an internally developed risk matrix, we classify our suppliers based on the impact and likelihood of the risks each of them poses to our business. Each risk ranking carries varying levels of follow-up actions ranging from supplier initiated self-assessment for low risk suppliers, background checks of publicly available documents, to a comprehensive site visit for suppliers deemed to be in the highest risk category. We expect that this approach will allow us to more systematically monitor and manage our sustainable development risks relating to our supply chain.

Proposed New Supply Chain Sustainability Compliance Process



In 2012, we completed a public search of our top 200 suppliers based on total contract value in 2011. What we wanted to understand was how many of our suppliers actually make public statements as to their own standards for sustainability. We were disappointed to find that a very high number of suppliers do not make any reference to sustainability or Corporate Social Responsibility on their websites, and only two suppliers had a published Code of Conduct that matched very closely with our own Code. We aim to review this in 2014.

Based on the findings of this study and on our existing risk process, we will re-assess our suppliers and identify those that are considered high-risk and recommend that they undergo a detailed compliance check.

In 2012, we also developed two detailed checklists for our Purchasing Managers to use as a supplement when assessing whether there are any sustainability risks associated with a particular supplier or the purchase of an item. We began trialling these checklists in 2013 for plastic items, aiming to extend to other items in 2014 and 2015.