CATHAY PACIFIC

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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00293)

Announcement
2012 Annual Results

Financial and Operating Highlights

Group Financial Statistics

Results		**2012**	2011	**Change**
Turnover	*HK$ million*	**99,376**	98,406	**+1.0%**
Profit attributable to the owners of Cathay Pacific	*HK$ million*	**916**	5,501	**-83.3%**
Earnings per share	*HK cents*	**23.3**	139.8	**-83.3%**
Dividend per share	*HK$*	**0.08**	0.52	**-84.6%**
Profit margin	*%*	**0.9**	5.6	**-4.7%pt**
Financial position				
Funds attributable to the owners of Cathay Pacific	*HK$ million*	**57,186**	55,809	**+2.5%**
Net borrowings	*HK$ million*	**35,364**	23,738	**+49.0%**
Shareholders' funds per share	*HK$*	**14.5**	14.2	**+2.1%**
Net debt/equity ratio	*Times*	**0.62**	0.43	**+0.19 times**

Operating Statistics – Cathay Pacific and Dragonair

		2012	2011	**Change**
Available tonne kilometres ("ATK")	*Million*	**26,250**	26,383	**-0.5%**
Available seat kilometres ("ASK")	*Million*	**129,595**	126,340	**+2.6%**
Passengers carried	*'000*	**28,961**	27,581	**+5.0%**
Passenger load factor	*%*	**80.1**	80.4	**-0.3%pt**
Passenger yield	*HK cents*	**67.3**	66.5	**+1.2%**
Cargo and mail carried	*'000 tonnes*	**1,563**	1,649	**-5.2%**
Cargo and mail load factor	*%*	**64.2**	67.2	**-3.0%pt**
Cargo and mail yield	*HK$*	**2.42**	2.42	**-**
Cost per ATK (with fuel)	*HK$*	**3.64**	3.45	**+5.5%**
Cost per ATK (without fuel)	*HK$*	**2.13**	2.01	**+6.0%**
Aircraft utilisation	*Hours per day*	**12.0**	12.3	**-2.4%**
On-time performance	*%*	**77.4**	82.0	**-4.6%pt**
Average age of fleet	*Years*	**10.1**	10.6	**-4.7%**
GHG emissions per ATK	*Grammes*	**600**	601	**-0.2%**
Lost time injury rate – Cathay Pacific	*%*	**26.4**	33.8	**-7.4%pt**
Lost time injury rate – Dragonair	*%*	**21.0**	25.2	**-4.2%pt**

Capacity, Load Factor and Yield – Cathay Pacific and Dragonair

	Capacity ASK/ATK (million)*			Load factor (%)			Yield
	2012	2011	**Change**	**2012**	2011	**Change**	**Change**
Passenger services							
India, Middle East, Pakistan and Sri Lanka	**11,049**	11,467	**-3.6%**	**75.5**	74.2	**+1.3%pt**	**+2.4%**
Southeast Asia	**18,031**	16,020	**+12.6%**	**79.3**	82.6	**-3.3%pt**	**+0.9%**
Southwest Pacific and South Africa	**18,304**	19,082	**-4.1%**	**77.3**	76.3	**+1.0%pt**	**+1.7%**
Europe	**21,509**	22,552	**-4.6%**	**85.0**	83.7	**+1.3%pt**	**+1.9%**
North Asia	**27,980**	25,375	**+10.3%**	**71.9**	73.5	**-1.6%pt**	**-3.4%**
North America	**32,722**	31,844	**+2.8%**	**87.6**	87.1	**+0.5%pt**	**+3.1%**
Overall	**129,595**	126,340	**+2.6%**	**80.1**	80.4	**-0.3%pt**	**+1.2%**
Cargo services	**13,926**	14,367	**-3.1%**	**64.2**	67.2	**-3.0%pt**	**-**

* *Capacity is measured in available seat kilometres ("ASK") for passenger services and available tonne kilometres ("ATK") for cargo services.*

Passenger Services

Home market - Hong Kong and Pearl River Delta

- Demand for leisure travel on routes originating in Hong Kong was reasonably strong in 2012. However, yields were under pressure.
- There was an increasing trend for travellers – in all classes of travel – to seek out the best deals and to make bookings later.
- Our business was significantly affected by Typhoon Vicente in July. Other storms in the region in the summer and in North America in the autumn also had an impact on the business.
- In October we introduced a fare promotion, "fanfares", which offers weekly special offers to a number of Cathay Pacific and Dragonair destinations.
- We carried more passengers from the Pearl River Delta region transiting through Hong Kong, but this business is subject to increasing competition as Mainland China carriers start to fly direct to more overseas destinations.
- The corporate market was weak. Companies in Hong Kong (particularly in the financial sector, which accounts for a significant proportion of corporate travel originating in Hong Kong) reduced the amount of travelling done by their staff.

India, Middle East, Pakistan and Sri Lanka

- We introduced two new services in India in 2012 - a Dragonair service to Kolkata in November and a Cathay Pacific service to Hyderabad in December. We increased the frequency of our Chennai service from four flights a week to daily in September 2012. These new services and additional frequencies should increase the number of passengers transiting through Hong Kong, particularly to North America.
- Demand for travel to and from India was strong, though yields were under pressure. The weakness of the Indian rupee had a significant impact on our revenues derived from India.
- The Colombo, Dhaka and Karachi routes performed generally in line with expectations.
- Middle Eastern routes were affected by strong competition, which put pressure on yields. We reduced the capacity of flights to the region in response to reduced demand. This resulted in improved load factors and yields.

Southeast Asia

- The relative strength of the economies in Southeast Asian countries was reflected in robust passenger demand.
- We increased Cathay Pacific frequencies on services to Bangkok, Ho Chi Minh City, Kuala Lumpur, Penang and Singapore. New overnight flights to and from Kuala Lumpur and Singapore helped to increase the number of passengers transiting through Hong Kong.
- Business in the premium classes weakened in the second half of the year.
- The Indonesia route performed well. A number of extra sectors were added to Indonesian routes during the Lebaran holiday peak.
- Traffic to and from the Philippines was generally robust. Dragonair introduced services to Clark in May, but the route has not done well. Business was slow at the start but it has started to pick up since then.
- The Thailand routes performed well. A Dragonair service to Chiang Mai was introduced in July 2012. It has been well received by passengers.
- Dragonair introduced a service to Yangon in January 2013 in response to the growing interest in Myanmar as a business and leisure destination. In March, it will introduce a service to Da Nang.

Southwest Pacific and South Africa

- The Australia routes benefited from an increase in passengers from North Asia connecting to flights to Australia in Hong Kong. However, there was strong competition from Mainland China carriers, which increased capacity.
- The New Zealand route was weak. In November 2012, Cathay Pacific agreed with Air New Zealand to introduce codesharing on the two airlines' flights between Hong Kong and Auckland, with effect from January 2013, giving passengers more choice of flights.
- Business was under pressure on the South Africa route, with more airlines flying direct to South Africa from Mainland China and Japan.

Europe

- Business to and from Europe was significantly affected by the economic instability in the continent. Routes to continental Europe were generally weak.
- The London route was stronger than the continental routes, helped by stable demand from students and relatively robust premium class demand. There was a drop in demand before and during the Olympic Games in the summer. We will begin operating a fifth daily flight on the London route from June 2013.
- Strong competition from Middle East carriers affected business on routes between Australia and London.
- The new premium economy class has been very popular on the London route, with strong bookings since its introduction in April. Premium economy class has also been well received on the Frankfurt route.
- We reduced capacity on the Rome route for the 2012/13 winter in response to weak seasonal demand. The Milan route continues to perform well, with strong demand for premium class travel.
- In September 2012, we began to replace Boeing 747-400 aircraft with more fuel efficient Boeing 777-300ER aircraft on some European flights. This greatly reduces the amount of fuel used and improves the operating economics of our European routes. More flights to Europe will be operated by Boeing 777-300ER aircraft in 2013 as we take delivery of more such aircraft and retire more Boeing 747-400 aircraft.

North Asia

- In 2012, Dragonair started flying again Guilin, Haikou and Xi'an in Mainland China. In January 2013, Dragonair introduced services to Wenzhou and Zhengzhou, two important commercial cities. Dragonair strengthened services to a number of other secondary cities in Mainland China.

- The Mainland China economy slowed somewhat in 2012, especially in the second half of the year. Our business on the two major trunk routes to and from Mainland China, Beijing and Shanghai, was not as strong as in 2011. However, business on routes to and from secondary cities remained strong.
- Our Taiwan services continued to be affected by the growth in cross-strait capacity to and from Mainland China and there was an increase in competition on the Taipei route. However, Taiwan remained popular as a leisure destination for travellers from Hong Kong. Dragonair resumed flights to Taichung in May.
- The Korean route was strong in the first quarter of 2012. The market subsequently softened and competition increased. There was some increase in leisure travel to Korea from Hong Kong. Sales originating in Korea were affected by the weakening Korean economy. Dragonair introduced a service to Jeju in May. Performance on the route has been satisfactory.
- Demand on the Japan routes was generally robust in the first half of the year, but it was weaker on the Tokyo route than it was before the earthquake in March 2011. Business weakened significantly in the second half. Fewer people travelled in both directions. We reduced capacity accordingly.

North America

- We increased capacity on the Los Angeles route in March 2012, moving from 17 to 21 flights a week. However, in September we reduced frequencies on the Los Angeles, New York and Toronto routes. We did this in order to reduce the adverse effect of high fuel prices. We will restore three flights per week on the Toronto route from March 2013, so that there will be 10 flights per week on this route. We will also restore three flights a week on the Los Angeles route at the same time, to make a total of 20 flights per week.
- Economy class demand was strong on all United States routes throughout the year. Sales originating in Canada and the United States for flights to and beyond Hong Kong were encouraging. However, the Canada routes were affected by strong competition.
- Premium class revenues on the New York route were adversely affected by the weakness of the financial markets.
- Business on the Chicago route, which was introduced in 2011, continued to improve.

Cargo Services

- Demand for cargo shipments from our two main markets, Hong Kong and Mainland China, remained weak for most of 2012. Strong competition made things worse. Demand was particularly weak on routes to Europe, where economic conditions have affected business and consumer confidence.
- There was a temporary recovery in demand in March 2012, when new hi-tech consumer electronics products were shipped from Mainland China. However, both tonnage and revenue for the month were lower than in March 2011.
- Demand increased in the last quarter, the seasonal peak for airfreight shipments. This reflected shipments of consumer electronics and other products from Mainland China. However, there was no sustained cargo peak in 2012, rather a short two month period of improved demand.
- We managed capacity in line with demand, reducing scheduled freighter services as necessary. Where possible, we operated extra sectors and charter flights to generate extra revenue.
- The air cargo market in the western part of Mainland China, where we launched services to Chongqing and Chengdu in late 2011, continues to mature. In March 2012, we began scheduled freighter services to Zhengzhou in Henan Province, in the central part of Mainland China. This route has proved successful, and in September we increased the frequency from two flights to six flights per week.
- The Shanghai route was affected by oversupply in the market and increasing pressure on yields.
- Market conditions on the North Asia routes were challenging, with aggressive competition from Japanese, Korean and Taiwanese carriers. Revenue and tonnage on North Asian routes were lower.

- In Southeast Asia, revenue and tonnage increased. The increases derived from Vietnam and Thailand reflected the strength of the manufacturing industries in the two countries. Increased passenger capacity on Southeast Asia routes allowed us to carry more cargo in the bellies of our passenger aircraft.
- The Indian market became more competitive, with carriers adding capacity on routes between India and Europe. This put pressure on tonnage and yields. Yields were also affected by the weakness of the Indian rupee. In May 2012, we introduced a freighter service to Hyderabad and increased the number of flights on the Bengaluru route from two to three a week. Frequency to Bengaluru went down to twice a week in January 2013.
- We introduced a weekly freighter service to Colombo in Sri Lanka in December 2012 in response to growing demand for garments, other products manufactured in Sri Lanka and fresh tuna to Japan.
- Demand for shipments from Asia to Europe remained weak. Economic difficulties continued to affect consumer and business confidence. We did our best to maximise yield against a background of significant capacity reductions. We stopped flying to Zaragoza in Spain in November 2012 because a contract with a major shipper came to an end. In February 2013 we reduced our European freighter services to a base schedule of 11 flights per week. This schedule better matches current demand on the Asia to Europe lanes. Cathay Pacific no longer offers freighter services to Stockholm and Brussels. However, these cities are now served by trucking services from our main continental gateways of Frankfurt, Amsterdam and Paris.
- Demand for shipments to and from the Americas was more robust than that for shipments to and from Europe. But it was difficult to maintain yields in an oversupplied market.
- Our Southwest Pacific business was dominated by exports of seafood and perishables to Asia. Imports into Australia remained strong due to the strength of the country's currency and strong online sales.
- High fuel prices had a significant impact on the profitability of our cargo operations, particularly on ultra-long-haul routes. Fuel surcharges were adjusted in line with fuel-price movements, but the increases only partly offset the increase in the cost of fuel.
- We continued to adjust our freighter fleet in 2012 in response to reduced demand and high fuel prices. We took delivery of four Boeing 747-8F freighters in 2012, which have improved our operating economics on ultra-long-haul transpacific routes. We now have eight of these aircraft in the fleet and will take delivery of two more in 2013. In addition, three more of these aircraft will be delivered in the second half of 2013 under the trade-in deal with The Boeing Company.
- One Boeing 747-400BCF converted freighter was retired from the fleet and scrapped in 2012. A further four Boeing 747-400BCF converted freighters were withdrawn from service in 2012 and early 2013 and were sold to The Boeing Company as part of the trade-in deal. The third of four Boeing 747-400BCF being sold to Air China Cargo, our cargo joint venture with Air China, was delivered in July 2012 and the final one was sold in March 2013.
- The new Cathay Pacific cargo terminal started to operate in February 2013. Cathay Pacific and Dragonair will move their cargo operations to the new terminal in Hong Kong in stages. By the fourth quarter of 2013, all cargo operations for the two airlines will be handled by the new terminal. In 2014, the terminal is expected to be in a position to provide cargo handling services for other airlines at Hong Kong International Airport.
- The HK$5.9 billion cargo terminal demonstrates Cathay Pacific's long-term confidence in Hong Kong as a centre for airfreight operations. When fully operational, the terminal will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff. It will be one of the biggest and most sophisticated facilities of its kind in the world, significantly reducing the time it takes to process and ship cargo.

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$916 million for 2012. This compares to an attributable profit of HK$5,501 million for 2011. Earnings per share fell by 83.3% to HK23.3 cents. Turnover for the year increased by 1.0% to HK$99,376 million.

In 2012 the Group's core business was adversely affected by the high price of jet fuel, pressure on passenger yields and weak air cargo demand. Economic uncertainty, particularly in the Eurozone countries, and an increasingly competitive environment added to the difficulties. It was a challenging year for the aviation industry generally. The Group's share of profits from associated companies, including Air China, showed a marked decline.

Our passenger revenue for the year was HK$70,133 million, an increase of 3.5% compared to 2011. Capacity increased by 2.6%. We carried a total of 29.0 million passengers in 2012, a rise of 5.0% compared to the previous year. The passenger load factor fell by 0.3 percentage points. Yield increased by 1.2% to HK67.3 cents, largely due to higher fuel surcharges consequent upon a 1.7% increase in average fuel prices. Uncertain economic conditions and strong competition on key routes put pressure on yields. Premium class yields were affected by travel restrictions imposed by corporations. The high cost of fuel made it more difficult to operate profitably, particularly on long-haul routes operated by older, less fuel-efficient, Boeing 747-400 and Airbus A340-300 aircraft.

The Group's cargo revenue in 2012 was HK$24,555 million, a decrease of 5.5% compared to 2011. Yield for Cathay Pacific and Dragonair remained the same as last year at HK$2.42. Capacity was down by 3.1%. The cargo load factor was down by 3.0 percentage points to 64.2%. Our cargo business was affected by weak demand in major markets, particularly from Asia to Europe. Demand for shipments from our two key markets, Hong Kong and Mainland China, was well below expectations, although there were short-term upturns in March and in the last quarter, reflecting launches of new consumer electronics products. Capacity was adjusted in line with demand. We opened new routes where demand was robust. We introduced freighter services to Zhengzhou in Mainland China in March, Hyderabad in India in May and Colombo in Sri Lanka in December. We suspended our freighter service to Zaragoza in Spain in November 2012 and those to Brussels in Belgium and Stockholm in Sweden in February 2013.

Fuel is our most significant cost. Throughout much of 2012, fuel prices were at sustained high levels and this had a major impact on our operating results. The Group's fuel costs (disregarding the effect of fuel hedging) increased by 0.8% compared to 2011. Fuel accounted for 41.1% of our total operating costs – a decrease of 0.4 of a percentage point from the previous year. Managing the risk associated with high and sometimes volatile fuel prices remains a key challenge. We took advantage of a reduction in fuel prices in May and June to do more hedging with a view to mitigating the impact of future fuel price increases.

In May 2012, we announced measures designed to protect our business in an environment of high fuel prices and weak revenues. We accelerated the retirement of our less fuel-efficient Boeing 747-400 passenger aircraft. Three of these aircraft had left the fleet by November. We withdrew from service four Boeing 747-400BCF converted freighters. We changed schedules and reduced capacity on some long-haul routes. We stopped all but essential recruitment of ground staff. We introduced voluntary unpaid leave for cabin crew. By the end of the year costs, particularly of fuel and aircraft maintenance, had been reduced significantly from what they would otherwise have been as a result of reduced capacity and early retirement of aircraft. However, the reductions were not enough to offset in full the effects of high fuel prices and weak revenues.

At the same time as addressing the challenges to our business, we kept a clear focus on our key strategic goals: developing our network and our Hong Kong base; maintaining and enhancing the quality of our services (and so protecting the reputation of our brands); strengthening our relationship with Air China; and maintaining a prudent approach to financial risk management. We did not allow cost reductions to affect adversely the way in which we deal with our customers. We continued with our major investments in new aircraft and new products. We started to operate our own cargo terminal at Hong Kong International Airport in February 2013. This will bring significant benefits to our own cargo business and to Hong Kong as a centre for air cargo business.

We continued to upgrade the Cathay Pacific and Dragonair fleets in 2012, taking delivery of new aircraft which improve our operating economics and reduce our environmental impact. We received 19 new aircraft in 2012: four Airbus A320-200s, six Airbus A330-300s, five Boeing 777-300ERs and four Boeing 747-8F freighters. We placed orders for six Airbus A350-900 aircraft in January 2012. In August, we ordered 10 Airbus A350-1000 aircraft and converted an existing order for 16 Airbus A350-900 aircraft into an order for 16 Airbus A350-1000 aircraft. At 31 December 2012 we had 92 aircraft on order for delivery up to 2020. Because of their high operating costs, we have accelerated the retirement of our Boeing 747-400 passenger aircraft. Three of the fleet of 21 Boeing 747-400s were retired in the second half of 2012. Six will be retired in 2013. We reduced the size of our fleet of Boeing 747-400BCF converted freighters. Four Boeing 747-400BCF converted freighters were withdrawn from service and one of them was retired from the fleet in 2012. We withdrew another Boeing 747-400BCF from the fleet in February 2013. The third of four Boeing 747-400BCFs being sold to Air China Cargo, our cargo joint venture with Air China, was delivered in July 2012. The final one was sold in March 2013.

In March 2013, we entered into agreements in relation to our freighter fleet which are part of a package of transactions between The Boeing Company on the one hand and the Group, Air China Cargo (in which we have an equity and an economic interest) and Air China on the other hand. The transactions involve the Group purchasing three Boeing 747-8F freighters, cancelling orders for eight Boeing 777-200F freighters, acquiring options to purchase five Boeing 777-200F freighters and selling four Boeing 747-400BCF converted freighters, Air China Cargo acquiring eight Boeing 777-200F freighters and selling seven Boeing 747-400BCF converted freighters and Air China purchasing a number of other aircraft. These transactions will reduce our future cargo capacity (depending on whether we exercise the newly acquired purchase options and certain existing purchase rights) from what it would otherwise have been and allow Air China Cargo to replace its existing fleet of aircraft with a fleet of modern, fuel efficient Boeing 777-200F freighters. The reduction in our capacity is considered desirable in the light of our reduced expectations for the future growth of air cargo shipments. If these reduced expectations prove misplaced, additional cargo capacity could be obtained by exercising the newly acquired purchase options and our existing purchase rights.

We adjusted our schedules in 2012 in light of the challenging business environment and the high cost of fuel. In September we reduced some passenger services on transpacific routes, enabling fuel-efficient Boeing 777-300ER aircraft to replace older Boeing 747-400 aircraft on some European routes. But we remained committed to maintaining the integrity of our network. We increased some regional services in response to more robust demand in parts of Asia. Cathay Pacific added frequencies on routes to India, Japan, Malaysia, Singapore, Taiwan, Thailand and Vietnam and introduced a new service to Hyderabad in India. Dragonair added frequencies on routes to secondary cities in Mainland China and introduced or resumed flights to eight destinations – Chiang Mai, Clark, Guilin, Haikou, Jeju, Kolkata, Taichung and Xi'an. In January 2013, Dragonair started flying to Wenzhou, Yangon and Zhengzhou and in March will start flying to Da Nang.

In an increasingly competitive environment it is crucial to maintain and develop passenger loyalty by providing high quality products and services. This remains a key focus of the Cathay Pacific Group. To this end, Cathay Pacific has introduced a new premium economy class, a new long-haul economy class seat and a new regional business class seat. Since its introduction in April 2012, premium economy class has been very popular on long-haul routes. By the end of 2012, the new class was available on 48 aircraft and will be available on 86 aircraft by the end of 2013. In April 2012, we started to introduce new long-haul economy class seats, which have been well received by passengers. The new regional business class seat was introduced in January 2013. Our long-haul business class was named World's Best Business Class in 2012 at the World Airline Awards run by Skytrax. Dragonair will also get new business class and economy seats from March 2013. On the ground, we completed refurbishment of the Level 7 business class lounge in The Wing at Hong Kong International Airport in January 2012. Renovations of the first class lounge were completed in February 2013. In August 2012, we opened a new lounge in Paris.

Our relationship with strategic partner Air China continues to strengthen. We announced the formation of a ground-handling company, Shanghai International Airport Services Co., Limited in March 2012. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. started to operate in February 2013. It provides airport ground-handling services at Shanghai's two international airports, Hongqiao and Pudong.

The Cathay Pacific Group operates in a volatile and challenging industry, one that will always be highly susceptible to external factors that remain largely beyond our control. The cost of fuel remains the biggest challenge, particularly for an airline such as ours where long-haul operations form a significant part of our total operations. We believe we have taken the right measures to deal with current challenges and will take whatever further measures are necessary should the business environment not improve. Our focus will remain on protecting the business and managing short-term difficulties while remaining committed to our long-term strategy. Our financial position remains strong and we will continue to invest in the future. Our core strengths remain the same as ever: a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and our position in Hong Kong. These will help to ensure the success of the Cathay Pacific Group in the long term.

Christopher Pratt
Chairman
Hong Kong, 13th March 2013

CATHAY PACIFIC

Consolidated Statement of Comprehensive Income
for the year ended 31st December 2012

	Note	2012 HK$M	2011 HK$M
Turnover			
Passenger services		**70,133**	67,778
Cargo services		**24,555**	25,980
Catering, recoveries and other services		**4,688**	4,648
Total turnover	*2*	**99,376**	98,406
Expenses			
Staff		**(16,073)**	(14,772)
Inflight service and passenger expenses		**(4,017)**	(3,794)
Landing, parking and route expenses		**(13,603)**	(13,105)
Fuel, net of hedging gains		**(40,470)**	(38,877)
Aircraft maintenance		**(8,197)**	(8,468)
Aircraft depreciation and operating leases		**(8,879)**	(8,197)
Other depreciation, amortisation and operating leases		**(1,432)**	(1,205)
Commissions		**(777)**	(791)
Others		**(4,140)**	(3,697)
Operating expenses		**(97,588)**	(92,906)
Operating profit	*4*	**1,788**	5,500
Finance charges		**(1,629)**	(1,726)
Finance income		**745**	982
Net finance charges	*5*	**(884)**	(744)
Share of profits of associates		**641**	1,717
Profit before taxation		**1,545**	6,473
Taxation	*6*	**(417)**	(803)
Profit for the year		**1,128**	5,670
Non-controlling interests		**(212)**	(169)
Profit attributable to the owners of Cathay Pacific		**916**	5,501
Profit for the year		**1,128**	5,670
Other comprehensive income			
Cash flow hedges		**1,587**	(546)
Revaluation surplus/(deficit) arising from available-for-sale financial assets		**46**	(217)
Share of other comprehensive income of associates		**83**	(158)
Exchange differences on translation of foreign operations		**83**	732
Other comprehensive income for the year, net of taxation	*7*	**1,799**	(189)
Total comprehensive income for the year		**2,927**	5,481
Total comprehensive income attributable to			
Owners of Cathay Pacific		**2,715**	5,312
Non-controlling interests		**212**	169
		2,927	5,481
Earnings per share (basic and diluted)	*8*	**23.3¢**	139.8¢

Consolidated Statement of Financial Position

at 31st December 2012

	Note	2012 HK$M	2011 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Fixed assets		**84,278**	73,498
Intangible assets		**9,425**	8,601
Investments in associates		**18,481**	17,894
Other long-term receivables and investments		**6,617**	5,783
		118,801	105,776
Long-term liabilities		**(52,753)**	(38,410)
Related pledged security deposits		**1,364**	3,637
Net long-term liabilities		**(51,389)**	(34,773)
Other long-term payables		**(2,222)**	(2,612)
Deferred taxation		**(8,198)**	(6,797)
		(61,809)	(44,182)
Net non-current assets		**56,992**	61,594
Current assets and liabilities			
Stock		**1,194**	1,155
Trade, other receivables and other assets	*10*	**9,922**	9,859
Assets held for sale	*11*	**911**	746
Liquid funds		**24,182**	19,597
		36,209	31,357
Current portion of long-term liabilities		**(10,758)**	(10,603)
Related pledged security deposits		**2,601**	2,041
Net current portion of long-term liabilities		**(8,157)**	(8,562)
Trade and other payables	*12*	**(17,470)**	(17,464)
Unearned transportation revenue		**(9,581)**	(9,613)
Taxation		**(687)**	(1,368)
		(35,895)	(37,007)
Net current assets/(liabilities)		**314**	(5,650)
Total assets less current liabilities		**119,115**	100,126
Net assets		**57,306**	55,944
CAPITAL AND RESERVES			
Share capital	*13*	**787**	787
Reserves		**56,399**	55,022
Funds attributable to the owners of Cathay Pacific		**57,186**	55,809
Non-controlling interests		**120**	135
Total equity		**57,306**	55,944

Notes:

1. Basis of preparation and accounting policies

The annual results set out in this announcement are extracted from the Group's statutory accounts for the year ended 31st December 2012.

The accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Hong Kong Accounting Standards, Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. The accounts also comply with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Turnover

Turnover comprises revenue and surcharges from transportation services, airline catering, recoveries and other services provided to third parties.

3. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Profit or loss								
Sales to external customers	**98,198**	97,359	**1,178**	1,047			**99,376**	98,406
Inter-segment sales	**8**	8	**1,685**	1,569			**1,693**	1,577
Segment revenue	**98,206**	97,367	**2,863**	2,616			**101,069**	99,983
Segment results	**1,643**	5,325	**145**	175			**1,788**	5,500
Net finance charges	**(876)**	(737)	**(8)**	(7)			**(884)**	(744)
	767	4,588	**137**	168			**904**	4,756
Share of profits of associates					**641**	1,717	**641**	1,717
Profit before taxation							**1,545**	6,473
Taxation	**(376)**	(778)	**(41)**	(25)			**(417)**	(803)
Profit for the year							**1,128**	5,670
Other segment information								
Depreciation and amortisation	**6,571**	6,018	**168**	150			**6,739**	6,168
Purchase of fixed and intangible assets	**19,656**	15,110	**1,319**	2,500			**20,975**	17,610

The Group's two reportable segments are classified according to the nature of the business. The airline business segment comprises the Group's passenger and cargo operations. The non-airline business segment includes mainly catering, ground handling and aircraft ramp handling services. The unallocated results represent the Group's share of profits of associates.

The major revenue earning asset is the aircraft fleet which is used both for passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

Inter-segment sales are based on prices set on an arm's length basis.

3. Segment information (continued)

(b) Geographical information

	2012 **HK$M**	2011 HK$M
Turnover by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**44,970**	42,915
- Japan, Korea and Taiwan	**12,775**	13,598
India, Middle East, Pakistan and Sri Lanka	**4,521**	4,708
Southeast Asia	**7,968**	7,259
Southwest Pacific and South Africa	**6,875**	7,136
Europe	**8,760**	9,518
North America	**13,507**	13,272
	99,376	98,406

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2012 Annual Report.

4. Operating profit

	2012 **HK$M**	2011 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
- leased	**2,317**	1,971
- owned	**4,300**	4,156
Amortisation of intangible assets	**122**	41
Operating lease rentals		
- land and buildings	**823**	734
- aircraft and related equipment	**2,715**	2,465
- others	**34**	35
Provision for impairment of fixed assets	**52**	250
Provision for impairment of assets held for sale	**140**	-
Loss on scrapping an aircraft	**247**	-
Loss on disposal of fixed assets, net	**101**	159
(Gain)/loss on disposal of assets held for sale	**(34)**	17
Cost of stock expensed	**2,074**	2,162
Exchange differences, net	**(173)**	(416)
Auditors' remuneration	**13**	11
Net losses/(gains) on financial assets and liabilities classified as held for trading	**19**	(120)
Dividend income from unlisted investments	**(58)**	(36)
Dividend income from listed investments	**(4)**	(4)

5. Net finance charges

	2012 HK$M	2011 HK$M
Net interest charges comprise:		
- obligations under finance leases stated at amortised cost	**752**	676
- interest income on related security deposits, notes and bonds	**(247)**	(318)
	505	358
- bank loans and overdrafts		
- wholly repayable within five years	**186**	132
- not wholly repayable within five years	**74**	51
- other loans		
- wholly repayable within five years	**55**	41
- not wholly repayable within five years	**40**	9
- other long-term receivables	**(28)**	(13)
	832	578
Income from liquid funds:		
- funds with investment managers and other liquid investments	**(164)**	(255)
- bank deposits and other receivables	**(98)**	(68)
	(262)	(323)
Fair value change:		
- obligations under finance leases designated as at fair value through profit and loss	**224**	340
- financial derivatives	**90**	149
	314	489
	884	744

6. Taxation

	2012 HK$M	2011 HK$M
Current tax expenses		
- Hong Kong profits tax	**145**	116
- overseas tax	**218**	272
- over provisions for prior years	**(149)**	(53)
Deferred tax		
- origination and reversal of temporary differences (note 18 to the accounts in the 2012 Annual Report)	**203**	468
	417	803

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and status of negotiations (see note 30(d) to the accounts in the 2012 Annual Report).

6. Taxation (continued)

A reconciliation between tax charge and accounting profit at applicable tax rates is as follows:

	2012 HK$M	2011 HK$M
Consolidated profit before taxation	**1,545**	6,473
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**(255)**	(1,068)
Expenses not deductible for tax purposes	**(327)**	(146)
Tax over provisions arising from prior years	**149**	53
Effect of different tax rates in overseas jurisdictions	**41**	223
Tax losses not recognised	**(109)**	(55)
Income not subject to tax	**84**	190
Tax charge	**(417)**	(803)

Further information on deferred taxation is shown in note 18 to the accounts in the 2012 Annual Report.

7. Other comprehensive income

	2012 HK$M	2011 HK$M
Cash flow hedges		
- recognised during the year	**1,818**	485
- transferred to profit and loss	**(222)**	(1,081)
- transferred to intangible assets (note 11 to the accounts in the 2012 Annual Report)	**148**	-
- deferred tax recognised	**(157)**	50
Revaluation of available-for-sale financial assets		
- recognised during the year	**46**	(217)
Share of other comprehensive income of associates		
- recognised during the year	**83**	(158)
Exchange differences on translation of foreign operations		
- recognised during the year	**83**	732
Other comprehensive income for the year	**1,799**	(189)

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the owners of Cathay Pacific of HK$916 million (2011: HK$5,501 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2011: 3,934 million) shares.

9. Dividends

	2012 HK$M	2011 HK$M
No interim dividend paid for the period ended 30th June 2012 (2011: first interim dividend of HK$0.18 per share)	**-**	708
Interim dividend proposed on 13th March 2013 of HK$0.08 per share (2011: second interim dividend of HK$0.34 per share)	**315**	1,338
	315	2,046

The Directors have declared an interim dividend of HK$0.08 per share for the year ended 31st December 2012. The interim dividend will be in lieu of a final dividend. This represents a total distribution for the year of HK$315 million. The interim dividend will be paid on 2nd May 2013 to shareholders registered at the close of business on the record date, being Friday, 5th April 2013. Shares of the Company will be traded ex-dividend as from Tuesday, 2nd April 2013.

10. Trade, other receivables and other assets

	Group	
	2012	2011
	HK$M	HK$M
Trade debtors	**5,600**	5,908
Derivative financial assets – current portion	**1,094**	1,044
Other receivables and prepayments	**3,141**	2,844
Due from associates and other related companies	**87**	63
	9,922	9,859

As at 31st December 2012, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,349 million (2011: HK$1,105 million).

	Group	
	2012	2011
	HK$M	HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,467**	5,839
One to three months overdue	**115**	59
More than three months overdue	**18**	10
	5,600	5,908

The overdue trade debtors are not impaired and relate to a number of independent customers for whom there is no recent history of default. The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantees or other monetary collateral.

The movement in the provision for bad debts included in trade debtors during the year was as follows:

	Group	
	2012	2011
	HK$M	HK$M
At 1st January	**60**	195
Amounts written back	**(6)**	(135)
At 31st December	**54**	60

11. Assets held for sale

	Group	
	2012	2011
	HK$M	HK$M
Assets held for sale	**911**	746
	911	746

12. Trade and other payables

	Group 2012 HK$M	Group 2011 HK$M
Trade creditors	**7,357**	7,663
Derivative financial liabilities - current portion	**1,087**	1,182
Other payables	**8,716**	8,318
Due to associates	**56**	49
Due to other related companies	**254**	252
	17,470	17,464

As at 31st December 2012, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK$339 million (2011: HK$356 million).

	Group 2012 HK$M	Group 2011 HK$M
Analysis of trade creditors by age:		
Current	**7,039**	7,428
One to three months overdue	**298**	225
More than three months overdue	**20**	10
	7,357	7,663

The Group's general payment terms are one to two months from the invoice date.

13. Share capital

During the year, the Group did not purchase, sell or redeem any shares in the Company and the Group has not adopted any share option scheme.

At 31st December 2012, 3,933,844,572 shares were in issue (31st December 2011: 3,933,844,572 shares). Details of the movement of share capital can be found in note 23 to the accounts in the 2012 Annual Report.

14. Event after the reporting period

In March 2013, the Group entered into a trade-in deal with The Boeing Company to dispose of four Boeing 747-400BCF converted freighters which were taken out of service in 2012 and early 2013; and to cancel an existing order for eight Boeing 777-200F freighters and to purchase three Boeing 747-8F freighters. The trade-in deal also included options to purchase five Boeing 777-200F freighters. The aforementioned transactions are part of a package of transactions between The Boeing Company and i) Air China Cargo, under which Air China Cargo will purchase eight Boeing 777-200F freighters and will sell seven Boeing 747-400BCF converted freighters; and ii) Air China, under which Air China will purchase two Boeing 747-8I aircraft, one Boeing 777-300ER aircraft and 20 Boeing 737-800 aircraft from The Boeing Company.

15. Corporate governance

The Company is committed to maintaining a high standard of corporate governance. The Company complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year with the following exceptions which it believes do not benefit shareholders:

15. Corporate governance (continued)

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

Details of the Company's corporate governance principles and processes will be available in the 2012 Annual Report.

The annual results have been reviewed by the Audit Committee of the Company.

16. Annual Report

The 2012 Annual Report containing all the information required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website and the Company's website *www.cathaypacific.com* by 2nd April 2013. It will be available to shareholders by 5th April 2013.

Operating Expenses

	Group			Cathay Pacific and Dragonair		
	2012 HK$M	2011 HK$M	**Change**	**2012 HK$M**	2011 HK$M	**Change**
Staff	**16,073**	14,772	**+8.8%**	**14,545**	13,431	**+8.3%**
Inflight service and passenger expenses	**4,017**	3,794	**+5.9%**	**4,017**	3,794	**+5.9%**
Landing, parking and route expenses	**13,603**	13,105	**+3.8%**	**13,330**	12,820	**+4.0%**
Fuel, net of hedging gains	**40,470**	38,877	**+4.1%**	**39,590**	38,061	**+4.0%**
Aircraft maintenance	**8,197**	8,468	**-3.2%**	**7,961**	8,268	**-3.7%**
Aircraft depreciation and operating leases	**8,879**	8,197	**+8.3%**	**8,738**	8,049	**+8.6%**
Other depreciation, amortisation and operating leases	**1,432**	1,205	**+18.8%**	**1,173**	977	**+20.1%**
Commissions	**777**	791	**-1.8%**	**777**	791	**-1.8%**
Exchange gain	**(173)**	(416)	**-58.4%**	**(183)**	(423)	**-56.7%**
Others	**4,313**	4,113	**+4.9%**	**4,827**	4,625	**+4.4%**
Operating expenses	**97,588**	92,906	**+5.0%**	**94,775**	90,393	**+4.8%**
Net finance charges	**884**	744	**+18.8%**	**838**	701	**+19.5%**
Total operating expenses	**98,472**	93,650	**+5.1%**	**95,613**	91,094	**+5.0%**

- The Group's total operating expenses increased by 5.1% to HK$98,472 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair increased from HK$3.45 to HK$3.64.

Cathay Pacific and Dragonair Operating Results Analysis

	2012 HK$M	2011 HK$M
Airlines' profit before taxation	**158**	4,025
Tax charge	**(268)**	(609)
Airlines' (loss)/profit after taxation	**(110)**	3,416
Share of profits from subsidiaries and associates	**1,026**	2,085
Profit attributable to the owners of Cathay Pacific	**916**	5,501

Cathay Pacific and Dragonair Operating Results Analysis (continued)

The change in the airlines' profit before taxation can be analysed as follows:

	HK$M	
2011 airlines' profit before taxation	**4,025**	
Passenger and cargo turnover	**621**	**Passenger** - Increased due to a 2.6% increase in capacity, a 0.3% points decrease in load factor and a 1.2% increase in yield. **Cargo** - Decreased due to a 3.1% decrease in capacity, a 3.0% points decrease in load factor and no change in yield.
Fuel	**(1,529)**	- Fuel costs increased due to a 1.7% increase in the average into-plane fuel price and a 70% decrease in fuel hedging gains, offset by a 0.7% decrease in consumption.
Landing, parking and route expenses	**(510)**	- Increased mainly due to an increase in flight frequencies and regional growth.
Aircraft maintenance	**307**	- Decreased mainly due to less shop visits.
Depreciation, amortisation and operating leases	**(885)**	- Increased mainly due to the acceleration of retirement of Boeing 747-400 aircraft.
Staff	**(1,114)**	- Increased mainly due to an increase in headcount driven by an increase in operations and salary increases.
Others	**(757)**	- Increased mainly due to an increase in inflight service and passenger expenses as a result of an increase in flight frequencies.
2012 airlines' profit before taxation	**158**	

Fuel Expenditure and Hedging

A breakdown of the Group's fuel cost is shown below:

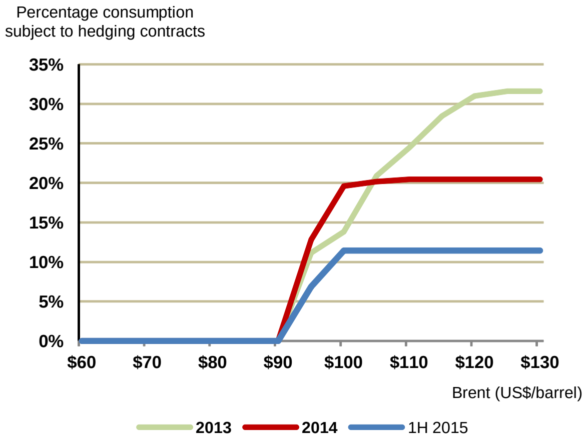
	2012 HK$M	2011 HK$M
Gross fuel cost	**41,014**	40,691
Fuel hedging gains	**(544)**	(1,814)
Net fuel cost	**40,470**	38,877

Fuel consumption in 2012 was 40.1 million barrels (2011: 40.4 million barrels).

The Group's maximum fuel hedging exposure at 31st December 2012 is set out below:

The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. As the Group uses a combination of fuel derivatives to achieve its desired hedging position, the percentage of expected consumption hedged will vary depending on the nature and combination of contracts which generate payments in any particular range of fuel prices. The chart indicates the estimated maximum percentage of projected consumption by year covered by hedging transactions at various settled Brent prices.

Maximum fuel hedging exposure



Assets

- Total assets as at 31st December 2012 were HK$155,010 million.
- During the year, additions to fixed assets were HK$20,177 million, comprising HK$18,289 million for aircraft and related equipment, HK$1,393 million for buildings and HK$495 million for other equipment.

Borrowings and Capital

- Borrowings increased by 37.4% to HK$59,546 million in 2012 from HK$43,335 million in 2011.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2023 with 68.0% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 67.5% of which are denominated in United States dollars, increased by 23.4% to HK$24,182 million.
- Net borrowings increased by 49.0% to HK$35,364 million.
- Funds attributable to the owners of Cathay Pacific increased by 2.5% to HK$57,186 million.
- The net debt/equity ratio increased from 0.43 times to 0.62 times.

Fleet Profile*

Aircraft type	Number as at 31st December 2012 Owned	Leased Finance	Leased Operating	Total	Firm orders '13	Firm orders '14	Firm orders '15 and beyond	Total	Expiry of operating leases '13	'14	'15	'16	'17	'18 and beyond	Purchase rights
Aircraft operated by Cathay Pacific:															
A330-300	13	16	8	37	5	5	3	13			2	1	3	2	
A340-300	6	5		11											
A350-900							22[a]	22							
A350-1000							26	26							20[b]
747-400	17		1	18							1				
747-400F	3	3		6											
747-400BCF	2[c]		4[d]	6[e]					2	1				1	
747-400ERF		6		6											
747-8F		8		8	2			2							
777-200	5			5											
777-200F						4	4	8[e]							
777-300	5	7		12											
777-300ER	4	11	14	29	9	7	5	21					2	12	20[f]
Total	55	56	27	138	16	16	60	92	2	1	3	1	5	15	40
Aircraft operated by Dragonair:															
A320-200	5		10	15							2	2		6	
A321-200	2		4	6							2	2			
A330-300	4	1	12	17					4	3	1	2	2		
Total	11	1	26	38					4	3	5	6	2	6	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		8											
747-400BCF			3	3								1	2		
Total	2	6	3	11								1	2		
Grand total	**68**	**63**	**56**	**187**	**16**	**16**	**60**	**92**	**6**	**4**	**8**	**8**	**9**	**21**	**40**

* Includes parked aircraft. This profile does not reflect aircraft movements after 31st December 2012.

(a) Including two aircraft on 12-year operating leases.
(b) Purchase rights to be exercised no later than 2024, for A350 family aircraft.
(c) One aircraft was parked in May 2012 and the other aircraft was sold to Air China Cargo in March 2013.
(d) Two aircraft were parked in July and December 2012, respectively.
(e) Four Boeing 747-400BCF aircraft were disposed of in a trade-in deal with The Boeing Company entered into in March 2013. The four aircraft included three Boeing 747-400BCF aircraft taken out of service during 2012 and one in February 2013. These aircraft will leave the fleet during 2013. The order for those eight Boeing 777-200F aircraft was cancelled and three new Boeing 747-8F aircraft will be acquired and delivered in 2013. The trade-in deal also included options to purchase five Boeing 777-200F aircraft.
(f) Purchase rights for aircraft to be delivered by 2017.
(g) In February 2013, the Group agreed to lease two new Airbus A321-200 aircraft. These aircraft will be delivered in February and October 2014.

Review of Subsidiaries and Associates

- AHK Air Hong Kong Limited achieved an increase in profit for 2012 compared with 2011. Capacity increased by 11%, the load factor decreased by 4 percentage points and yield improved by 7% respectively.
- Cathay Pacific Catering Services (H.K.) Limited produced 25.0 million meals and handled 63,000 flights in 2012 (representing a daily average of 68,000 meals and 171 flights and an increase of 4% and 8% respectively over 2011). The increase in business volume resulted in improved turnover and profit in 2012. However, increases in raw material, fuel and wage costs were reflected in a lower profit margin. The overseas flight kitchens performed well in 2012 with profits increased in Taipei and Canada.
- Air China Limited ("Air China"), in which Cathay Pacific owns a 19.28% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China. The Group's share of Air China's results is based on its accounts drawn up three months in arrear and consequently the 2012 results include Air China's results for the 12 months ended 30th September 2012, adjusted for any significant events or transactions for the period from 1st October 2012 to 31st December 2012. The Group recorded a decrease in profit from Air China's results in 2012. This primarily reflected reduced demand, increased fuel costs and unfavourable exchange rate movements. In March 2013, as part of a package of transactions between the Group, The Boeing Company, Air China and Air China Cargo, Air China agreed to purchase two Boeing 747-8I aircraft, one Boeing 777-300ER aircraft and 20 Boeing 737-800 aircraft from The Boeing Company.
- Air China Cargo Co., Ltd. ("Air China Cargo"), in which Cathay Pacific owns an equity and an economic interest, is the leading provider of cargo services in Mainland China. The Group recorded an increased loss from Air China Cargo's results in 2012. This was mainly due to weak demand in the air cargo markets. In March 2013, as part of a package of transactions between the Group, The Boeing Company, Air China and Air China Cargo, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters.

Corporate Responsibility

- Our Sustainable Development Report 2011 was published in June 2012 on a dedicated website. The 2011 report, entitled "En route to Sustainability", includes sections dealing with the five priority areas of Cathay Pacific's sustainable development strategy: Operating Our Flights; Managing Our Infrastructure; Interacting with Customers; Working with Our Supply Chain; and Investing in Our People and Communities.
- Cathay Pacific continues to engage with regulators and groups involved in shaping aviation policy in relation to climate change. We work with the International Civil Aviation Organization, the International Air Transport Association Climate Change Task Force, Aviation Global Deal, the Sustainable Aviation Fuel Users Group and the Association of Asia Pacific Airlines. We aim to increase awareness of climate change issues and to develop appropriate solutions for the aviation industry.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In June 2012, we announced that the airline's passengers had contributed more than HK$12.9 million in 2011 to help improve the lives of disadvantaged children around the world. Since the programme's launch in 1991, more than HK$120 million has been raised through "Change for Good".
- In May 2012, Cathay Pacific received the 10 Consecutive Years Caring Company Logo 2002-2012 from the Hong Kong Council of Social Service. The award recognises the airline's commitment to caring for the well-being of the community, its employees and the environment. Dragonair was named a Caring Company for the seventh consecutive year.
- Cathay Pacific has established the Cathay Pacific Charitable Fund to give all staff in the Group the opportunity to apply for financial support for approved charitable purposes, organisations and projects in which they personally participate.
- Cathay Pacific and its subsidiaries employed some 29,900 people worldwide at the end of 2012, with more than 22,800 employed in Hong Kong. We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

Extract of the Independent Auditor's Report

The Company's auditor has qualified its report on the Group's consolidated financial statements for the year ended 31st December 2012, an extract of which is as follows:

Basis for qualified opinion

As stated in note 13 to the financial statements, the Group has applied the equity method of accounting for its investments in Air China Limited ("Air China") and Air China Cargo Co., Ltd. ("Air China Cargo"), to include in the Group's consolidated financial statements for the year ended 31st December 2012 the Group's share of the results and net assets of Air China for the year ended 30th September 2012 and as at that date (adjusted by the Company's management for any significant events or transactions for the period from 1st October 2012 to 31st December 2012) and of Air China Cargo for the year ended 31st December 2012 and as at that date.

In accordance with Hong Kong Standard on Auditing 600 ("HKSA 600"), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors),* these two associates are considered to be significant components of the Group, which should therefore be subject to audit as part of our audit of the Group's financial statements. However, Air China's published quarterly results for the three months to 30th September 2012 were unaudited and it was not practicable for an audit to be performed on the management accounts of Air China for the year ended 30th September 2012. Also, the audited results of Air China and Air China Cargo for the year ended 31st December 2012 have not been made available to us as at the date of this report. As there were no other satisfactory audit procedures that we could adopt, we were unable to fulfil the requirements of HKSA 600.

Consequently, we were unable to apply the requirements of all of the applicable auditing standards and we were unable to determine whether any adjustments were necessary to the carrying amount of the Group's investments in Air China and Air China Cargo and the Group's share of the results of these associates as included in the Group's consolidated financial statements as at and for the year ended 31st December 2012.

Our independent auditor's report on the Group's consolidated financial statements for the year ended 31st December 2011 was also qualified due to our inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Group's investment in Air China and the Group's share of Air China's results for the year as included in the Group's consolidated financial statements as at and for the year ended 31st December 2011 were fairly stated. Air China Cargo was not considered to be a component that was significant to the Group for the year ended 31st December 2011.

Any adjustments that might have been found to be necessary in respect of the carrying amount of the investments in Air China and Air China Cargo as at 31st December 2011 and 2012 would have a consequential effect on the Group's net assets as at 31st December 2011 and 2012, and the Group's profit for the years then ended and related disclosures in these financial statements.

Qualified opinion

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31st December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

The Directors of the Company as at the date of this announcement are:
Executive Directors: Christopher Pratt (Chairman), James Barrington, Ivan Chu, Martin Murray and John Slosar;
Non-Executive Directors: Cai Jianjiang, Fan Cheng, James W.J. Hughes-Hallett, Peter Kilgour, Ian Shiu, Merlin Swire, Wang Changshun and Zhao Xiaohang; and
Independent Non-Executive Directors: Irene Lee, Jack So, Tung Chee Chen and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
Christopher Pratt
Chairman
Hong Kong, 13th March 2013

Website: www.cathaypacific.com