CATHAY PACIFIC

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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00293)

Announcement
2014 Interim Results

Financial and Operating Highlights

Group Financial Statistics

Results		**2014**	2013	**Change**
		Six months ended 30th June		
Turnover	*HK$ million*	**50,840**	48,584	**+4.6%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**347**	24	**+1,345.8%**
Earnings per share	*HK cents*	**8.8**	0.6	**+1,366.7%**
Dividend per share	*HK$*	**0.10**	0.06	**+66.7%**
Profit margin	*%*	**0.7**	0.1	**+0.6%pt**

Financial position		**30th June**	31st December	
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**60,830**	62,888	**-3.3%**
Net borrowings	*HK$ million*	**41,448**	39,316	**+5.4%**
Shareholders' funds per share	*HK$*	**15.5**	15.9	**-2.5%**
Net debt/equity ratio	*Times*	**0.68**	0.63	**+0.05 times**

Operating Statistics – Cathay Pacific and Dragonair

		2014	2013	**Change**
		Six months ended 30th June		
Available tonne kilometres ("ATK")	*Million*	**13,545**	12,520	**+8.2%**
Available seat kilometres ("ASK")	*Million*	**65,474**	62,187	**+5.3%**
Revenue passengers carried	*'000*	**15,437**	14,497	**+6.5%**
Passenger load factor	*%*	**83.6**	81.3	**+2.3%pt**
Passenger yield	*HK cents*	**66.6**	69.0	**-3.5%**
Cargo and mail carried	*'000 tonnes*	**804**	741	**+8.5%**
Cargo and mail load factor	*%*	**63.2**	62.4	**+0.8%pt**
Cargo and mail yield	*HK$*	**2.17**	2.33	**-6.9%**
Cost per ATK (with fuel)	*HK$*	**3.57**	3.69	**-3.3%**
Cost per ATK (without fuel)	*HK$*	**2.20**	2.23	**-1.3%**
Aircraft utilisation	*Hours per day*	**12.0**	11.6	**+3.4%**
On-time performance	*%*	**70.7**	77.7	**-7.0%pt**

Capacity, load factor and yield - Cathay Pacific and Dragonair

	Capacity ASK/ATK (million)#			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
Passenger services							
India, Middle East, Pakistan and Sri Lanka	**5,512**	5,356	**+2.9%**	**78.2**	75.5	**+2.7%pt**	**-7.0%**
Southwest Pacific and South Africa	**8,849**	8,783	**+0.8%**	**84.8**	78.5	**+6.3%pt**	**-6.7%**
Southeast Asia	**8,973**	9,001	**-0.3%**	**80.4**	79.5	**+0.9%pt**	**-3.9%**
Europe	**10,423**	10,316	**+1.0%**	**87.4**	86.8	**+0.6%pt**	**+2.5%**
North Asia	**14,431**	13,973	**+3.3%**	**77.9**	73.9	**+4.0%pt**	**-3.4%**
North America	**17,286**	14,758	**+17.1%**	**88.7**	89.3	**-0.6%pt**	**-4.4%**
Overall	**65,474**	62,187	**+5.3%**	**83.6**	81.3	**+2.3%pt**	**-3.5%**
Cargo services	**7,318**	6,607	**+10.8%**	**63.2**	62.4	**+0.8%pt**	**-6.9%**

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

Passenger services

- The high fuel price continued to affect the profitability of our passenger services. This was mitigated in part by operating more fuel efficient aircraft. However, we operated more flights compared to the same period of last year, which increased the amount of fuel used.
- Business was affected by the weakness of a number of currencies relative to the Hong Kong and United States dollars.
- The passenger load factor was generally higher in the first half of 2014 than in the corresponding period in 2013, for both Cathay Pacific and Dragonair. Business traffic was generally in line with expectations, though the impact of the Canton Fair in April was not as strong as expected.
- Passenger capacity in the first half of 2014 was 5.3% higher than in the same period of last year. This reflected the introduction of new routes and increased frequencies on existing long-haul routes, including those which took effect in the second half of 2013.
- The growth in passenger numbers was at the expense of yield, which was under pressure throughout the first half of 2014. This pressure reflected the addition of capacity by Cathay Pacific, Dragonair and our competitors, stronger competition in key markets and an increase in connecting traffic through the Hong Kong hub.
- We continue to increase long-haul capacity. We introduced services to Doha and Newark in March. The Los Angeles service was increased to four-times-daily in June. The Chicago service was increased to 10 flights per week (from daily) in August. We will introduce a four-times-weekly service to Manchester in December 2014 and a daily service to Zurich in March 2015. We made ad hoc cancellations on certain routes to ensure they were operating profitably.
- Dragonair added services to Denpasar-Bali and Penang (the latter replacing Cathay Pacific's service on this route). Dragonair strengthened its services to Beijing, Da Nang, Kaohsiung, Phuket and Siem Reap. The frequency on the Yangon route will become daily from September.
- Demand for travel from Hong Kong was robust in the first half of 2014, with good demand for leisure travel to long-haul and regional destinations. Demand for travel to North Asia – Japan, Korea and Taiwan – was particularly strong, though political unrest affected demand for travel to certain Southeast Asian countries.
- We continued to run our successful "fanfares" promotion offering weekly discounted fares to various destinations in order to appeal to a wide range of customers in our home market.
- There was an increase in demand for travel from the Pearl River Delta ("PRD"), though competition from other airports and carriers in the PRD region continues to grow.
- Demand for travel to Mainland China was below expectations in the first half of 2014 as we faced stronger competition from an increased number of airlines. Travel from Mainland China continued to grow, as more people want and can afford to travel.

- Demand for travel to and from Taiwan was generally robust, despite increasing competition and more cross-strait services. There was good demand for travel between Taiwan and Japan and Korea.
- The Korean routes were exceptionally strong, with travel from Hong Kong benefiting from the popularity of a Korean TV drama series. Travel from Korea was reasonably robust.
- Demand for travel to all destinations in Japan was strong in the first half of 2014, benefiting from the weakness of the Japanese yen. We added one more daily flight to Osaka in February. Demand for travel from Japan improved slightly but remained weak.
- The Australian market is increasingly competitive. However, we have been able to benefit from increased traffic flows between Australia and Mainland China. We made adjustments to our Australia services in March, removing some of the triangular routings in order to strengthen our direct services to and from Adelaide, Brisbane, Cairns and Melbourne.
- Our strategic agreement with Air New Zealand has benefited our business on the New Zealand route, and customers have benefited from more travel options. Our alliance with Air New Zealand strengthens our business on the New Zealand route.
- In Southeast Asia, we reduced schedules on the Bangkok route as demand for travel was affected by political unrest. Demand on the Singapore route was strong, though yield was affected by intense competition. Demand on the Philippines routes were affected by the increase in direct services from the Philippines to the Middle East. The strengthening of our North America services benefited our business in Southeast Asia overall.
- There was strong demand for travel from India to North America. However, revenue from India was affected by the weakness of the Rupee and strong competition from Indian carriers.
- We improved our Delhi service by removing the Bangkok tag on one of the two daily flights, making all flights to Delhi non-stop.
- We will enhance service to Colombo in Sri Lanka by introducing four non-stop flights a week from October, which replace the flights that currently stop in Singapore.
- We stopped flying to Karachi in Pakistan in June due to challenging operating economics.
- Demand on the service to Male in the Maldives (which we introduced in October 2013) is in line with expectations.
- Revenues from South Africa were affected by the depreciation of the Rand. The largest source of South African business remains Japan. But demand from Japan has been adversely affected by currency movements.
- We started flights to Doha and introduced a number of codeshare services as part of a strategic agreement with Qatar Airways. We rationalised our network in the Middle East at the same time, stopping services to Abu Dhabi and Jeddah and improving our schedules on other Middle Eastern routes.
- Business, student and leisure demand for travel on the London route was consistently strong in the first half of 2014. The fifth daily service added in 2013 has proved popular. Revenue from the route has grown in line with capacity.
- Capacity on our European routes was lower than in the first half of 2013 due to Boeing 777-300ER aircraft replacing larger aircraft on some routes and the introduction of premium economy class seats. Demand for travel in both premium economy and economy class was strong.
- Business on the United States routes was very strong in the first half of 2014. We have added a lot of capacity to the United States and revenue has grown in line. Load factors on the newly introduced Newark route have increased in line with expectations.
- Load factors on the Canada routes were high, but strong competition put significant downward pressure on yield.

Cargo services

- Over-capacity in the air cargo markets put downward pressure on rates. Cargo yield for Cathay Pacific and Dragonair fell by 6.9% to HK$2.17 compared to the same period of last year.
- We continued to manage freighter capacity in line with demand. We increased capacity on routes where demand was high and reduced schedules and made ad hoc cancellations elsewhere as necessary. The amount of cargo carried in the bellies of our passenger aircraft increased as we brought more Boeing 777-300ER aircraft into service. For the first time, there was a 50:50 split between the amount of cargo carried in freighters and cargo carried in passenger aircraft bellies.
- The high fuel price affected the profitability of our cargo services, though we benefited from the improved fuel efficiency of our fleet, particularly on transpacific services.
- Our cargo business was very weak in the first two months of 2014. The normal adverse effect of the Chinese New Year holiday was more pronounced than in previous years, leading to very low tonnage figures in February.
- The market recovered in March. The increase in demand was more pronounced than expected. The improvement was subsequently maintained.
- Demand for cargo shipments from our main market, Hong Kong, began to improve in March. But demand for shipments to Europe remained weak and we reduced our schedules accordingly. Demand for transpacific shipments was stronger.
- Our cargo business in Mainland China grew in volume and we increased our market share. Demand for shipments from the Yangtze River Delta was robust. Demand for shipments from new manufacturing centres (Chongqing, Chengdu and Zhengzhou) fluctuated. We adjusted our schedules to reflect these fluctuations. Our cargo business in Mainland China benefited from an increase in mail shipments.
- Shipments of cargo within Asia are an important part of our cargo business. Demand for shipments from Hanoi was robust.
- Demand for shipments from Dhaka was adversely affected by the political situation in Bangladesh.
- Demand for shipments to and from the Southwest Pacific region remained steady. There was strong demand for shipments of fresh produce to Asian markets and of milk powder to Mainland China.
- We reduced the number of cargo flights to Europe from 11 to nine per week because of weak demand for shipments into Europe and over-capacity. We concentrated on shipping pharmaceutical and other special products from Europe, in an effort to improve yield.
- With the reduction in our cargo flights to Europe, we stopped operating cargo services to Manchester in June. The United Kingdom market is served through our twice weekly freighter flights to London and also by carrying cargo in the bellies of our passenger aircraft. In December, a four-times-weekly passenger service to Manchester will be started and there will be cargo capacity available in the bellies of the aircraft.
- Demand for shipments from Asia to North America was strong from March to June. There was also robust demand for shipments of perishables (fruit and seafood) from North America to Asia.
- In March, we introduced a twice weekly service to Columbus in the United States and moved to three flights per week from June. We tagged Mexico City onto our Guadalajara cargo service and increased this service from two to three flights per week.
- We are increasing the frequency of cargo services to North America. Chicago moved from seven to nine flights a week in March. Two more flights per week were added in April. In March, Vancouver moved from one to three flights a week and in April, Los Angeles moved from six to eight flights a week. In addition, we will introduce a twice weekly service to Calgary in Canada from October.
- As part of agreements made with The Boeing Company in December 2013, we are selling our six Boeing 747-400F freighters back to The Boeing Company. Four of these freighters are now parked and all six will have left the fleet by 2016. We now operate 13 highly fuel-efficient Boeing 747-8F freighters and have one more scheduled for delivery in 2016.
- Our new cargo terminal became fully operational in the last quarter of 2013. It is now operating smoothly and expects to handle 1.4 million tonnes of cargo in 2014. It began to handle cargo for airlines outside the Cathay Pacific Group in May.
- We expect our cargo business to be better in the second half of 2014 than it was in the first half. We are well placed to take advantage of any increase in demand. Despite current market conditions we remain confident about the long-term prospects of our airfreight business and Hong Kong's future as an international air cargo hub.

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$347 million for the first six months of 2014. This compares to a profit of HK$24 million in the first half of 2013. Earnings per share were HK8.8 cents compared to earnings per share of HK0.6 cents for the corresponding period in the previous year. Turnover for the period rose by 4.6% to HK$50,840 million.

When we announced our 2013 annual results in March this year, we stated that the business outlook for 2014 looked to be improved when compared to the previous year. However, a number of factors had a significant negative impact on our business in the first six months of 2014. The principal adverse factors were reduced passenger yield, continued weakness and over-capacity in the air cargo market, the continued high fuel price and a weak performance from our associated company, Air China.

Fuel remains the Group's most significant cost. In the first half of 2014 our fuel costs increased by 5.2% compared to the same period in 2013. Fuel accounted for 37.9% of our total operating costs, which represents a 0.9 percentage point decrease compared with the corresponding period in 2013. In the first half of 2014, hedging activities resulted in a gain of HK$1,024 million. A significant amount of this gain is unrealised. Managing the risk associated with high and volatile fuel prices remains a high priority for us. Our fuel hedging extends to 2017 and we have taken advantage of downward movements in fuel prices to take up new hedging positions. We continue to increase fuel efficiency by modernising our fleet. We are also focused on controlling costs.

The Group's passenger revenue in the first six months of 2014 increased by 4.4% to HK$36,520 million compared to the same period in 2013. Capacity increased by 5.3% as a result of the introduction of new routes (to Doha and Newark) and increased frequencies on existing long-haul routes. The load factor increased by 2.3 percentage points to 83.6%, but the increase in passenger numbers was at the expense of yield, which fell by 3.5% to HK66.6 cents. Passenger demand was strong in all classes of travel on long-haul routes, particularly to North America and London. Demand on regional routes was generally robust, although strong competition put downward pressure on yield and demand was weak on certain Southeast Asian routes.

The world's air cargo industry has been affected by weak demand since 2011. The Group's cargo revenue for the first half of 2014 was HK$11,663 million, a rise of 3.4% compared to the same period in previous year. Yield for Cathay Pacific and Dragonair decreased by 6.9% to HK$2.17. Capacity increased by 10.8%, while the load factor rose by 0.8 percentage points to 63.2%. Over-capacity in the industry remains a major concern and has made it difficult to increase rates. We continued to manage capacity in line with demand in the first half of 2014. More of our cargo was carried in the bellies of passenger aircraft, reflecting increased use of Boeing 777-300ER aircraft. Our new cargo terminal in Hong Kong is operating smoothly and now provides services for airlines outside the Cathay Pacific Group.

We continue to modernise our fleet. In the first six months of 2014 we took delivery of five new aircraft: two Boeing 777-300ERs, two Airbus A330-300s, and (for Dragonair) one Airbus A321-200. Two Boeing 747-400 passenger aircraft were retired during the period. As part of agreements entered into with The Boeing Company in 2013 we are selling our six Boeing 747-400F freighters back to The Boeing Company. Four of these freighters are now parked and all six will have left the fleet by 2016. In the first half of 2014, we planned the accelerated retirement of 11 Airbus A340-300 aircraft. Four of these aircraft will be retired by the end of 2015 and the remaining seven will be retired by the end of 2017. At 30th June 2014 we had 90 aircraft on order for delivery by 2024. In the second half of 2014, Cathay Pacific and Dragonair will take delivery of 11 new aircraft. Two of them were delivered in July and two of them were scheduled to be delivered in August. Four Boeing 747-400 passenger aircraft will be retired, two of them were retired in August.

We continue to develop our passenger and cargo networks. Cathay Pacific introduced services to Doha and Newark in March and has announced the introduction of services to Manchester and Zurich from December 2014 and March 2015 respectively. The Los Angeles service was increased to four-times-daily in June. The Chicago service was increased to 10 flights per week (from daily) in August. We have added one more daily Osaka service. We also reorganised our network in the Middle East. We stopped flying to Abu Dhabi, Karachi and Jeddah but have improved our schedules on other Middle Eastern routes. Dragonair started flying to Denpasar-Bali and Penang (replacing Cathay Pacific on the latter route). Dragonair increased frequencies on the Beijing, Da Nang, Kaohsiung, Phuket and Siem Reap routes. The frequency on the Yangon route will become daily from September. Cathay Pacific tagged Mexico City onto its Guadalajara cargo service and increased this service from two to three flights per week. A cargo service to Columbus in the United States was introduced in March and moved to three flights per week from June. We will introduce a cargo service to Calgary in Canada from October. We stopped operating a cargo service to Manchester in June.

Our new business class, premium economy class and economy class seats have been installed in all Cathay Pacific's Boeing 777-300ER and long-haul Airbus A330-300 aircraft. Installation of new regional business class seats is almost complete. The update of our first class seats in Boeing 777-300ER aircraft will be finished by March 2015. New business and economy class seats had been installed in 23 Dragonair aircraft by the end of June. The first Dragonair aircraft to be fitted with new first class seats entered service in February. We have started to refurbish The Pier, one of our four departure lounges at Hong Kong International Airport, with work scheduled to be completed by the middle of 2016.

The Group (which accounts for its share of Air China's results three months in arrear) recorded a loss from Air China in the first half of 2014. Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi. Steps have been taken to improve the financial performance of Air China Cargo, our cargo joint venture with Air China, including the purchase of fuel-efficient Boeing 777-200F freighters to replace the joint venture's Boeing 747-400BCF converted freighters. Four of these new aircraft have been delivered and one more will be delivered in the second half of 2014. In June, we announced a substantial injection of capital and loans into Air China Cargo by its shareholders. This injection is to provide funds to assist the carrier to renew its fleet and improve the performance of its main cargo business.

The operating environment for the Cathay Pacific Group - and the aviation industry as a whole - remains challenging. We face significant competition in our passenger business. This makes it difficult to maintain yields. The air cargo business remains problematic because of excess capacity. Intense competition similarly puts pressure on yield. On the plus side, we continue to strengthen our passenger network and the connections available through Hong Kong. The high quality of our products and services increases our attractiveness to passengers. We expect our new freighter fleet and new cargo terminal to allow us to compete successfully in the air cargo market in the long term.

We expect business to be better in the second half of 2014. Our financial position remains strong and will enable us, despite the current difficult trading conditions, to maintain the quality of our products and services and to continue with our long-term strategic investment in the business. As always, we remain committed to strengthening the world class aviation hub in our home, Hong Kong. Finally, we are particularly pleased that in July, Cathay Pacific was named the World's Best Airline in the annual World Airline Awards run by Skytrax. This is the fourth time we have received this award, which is decided by public voting.

John Slosar
Chairman
Hong Kong, 13th August 2014

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2014 – Unaudited

	Note	2014 HK$M	2013 HK$M
Turnover			
Passenger services		**36,520**	34,978
Cargo services		**11,663**	11,278
Catering, recoveries and other services		**2,657**	2,328
Total turnover	*3*	**50,840**	48,584
Expenses			
Staff		**(8,899)**	(8,432)
Inflight service and passenger expenses		**(2,162)**	(1,986)
Landing, parking and route expenses		**(6,944)**	(6,668)
Fuel, net of hedging gains		**(18,930)**	(18,674)
Aircraft maintenance		**(3,664)**	(3,861)
Aircraft depreciation and operating leases		**(5,049)**	(4,565)
Other depreciation, amortisation and operating leases		**(1,039)**	(889)
Commissions		**(401)**	(386)
Others		**(2,176)**	(2,088)
Operating expenses		**(49,264)**	(47,549)
Operating profit	*5*	**1,576**	1,035
Finance charges		**(896)**	(658)
Finance income		**275**	116
Net finance charges		**(621)**	(542)
Share of losses of associates		**(265)**	(155)
Profit before taxation		**690**	338
Taxation	*6*	**(196)**	(173)
Profit for the period		**494**	165
Non-controlling interests		**(147)**	(141)
Profit attributable to the shareholders of Cathay Pacific		**347**	24
Profit for the period		**494**	165
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(1,287)**	1,806
Revaluation of available-for-sale financial assets		**(18)**	26
Share of other comprehensive income of associates		**45**	137
Exchange differences on translation of foreign operations		**(516)**	225
Other comprehensive income for the period, net of taxation	*7*	**(1,776)**	2,194
Total comprehensive income for the period		**(1,282)**	2,359
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		**(1,429)**	2,218
Non-controlling interests		**147**	141
		(1,282)	2,359
Earnings per share (basic and diluted)	*8*	**8.8¢**	0.6¢

Consolidated Statement of Financial Position

at 30th June 2014 - Unaudited

	Note	30th June 2014 HK$M	31st December 2013 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Fixed assets		**95,718**	94,935
Intangible assets		**9,916**	9,802
Investments in associates		**20,764**	20,314
Other long-term receivables and investments		**7,037**	7,135
Deferred tax assets		**296**	204
		133,731	132,390
Long-term liabilities		**(52,947)**	(57,460)
Related pledged security deposits		**521**	626
Net long-term liabilities		**(52,426)**	(56,834)
Other long-term payables		**(1,533)**	(1,318)
Deferred tax liabilities		**(9,589)**	(9,633)
		(63,548)	(67,785)
Net non-current assets		**70,183**	64,605
Current assets and liabilities			
Stock		**1,512**	1,511
Trade, other receivables and other assets	*10*	**10,657**	9,827
Assets held for sale	*11*	**102**	111
Liquid funds		**20,241**	27,736
		32,512	39,185
Current portion of long-term liabilities		**(9,626)**	(11,179)
Related pledged security deposits		**363**	961
Net current portion of long-term liabilities		**(9,263)**	(10,218)
Trade and other payables	*12*	**(18,106)**	(18,206)
Unearned transportation revenue		**(13,124)**	(11,237)
Taxation		**(1,224)**	(1,116)
		(41,717)	(40,777)
Net current liabilities		**(9,205)**	(1,592)
Total assets less current liabilities		**124,526**	130,798
Net assets		**60,978**	63,013
CAPITAL AND RESERVES			
Share capital: nominal value	*13*	**-**	787
Other statutory capital reserves	*13*	**-**	16,319
Share capital and other statutory capital reserves	*13*	**17,106**	17,106
Other reserves		**43,724**	45,782
Funds attributable to the shareholders of Cathay Pacific		**60,830**	62,888
Non-controlling interests		**148**	125
Total equity		**60,978**	63,013

Notes:

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *"Interim Financial Reporting"*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 13th August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements.

2. Changes in accounting policies

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRS") and one new interpretation that are first effective for the current accounting period of the Group:

- Amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities"
- Amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"
- Amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"
- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities"
- HK (IFRIC) Interpretation 21 "Levies"

The adoption of the amendments and interpretation has had no significant impact on the results and financial position of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. Turnover

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

4. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2014 HK$M	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M	**2014 HK$M**	2013 HK$M
Sales to external customers	**50,264**	48,025	**576**	559			**50,840**	48,584
Inter-segment sales	**4**	4	**1,750**	1,165			**1,754**	1,169
Segment revenue	**50,268**	48,029	**2,326**	1,724			**52,594**	49,753
Segment results	**1,585**	1,391	**(9)**	(356)			**1,576**	1,035
Net finance charges	**(615)**	(535)	**(6)**	(7)			**(621)**	(542)
	970	856	**(15)**	(363)			**955**	493
Share of losses of associates					**(265)**	(155)	**(265)**	(155)
Profit before taxation							**690**	338
Taxation	**(215)**	(235)	**19**	62			**(196)**	(173)
Profit for the period							**494**	165

4. Segment information (continued)

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, aircraft ramp handling services and cargo terminal operations. The unallocated results represent the Group's share of losses 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.

(b) Geographical information

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Turnover by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**24,246**	22,499
- Japan, Korea and Taiwan	**5,293**	5,560
India, Middle East, Pakistan and Sri Lanka	**2,294**	2,506
Southwest Pacific and South Africa	**3,246**	3,284
Southeast Asia	**4,038**	3,927
Europe	**4,593**	4,301
North America	**7,130**	6,507
	50,840	48,584

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Maldives, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2013 Annual Report.

5. Operating profit

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
- leased	**1,254**	1,231
- owned	**2,658**	2,237
Amortisation of intangible assets	**153**	73
Operating lease rentals		
- land and buildings	**493**	426
- aircraft and related equipment	**1,509**	1,471
- others	**21**	16
Provision for impairment of fixed assets	**347**	-
Provision for impairment of assets held for sale	**9**	12
(Gain)/loss on disposal of fixed assets, net	**(2)**	53
Cost of stock expensed	**965**	1,026
Exchange differences, net	**14**	236
Auditors' remuneration	**6**	5
Dividend income from unlisted investments	**(8)**	(7)

6. Taxation

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Current tax expenses		
- Hong Kong profits tax	**95**	77
- overseas tax	**98**	108
- over provision for prior years	**-**	(35)
Deferred tax		
- origination and reversal of temporary differences	**3**	23
	196	173

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the period. 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 the status of negotiations (see note 22(d) to the financial statements in the 2014 Interim Report).

7. Other comprehensive income

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Cash flow hedges		
- recognised during the period	**(853)**	2,113
- transferred to profit or loss	**(584)**	(92)
- deferred tax recognised	**150**	(215)
Revaluation of available-for-sale financial assets		
- recognised during the period	**(18)**	26
Share of other comprehensive income of associates		
- recognised during the period	**45**	126
- reclassified to profit or loss	**-**	11
Exchange differences on translation of foreign operations		
- recognised during the period	**(514)**	259
- reclassified to profit or loss	**(2)**	(34)
Other comprehensive income for the period	**(1,776)**	2,194

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$347 million (2013: HK$24 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2013: 3,934 million) shares.

9. Dividend

The Directors have declared a first interim dividend of HK$0.10 per share (2013: HK$0.06 per share) for the six months ended 30th June 2014. The interim dividend which totals HK$393 million (2013: HK$236 million) will be paid on 6th October 2014 to shareholders registered at the close of business on the record date, being Friday, 5th September 2014. Shares of the Company will be traded ex-dividend as from Wednesday, 3rd September 2014. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 5th September 2014, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 4th September 2014.

10. Trade, other receivables and other assets

	30th June 2014 HK$M	31st December 2013 HK$M
Trade debtors	**5,902**	5,421
Derivative financial assets - current portion	**1,779**	2,022
Other receivables and prepayments	**2,909**	2,314
Due from associates and other related companies	**67**	70
	10,657	9,827

	30th June 2014 HK$M	31st December 2013 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,802**	5,319
One to three months overdue	**85**	86
More than three months overdue	**15**	16
	5,902	5,421

The Group normally grants a credit term of 30 days to customers or follows the relevant local industry standard, with debts in certain circumstances being partially secured by bank guarantees or other monetary collateral.

11. Assets held for sale

	30th June 2014 HK$M	31st December 2013 HK$M
Assets held for sale	**102**	111
	102	111

12. Trade and other payables

	30th June 2014 HK$M	31st December 2013 HK$M
Trade creditors	**7,458**	7,601
Derivative financial liabilities – current portion	**839**	799
Other payables	**9,409**	9,331
Due to associates	**183**	166
Due to other related companies	**217**	309
	18,106	18,206

	30th June 2014 HK$M	31st December 2013 HK$M
Analysis of trade creditors by age:		
Current	**7,189**	7,408
One to three months overdue	**249**	174
More than three months overdue	**20**	19
	7,458	7,601

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

13. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares (2013: nil). At 30th June 2014, 3,933,844,572 shares were in issue (31st December 2013: 3,933,844,572 shares). Under the Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3rd March 2014, the concepts of “authorised share capital” and “par value” no longer exist. In accordance with Section 135 of the Hong Kong Companies Ordinance (Cap. 622), the Company’s shares no longer have nominal value with effect from 3rd March 2014. In accordance with the transitional provisions set out in Section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622) on 3rd March 2014, any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company’s share capital. These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

14. Corporate governance

Cathay Pacific 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 (the “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 accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

- **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 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”) set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors of the Company have confirmed that, in respect of the accounting period covered by the interim 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.

The 2014 interim results have been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2013 Annual Report and in the 2014 Interim Report.

15. Interim report

The 2014 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Company website (www.cathaypacific.com) on or before 28th August 2014. Printed copies will be sent to shareholders who have elected to receive printed copies on 29th August 2014.

Operating expenses

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2014 HK$M	2013 HK$M	**Change**	**2014 HK$M**	2013 HK$M	**Change**
Staff	**8,899**	8,432	**+5.5%**	**7,976**	7,590	**+5.1%**
Inflight service and passenger expenses	**2,162**	1,986	**+8.9%**	**2,162**	1,986	**+8.9%**
Landing, parking and route expenses	**6,944**	6,668	**+4.1%**	**6,830**	6,563	**+4.1%**
Fuel, net of hedging gains	**18,930**	18,674	**+1.4%**	**18,504**	18,245	**+1.4%**
Aircraft maintenance	**3,664**	3,861	**-5.1%**	**3,545**	3,703	**-4.3%**
Aircraft depreciation and operating leases	**5,049**	4,565	**+10.6%**	**4,934**	4,448	**+10.9%**
Other depreciation, amortisation and operating leases	**1,039**	889	**+16.9%**	**736**	632	**+16.5%**
Commissions	**401**	386	**+3.9%**	**401**	386	**+3.9%**
Others	**2,176**	2,088	**+4.2%**	**2,660**	2,118	**+25.6%**
Operating expenses	**49,264**	47,549	**+3.6%**	**47,748**	45,671	**+4.5%**
Net finance charges	**621**	542	**+14.6%**	**599**	518	**+15.6%**
Total operating expenses	**49,885**	48,091	**+3.7%**	**48,347**	46,189	**+4.7%**

- The Group's total operating expenses increased by 3.7% to HK$49,885 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.69 to HK$3.57.

Cathay Pacific and Dragonair operating results analysis

	Six months ended 30th June	
	2014 HK$M	2013 HK$M
Airlines' profit before taxation	**547**	452
Taxation	**(148)**	(171)
Airlines' profit after taxation	**399**	281
Share of losses from subsidiaries and associates	**(52)**	(257)
Profit attributable to the shareholders of Cathay Pacific	**347**	24

Cathay Pacific and Dragonair operating results analysis (continued)

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

	HK$M	
2013 interim airlines' profit before taxation	**452**	
Turnover	**2,253**	- Passenger turnover increased due to a 2.3% point increase in load factor and a 5.3% increase in capacity offset by a 3.5% decrease in yield. - Cargo turnover increased due to a 0.8% point increase in load factor and a 10.8% increase in capacity offset by a 6.9% decrease in yield.
Fuel, net of hedging gains	**(259)**	- Fuel costs increased primarily due to a 6.2% increase in consumption.
Landing, parking and route expenses	**(267)**	- Increased mainly due to an increase in flight frequencies.
Aircraft maintenance	**158**	- Decreased mainly due to retirement of older aircraft resulting in reduced requirement for maintenance.
Depreciation, amortisation and operating leases	**(590)**	- Increased mainly due to the accelerated retirement of Airbus A340-300 aircraft and the addition of new aircraft.
Staff	**(386)**	- Increased mainly due to increases in headcount and salaries.
Inflight service, commission, net finance charges and others	**(814)**	- Increased mainly due to the increase in inflight service and passenger expenses and provision for impairment of fixed assets.
2014 interim airlines' profit before taxation	**547**	

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2014	2013
	HK$M	HK$M
Gross fuel cost	**19,954**	18,974
Fuel hedging gains	**(1,024)**	(300)
Net fuel cost	**18,930**	18,674

Financial position

- Additions to fixed assets were HK$5,495 million, comprising HK$5,219 million for aircraft and related equipment and HK$276 million for other equipment and buildings.
- Borrowings decreased by 8.0% to HK$61,689 million. These are fully repayable by 2026 and are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, with 63% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 74.0% of which are denominated in United States dollars, decreased by 27.0% to HK$20,241 million.
- Net borrowings increased by 5.4% to HK$41,448 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 3.3% to HK$60,830 million. The net debt/equity ratio increased to 0.68 times from 0.63 times.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2013 Annual Report.

Fleet profile *

Aircraft type	Number at 30th June 2014				Firm orders				Expiry of operating leases						Options
		Leased													
	Owned	Finance	Operating	Total	'14	'15	'16 and beyond	Total	'14	'15	'16	'17	'18	'19 and beyond	
Aircraft operated by Cathay Pacific:															
A330-300	16	15	6	37	3	3		6		2	1	1		2	
A340-300	6	5		11[a]											
A350-900							22[b]	22							
A350-1000							26	26							
747-400	10[c]		1	11						1					
747-400F	6			6[d/e]											
747-400BCF			1[f]	1									1		
747-400ERF		6		6											
747-8F	2	11		13			1[e]	1							
777-200	5			5											
777-200F															5[g]
777-300	8	4		12											
777-300ER	9	11	20	40	7	6[e]		13				2	2	16	
777-9X							21[e]	21							
Total	62	52	28	142	10	9	70	89		3	1	3	3	18	5
Aircraft operated by Dragonair:															
A320-200	5		10	15									2	8	
A321-200	2		5	7	1[h]			1						5	
A330-300	8		10	18					2	1	2	4		1	
Total	15		25	40	1			1	2	1	2	4	2	14	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6		8											
747-400BCF			3	3							1	2			
Total	2	6	3	11[i]							1	2			
Grand total	**79**	**58**	**56**	**193**	**11**	**9**	**70**	**90**	**2**	**4**	**4**	**9**	**5**	**32**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 30th June 2014.

(a) Cathay Pacific planned the accelerated retirement of 11 Airbus A340-300 aircraft. Four of these aircraft will be retired by the end of 2015 and the remaining seven will be retired by the end of 2017.

(b) Including two aircraft on 12-year operating leases.

(c) Two aircraft were retired in August 2014.

(d) Four aircraft were parked, one in May 2013, two in January 2014 and one in February 2014.

(e) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters.

(f) Aircraft was parked in August 2013.

(g) Purchase options in respect of five Boeing 777-200F freighters.

(h) Aircraft on an 8-year operating lease.

(i) Air Hong Kong operates a total of 13 aircraft. It has two Airbus A300-600F freighters on wet leases, with lease terms ending in 2015. In May, Air Hong Kong early terminated one of the wet leases, which will be changed to a dry lease with effect from October 2014.

Review of other subsidiaries and associates

- AHK Air Hong Kong Limited recorded a higher profit in the first half of 2014 compared with the first half of 2013.
- Cathay Pacific Catering Services (H.K.) Limited reported a rise in profit in the first half of 2014 compared to the first half of 2013. This was due to an increase in business volume and effective management of operating costs.
- Cathay Pacific Services Limited reported a reduced loss for the first half of 2014 compared with the same period in 2013. The improvement mainly reflected the fact that the cargo terminal became fully operational in October 2013.
- The financial results of Hong Kong Airport Services Limited for the first half of 2014 improved compared with the same period in 2013. The improvement was attributable to higher handling rates introduced during the first half of 2014. Some customers switched to lower cost service providers. This is likely to have an adverse effect on the full year's financial performance.
- The Group's share of Air China Limited's ("Air China") results is based on its financial statements drawn up three months in arrear. Consequently the 2014 interim results include Air China's results for the six months ended 31st March 2014, adjusted for any significant events or transactions for the period from 1st April 2014 to 30th June 2014. The Group recorded a loss from Air China in the first half of 2014. Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi.
- Air China Cargo Co., Ltd. ("Air China Cargo"), in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. The Group recorded a reduced loss from Air China Cargo in the first half of 2014 compared to the first half of 2013. This was mainly due to the retirement of older aircraft and the introduction of more modern ones.
- HAECO ITM Limited ("HXITM"), in which Cathay Pacific has a 30% interest, provides aircraft inventory technical management services to the Cathay Pacific Group and other airlines. HXITM reported an improvement in results in the first half of 2014 compared to the first half of 2013.
- Shanghai International Airport Services Co., Limited ("SIAS") provides airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport. The financial results of SIAS for the first half of 2014 were better than expected, because of increases in the numbers of customer airlines served and flights handled and cost savings.

Corporate Responsibility

- Our Sustainable Development Report 2013 is to be published before the end of August. It will be available on www.cathaypacific.com/sdreport.
- Cathay Pacific is involved in the Global Market-based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020, and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with regulators and groups involved in shaping climate change and aviation policy as part of its climate change strategy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- Cathay Pacific supports market-based measures as an interim solution to reduce aviation's emissions, but does not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) on carriers based outside Europe. Hence, we welcomed the deferment of the start of EU ETS (insofar as it relates to flights which are not intra-European flights) until 2016.
- In January, Hong Kong SAR Chief Executive CY Leung was guest of honour on a special community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300ER aircraft was a special treat for some 70 single-parent families from less-well-off districts in Hong Kong. Most of the participants had never flown before. The flight was organised in support of the Commission on Poverty's "Bless Hong Kong" campaign.

- Cathay Pacific continued to support UNICEF through its “Change for Good” inflight fundraising programme. In April, a group of Cathay Pacific staff went to Cambodia to see how “Change for Good” donations have been put to good use in the local community.
- At 30th June 2014, the Cathay Pacific Group employed more than 32,200 people worldwide. More than 24,800 of these people are based in Hong Kong. Cathay Pacific itself employs more than 22,000 people worldwide. Dragonair employs almost 3,200 people. 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.

As at the date of this announcement, the Directors of Cathay Pacific are:

Executive Directors: John Slosar (Chairman), James Barrington, Ivan Chu, Rupert Hogg and Martin Murray;

Non-Executive Directors: Cai Jianjiang, Fan Cheng, James W.J. Hughes-Hallett, Peter Kilgour, Ian Shiu, Song Zhiyong, Merlin Swire 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

John Slosar

Chairman

Hong Kong, 13th August 2014

Website: http://www.cathaypacific.com