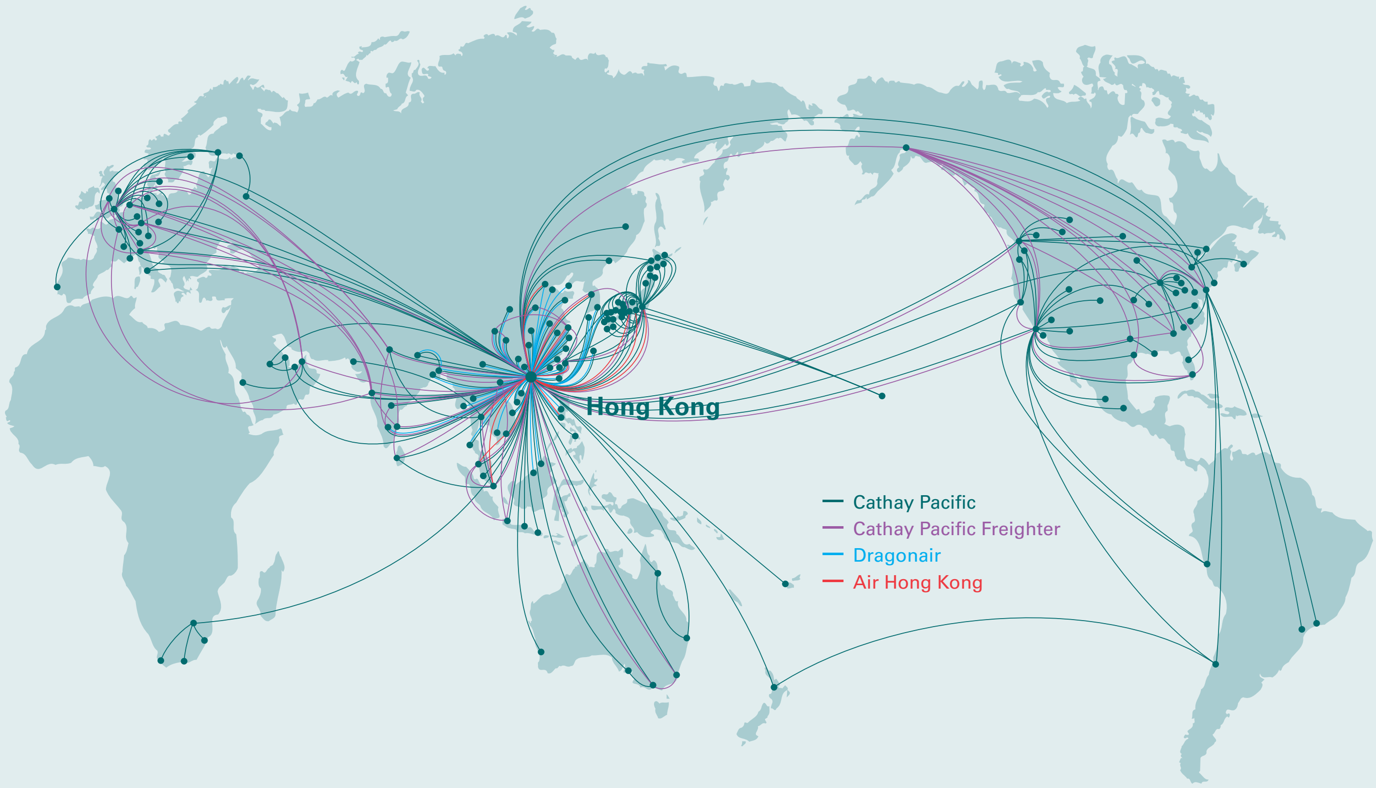
Cathay Pacific Airways Limited

Stock Code: 00293

2013
Interim Report



Contents

CORPORATE INFORMATION

Cathay Pacific Airways Limited is incorporated in Hong Kong with limited liability.

INVESTOR RELATIONS

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Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 177 destinations in 40 countries and territories.

The Company was founded in Hong Kong in 1946 and remains deeply committed to its home base, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres. In addition to its fleet of 134 aircraft, these investments include catering and ground-handling companies and the corporate headquarters at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city and at 30th June 2013 had another 81 new aircraft due for delivery up to 2020. The airline opened its own cargo terminal at Hong Kong International Airport in February 2013. It is expected to be fully operational by the last quarter of 2013.

Hong Kong Dragon Airlines Limited ("Dragonair") is a regional airline registered and based in Hong Kong. It is a wholly owned subsidiary of Cathay Pacific and operates 39 aircraft on scheduled services to 45 destinations in Mainland China and elsewhere in Asia. Two more aircraft will be added to Dragonair's fleet in 2014. Cathay Pacific owns 20.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is also the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier offering scheduled services in Asia.

Cathay Pacific and its subsidiaries employ some 29,900 people worldwide, of which more than 22,800 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 840 destinations worldwide. Dragonair is an affiliate member of **one**world.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2013	2012 (restated)	
		Six months ended 30th June		Change
Results				
Turnover	*HK$ million*	**48,584**	48,861	**-0.6%**
Profit/(loss) attributable to the owners of Cathay Pacific	*HK$ million*	**24**	(929)	**+102.6%**
Earnings/(loss) per share	*HK cents*	**0.6**	(23.6)	**+102.5%**
Dividend per share	*HK$*	**0.06**	–	**+100.0%**
Profit/(loss) margin	*%*	**0.1**	(1.9)	**+2.0%pt**
		30th June	31st December (restated)	
Financial position				
Funds attributable to the owners of Cathay Pacific	*HK$ million*	**57,924**	56,021	**+3.4%**
Net borrowings	*HK$ million*	**34,784**	35,364	**-1.6%**
Shareholders' funds per share	*HK$*	**14.7**	14.2	**+3.5%**
Net debt/equity ratio	*Times*	**0.60**	0.63	**-0.03 times**

OPERATING STATISTICS – CATHAY PACIFIC AND DRAGONAIR

		2013	2012 (restated)	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**12,520**	12,944	**-3.3%**
Available seat kilometres ("ASK")	*Million*	**62,187**	65,351	**-4.8%**
Passengers carried	*'000*	**14,497**	14,312	**+1.3%**
Passenger load factor	*%*	**81.3**	80.1	**+1.2%pt**
Passenger yield	*HK cents*	**69.0**	66.1	**+4.4%**
Cargo and mail carried	*'000 tonnes*	**741**	754	**-1.7%**
Cargo and mail load factor	*%*	**62.4**	64.3	**-1.9%pt**
Cargo and mail yield	*HK$*	**2.33**	2.41	**-3.3%**
Cost per ATK (with fuel)	*HK$*	**3.69**	3.72	**-0.8%**
Cost per ATK (without fuel)	*HK$*	**2.23**	2.18	**+2.3%**
Aircraft utilisation	*Hours per day*	**11.6**	12.0	**-3.3%**
On-time performance	*%*	**77.7**	76.8	**+0.9%pt**

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$24 million for the first six months of 2013. This compares to a restated loss of HK$929 million in the first half of 2012. Earnings per share were HK0.6 cents compared to a restated loss per share of HK23.6 cents in the first half of 2012. Turnover for the period fell by 0.6% to HK$48,584 million.

The Directors have declared a first interim dividend of HK$0.06 per share (2012: nil) for the six months ended 30th June 2013. The interim dividend which totals HK$236 million (2012: nil) will be paid on 3rd October 2013.

We continued to operate in a challenging business environment in the first half of 2013, though there was improvement in our passenger business. Demand in the major air cargo markets remained weak. Our cargo business has been affected by weak demand for more than two years, which is unprecedented. The persistently high price of jet fuel continued to affect our business adversely. Share of losses from associated companies increased.

In 2012, we introduced measures designed to protect our business, in particular from the high price of jet fuel. We changed schedules, reduced capacity and withdrew older, less fuel-efficient aircraft from service. The fuel and aircraft maintenance components of our operating costs in the first half of 2013 were significantly lower and financial performance improved as a result. But we did not allow cost reductions to compromise our brand or the quality of our service, and we continued to make major investments in new aircraft, new products and our new cargo terminal at Hong Kong International Airport which will benefit the business in the long term.

In the first half of 2013 our net fuel costs decreased by 8.5% compared to the same period in 2012. Notwithstanding this reduction, fuel remains the Group's most significant cost, accounting for 38.8% of our total operating costs during the period. Managing the risk associated with high and volatile fuel prices remains a high priority. In April 2013 we took advantage of a brief drop in fuel prices to extend our fuel hedging into 2016.

Our passenger business in the first half of 2013 improved compared to the same period in 2012. Revenue increased by 0.8% to HK$34,978 million, although capacity decreased by 4.8%. The load factor increased by 1.2 percentage points to 81.3%. Having fewer seats available enabled us to improve revenue management. Yield also improved by 4.4% to HK69.0 cents. Passenger demand was strong on long-haul routes in all classes of travel. However, demand on regional routes did not match the increase in capacity on these routes, which put yield under pressure. Travel within the Asia Pacific region was affected by H7N9 avian flu and political issues in Northeast Asia.

Our cargo business has been affected by weak demand since April 2011. There is still no sign of sustained improvement. The Group's cargo revenue for the first half of 2013 was down by 5.2% to HK$11,278 million compared to the same period in 2012. Capacity for Cathay Pacific and Dragonair was down by 1.8%. The load factor was down by 1.9 percentage points to 62.4%. Yield was down by 3.3% to HK$2.33. Capacity was adjusted in line with demand. We reduced our schedules and made ad hoc flight cancellations. We carried more cargo in the bellies of passenger aircraft in order to reduce costs. On the plus side, our new cargo terminal at Hong Kong International Airport is expected to be fully operational by the last quarter of 2013, which will reduce costs and improve efficiency in our cargo business.

In the first six months of 2013 we took delivery of six new aircraft: two Airbus A330-300 aircraft, three Boeing 777-300ER aircraft and one Boeing 747-8F freighter. Four Boeing 747-400 passenger aircraft were retired during the period. In March 2013, we entered into agreements in relation to our cargo fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo Co., Ltd. ("Air China Cargo") and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters, for delivery in the second half of 2013, cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. Three of the converted freighters have already left our fleet. As part of the same package of transactions, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters. This will greatly improve the efficiency of Air China Cargo's fleet.

All of the long-haul passenger frequencies that were cancelled as part of 2012's cost reductions are restored by September 2013. We restored flights to Los Angeles and Toronto and will restore flights to New York from September. We introduced a fifth daily frequency to London in June and will, subject to government approval, introduce a new four-times-weekly service to Male in the Maldives in October and a new daily service to Newark in the U.S.A. in March 2014. We continued to strengthen Dragonair's regional network, adding services to Da Nang, Wenzhou, Yangon and Zhengzhou and will, subject to government approval, introduce a new three-times-weekly seasonal service to Siem Reap in Cambodia in October. We suspended cargo services to Brussels and Stockholm in February, due to continued weak demand for cargo shipments to and from Europe. We intend to add Guadalajara to the cargo network in the last quarter of 2013, with a view to offering cargo services between Mexico and Hong Kong and the rest of Asia.

Our new premium economy class, introduced in 2012, is growing in popularity with passengers and has helped to improve our economy class yield. By 30th June 2013, premium economy class was available on 68 of our long-haul aircraft. By the end of the year, it will be available on 85 aircraft. In January 2013 we began to introduce our new regional business class seat. The new seats had been installed in four of our aircraft by 30th June 2013. Installation in the regional fleet will be completed by December 2014. Our new business and economy class seats have been installed in 32 Boeing 777-300ER and 24 Airbus A330-300 long-haul aircraft. We started to improve our first class seats on the Boeing 777-300ER aircraft in July. Dragonair is installing new business and economy class seats and a new inflight entertainment system in its aircraft. By 30th June 2013, the new products had been installed on eight Dragonair aircraft. They will have been installed on 20 Dragonair aircraft by March 2014. At Hong Kong International Airport we reopened our renovated first class lounge at The Wing in February. Our fifth departure lounge at Hong Kong International Airport, The Bridge, will open later in 2013.

We continue to strengthen our strategic partnership with Air China. A new ground-handling company, Shanghai International Airport Services Co., Limited, began operations in February 2013. This joint venture between Cathay Pacific, Air China, the Shanghai Airport Authority and Shanghai International Airport Co. Ltd. provides ground-handling services at Shanghai's two international airports, Hongqiao and Pudong. We are working to improve the financial performance of Air China Cargo, our cargo joint venture with Air China.

While we continued to operate in a difficult environment in the first six months of 2013, it was pleasing to see some improvement in our business. This improvement mainly reflected stronger passenger business and cost reductions. Our financial position remains strong. We will continue to invest to make our business stronger. We will remain focused on our long-term goals while managing short-term challenges. The business outlook for the rest of 2013 remains unclear, but our core strengths – a superb team, a strong international network, exceptional standards of customer service, a strong relationship with Air China and our position in Hong Kong – remain firmly in place.

Christopher Pratt
Chairman
Hong Kong, 14th August 2013

2013 Interim Review

The Cathay Pacific Group continued to operate in a difficult environment in the first six months of 2013. There was improvement in the passenger business and operating costs were lower. However, weak cargo demand and high fuel prices continued to affect the overall business adversely. The Group remained focused on maintaining a strong network and improving its products and services. We continued to make long-term investments designed to ensure the long-term success of the Group and strengthen Hong Kong's position as one of the world's leading aviation hubs.

AWARD WINNING PRODUCTS AND SERVICES

- The installation of our award-winning new business class seats was completed on 32 Boeing 777-300ER and 24 Airbus A330-300 long-haul aircraft in March. The seats have been well received by passengers.

- We have started to improve the long-haul business class seats on our Boeing 747-400 and Airbus A340-300 aircraft. This will be completed by the end of 2013.

- The retrofit programme to install new economy class seats on Cathay Pacific's long-haul Boeing 777-300ER and Airbus A330-300 aircraft was completed in March.

- Cathay Pacific introduced its new premium economy class in April 2012. It is growing in popularity with passengers. The new class will be available on 85 aircraft by the end of 2013.

- All Boeing 777-300ER aircraft to be delivered from now until 2015 will be fitted with premium economy class and the new long-haul economy class seats.

- In January, we began to install new regional business class seats in our regional Boeing 777-300 aircraft. Installation will be completed by the end of 2013. In the second half of 2013, we will start to install new regional business class seats in our regional A330-300 aircraft, with installation expected to be completed by the end of 2014. The new seats have better ergonomics and more storage space. Audio and video on demand are available on personal touch screen television monitors. There are new headsets which reduce external noise.

- New entertainment systems and touch-screen monitors are being installed in economy class in the aircraft in which the new regional business class seats are being installed.

- In July, we started to improve the first class seats in our Boeing 777-300ER aircraft. This is an upgrade to the existing seats intended to rejuvenate their look and feel and to enhance their features.

- New business and economy class seats are being installed in Dragonair's Airbus A330 and A321 aircraft. Installations started in February and will be completed by March 2014. The new seats are much better than the old ones. Audio and video on demand are being made available for all passengers on personal television monitors. Newly designed cutlery, crockery and glassware are being introduced.

- In March, Dragonair introduced new staff uniforms, designed by Hong Kong designer Mr. Eddie Lau. The new uniforms reflect the individuality and vitality of the airline.

- In February, we reopened the first class lounge at The Wing at Hong Kong International Airport after an extensive refurbishment. This was the final stage of the renovation of our signature lounge at the airport. There is a new à la carte menu at The Haven, a new champagne bar and refurbished cabanas with shower and bath facilities.

- We have begun work on The Bridge at Hong Kong International Airport. This will be our fifth departure lounge at the airport. The 2,600 square-metre facility will be a new lounge with shower facilities and more than 360 seats. Situated near Gate 40 at the airport, The Bridge will open later in 2013.

- The professionalism of the Cathay Pacific team was highlighted when the airline received the World's Best Cabin Staff award at the Skytrax World Airline Awards in June. Cathay Pacific was also named the Best Transpacific Airline.

- Dragonair was also a winner at the Skytrax World Airline Awards. The carrier received the World's Best Regional Airline award for the third time – the first time for any airline to achieve this – and also received the Best Regional Airline in Asia award.

HUB DEVELOPMENT

- The Cathay Pacific Group remains committed to the long-term development of Hong Kong International Airport as a premier international hub for passenger and cargo traffic. We continue to develop our networks and frequencies where this is possible, so providing customers with more choice. We also work to improve the connections available through Hong Kong.

- In February, we opened our new Cathay Pacific cargo terminal at Hong Kong International Airport. This HK$5.9 billion facility is expected to be fully operational by the last quarter of 2013 and will significantly improve the efficiency of air cargo operations in Hong Kong.

- We continue to manage capacity in line with passenger and cargo demand, while endeavouring to keep our network intact.

- In the first half of 2013, we reduced our passenger capacity by 4.8% compared to the same period last year. This was a result of frequency reductions introduced in 2012 in order to save costs.

- Cargo capacity for Cathay Pacific and Dragonair in the first six months of 2013 was down by 1.8% compared to the same period in 2012. We reduced our freighter schedule and cancelled flights on an ad hoc basis in response to weak air cargo markets.

- All of the long-haul passenger frequencies that were cancelled as part of 2012's cost reductions are restored by September 2013. We restored flights to Los Angeles (to three times daily from June) and Toronto (to 10 flights per week from March). We intend to restore flights to New York to four times daily from September.

- We introduced a fifth daily frequency to London in June.

- We improved our Mumbai service from March by changing three of the flights that went via Bangkok to non-stop flights. There are now 10 non-stop flights a week to Mumbai.

- Cathay Pacific has added five more flights a week to Bangkok, making a total of 47 flights a week from July.

- We are committed to increasing flights to and from Mainland China (primarily through Dragonair), by adding new destinations and more frequencies where this is possible and so improving connections through Hong Kong. Currently, we operate approaching 400 flights to 22 Mainland China destinations every week. We introduced two new Mainland destinations in the first half of 2013, Wenzhou and Zhengzhou, and added three flights a week on the Wuhan route (making a total of 10 flights a week).

- We will introduce a new four-times-weekly service to Male in the Maldives in October and a new daily service to Newark in the U.S.A. in March 2014, subject to government approval.
- Dragonair introduced services to Da Nang and Yangon in the first six months of 2013 and will introduce a new three-times-weekly seasonal service to Siem Reap in Cambodia in October, subject to government approval. Siem Reap will become the 13th destination to have been introduced or resumed by Dragonair since April 2012.
- Dragonair added more flights to a number of destinations. In February, three flights were added to Kaohsiung (making a total of 45 flights a week). In April, one flight was added to Chiang Mai (making a total of five flights a week) and one flight was added to Kota Kinabalu (making it a daily service). In July, one flight was added to Da Nang (making a total of four flights a week).
- We suspended cargo services to Brussels and Stockholm in February, due to continued weak demand for cargo shipments to and from Europe. We intend to add Guadalajara to the cargo network in the last quarter of 2013, with a view to offering cargo services between Mexico and Hong Kong and the rest of Asia.

FLEET DEVELOPMENT

- The Cathay Pacific Group is committed to upgrading and modernising its fleet. At 30th June 2013, the Group had 83 new aircraft on order for delivery up to 2020.
- The Group currently operates 184 aircraft. Cathay Pacific operates 134 aircraft. Dragonair operates 39 aircraft. Air Hong Kong Limited operates 11 aircraft.
- In March 2013, we entered into agreements in relation to our fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters, for delivery in the second half of 2013, cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. Three of the converted freighters have already left our fleet. As part of the same package of transactions, Air China Cargo agreed to purchase eight Boeing 777-200F freighters and to sell seven Boeing 747-400BCF converted freighters.
- In the first half of 2013, we took delivery of six new aircraft: two Airbus A330-300 aircraft, three Boeing 777-300ER aircraft and one Boeing 747-8F freighter. Four Boeing 747-400 passenger aircraft were retired and two Airbus A330-300 aircraft were transferred from Cathay Pacific to Dragonair. One of Dragonair's own Airbus A330-300 aircraft was returned to its lessor.

ADVANCES IN TECHNOLOGY

- We introduced upgraded Cathay Pacific and Dragonair websites in June that have a new look and feel and are easier to use. The website upgrades will facilitate the development of more integrated and flexible digital channels.
- We are implementing a new departure control system. The flight management component of the system is expected to be introduced in late 2013. The customer management component of the system is expected to be introduced in late 2014. The new system will allow us to streamline the way in which we handle customers at airports.

- We continue to introduce our mobile boarding pass service for passengers. The service became available in four more airports in the first half of 2013, making a total of 24 airports in which it is available.

PARTNERSHIPS

- Qatar Airways is expected to join the **one**world alliance by November 2013.
- SriLankan Airlines is expected to join **one**world in the first half of 2014. Cathay Pacific is sponsoring the carrier's entry into the alliance.
- TAM, TAM Mercosur and LAN Colombia are expected to join **one**world as affiliate members after the completion of their merger with LAN (to form the LATAM Airlines Group).
- American Airlines is expected to merge with US Airways (subject to regulatory approval) by the third quarter of 2013. US Airways will then join **one**world as an affiliate member.
- Cathay Pacific, Dragonair and S7 Airlines entered into a codeshare arrangement that covers S7 flights between Hong Kong and Khabarovsk, Vladivostok and Saint Petersburg via Moscow, and Cathay Pacific flights between Hong Kong and Bangkok, Ho Chi Minh City, Moscow and Singapore. The codeshare also covers Dragonair flights between Hong Kong and Chiang Mai and Hanoi.
- Cathay Pacific, Dragonair and Hunnu Air, formerly Mongolian Airlines, introduced interline arrangements in February 2013.
- In March, British Airways added its code on Cathay Pacific flights to Australia.
- In March, Cathay Pacific added its code on Dragonair flights to Da Nang.

ENVIRONMENT

- 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 (ICAO) and International Air Transport Association (IATA) to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- The fifth Greener Skies Aviation and Environment Conference was held in Hong Kong in February, with Cathay Pacific as one of the principal sponsors.
- Cathay Pacific supports market-based measures as an interim solution to reduce aviation emissions. It does not support the imposition of the European Union's Emissions Trading Scheme (EU ETS) on airlines based outside Europe. Hence, we welcomed the deferment of the start of EU ETS for a year, to November 2013.
- In compliance with EU ETS, our emissions data for 2012 were externally verified and our emissions report for 2012 was submitted to the UK Environment Agency at the end of March.
- Cathay Pacific continued to be involved with IATA's Climate Change Task Force in its efforts to develop a commitment to carbon neutral growth by 2020, and to develop proposals for a fair and equitable global agreement on emissions under ICAO's leadership.
- We supported the Hong Kong SAR Government's "Food Wise" campaign by signing the Food Wise Charter in May. This commits signatories to reduce food waste.
- Cathay Pacific signed the Carbon Price Communiqué of the Prince of Wales's Corporate Leaders Group on Climate Change.

- Our Sustainable Development Report 2012 is to be published before the end of August. An associated website is also to be introduced before the end of August.
- In April, as an extension to the World Wide Fund for Nature's "Earth Hour", we ran the "I Will If You Will" campaign to increase awareness by employees of environmental issues.
- We recycled 149,500 plastic cups instead of sending them to landfills.
- We have donated 1,000 sleep suits left behind by our first class passengers on Hong Kong-bound flights to the Compassion Revival charity. The suits are laundered and given to the needy in Hong Kong.
- We share environmental best practices and experience with Air China.
- In April, it was announced that we continued to be included on the FTSE4Good Index Series for the fourth year. The index is designed to measure the performance of companies that meet globally recognised corporate responsibility standards and to facilitate investment in those companies.

CONTRIBUTION TO THE COMMUNITY

- 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 82 single-parent families from the less well off districts of Hong Kong. Most of the participants had never flown before.
- Cathay Pacific organised another special flight in July, flying 100 children and their guardians from Ya'an in Sichuan Province to Hong Kong for a five-day tour. All of the youngsters had been affected in some way by the earthquake that struck their home town in April.
- Also in July, Cathay Pacific launched "The Spirit of Hong Kong" contest in support of the "Hong Kong: Our Home" campaign being run by the Hong Kong SAR Government. The contest calls on Hong Kong people to submit creative entries that illustrate the spirit of the airline's home city. The winners will have their images incorporated into a special "Spirit of Hong Kong" aircraft livery later in 2013.
- More than 1,100 staff members who make up the CX Volunteers continue to help the local community. Their "English on Air" programme has helped around 1,900 students, many of them were from schools in Tung Chung, near Cathay Pacific's headquarters, to improve their conversational English skills.
- The CX Volunteers trained 40 teenagers from Tung Chung to participate in a 24-hour pedal kart charity competition. They also visited more than 40 senior citizens to help brighten up their homes in time for Chinese New Year.
- Teams from Cathay Pacific and Dragonair competed in the annual Pedal Kart Grand Prix in Hong Kong. They won a number of trophies and raised close to HK$500,000 for charity.
- Cathay Pacific continued to support UNICEF through its "Change for Good" inflight fundraising programme. In June 2013, we announced that the airline's passengers had contributed HK$14.3 million in 2012 to help improve the lives of disadvantaged children around the world. Since it started in 1991, "Change for Good" has raised more than HK$133 million for UNICEF.

- In March, a group of Cathay Pacific staff went to Vietnam to see how "Change for Good" donations are used.

- In February, Cathay Pacific celebrated the 17th Anniversary of the formation of the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases. Since its formation, the bank has raised more than HK$10 million, benefiting around 370 children.

- In May, HK$2 million was given to UNICEF for its relief efforts following the earthquake in Sichuan, Mainland China. The amount donated comprised money raised from staff (which was matched by the Company) and donations by passengers to "Change for Good".

- We have established a charitable fund using part of the money normally contributed to the Swire group charitable trust. Staff can apply to the fund for money to support charitable activities in which they participate themselves.

- We continue to organise tours of our headquarters at Hong Kong International Airport. More than 5,000 visitors from schools and NGOs were welcomed in the first half of 2013.

- In April, the Dragonair Youth Aviation Academy organised a two-day aviation career workshop for more than 100 young people, providing them with an opportunity to learn about aviation and careers in the aviation industry.

- In March, Dragonair introduced an Aviation Certificate Programme. Pilots are mentoring 30 participants over eight months, aiming to inspire potential Hong Kong aviators by giving them firsthand knowledge of the aviation industry.

COMMITMENT TO STAFF

- At the end of June, the Cathay Pacific Group employed some 29,900 people worldwide. More than 22,800 of these people are based in Hong Kong. Cathay Pacific itself employs more than 20,800 people worldwide. Dragonair employs more than 3,100 people.

- Cathay Pacific expects to recruit more than 830 cabin crew and more than 180 pilots this year. Dragonair expects to recruit about 100 cabin crew and about 40 pilots.

- Our airlines' cadet programmes continue to bring new blood into Hong Kong's aviation industry. 46 cadets graduated from the Cathay Pacific Cadet Pilot Programme in the first half of 2013, with another 118 currently being trained. Dragonair plans to recruit around 30 cadets in 2013. 31 cadets graduated from its programme in the first half of 2013. The Cathay Pacific cadet programme has its own website.

- 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.

- The ninth annual Betsy Awards ceremony took place in July. This is an internal programme aimed at honouring staff who go beyond the call of duty to help passengers.

Our complete Sustainable Development Report is available online at www.cathaypacific.com.

FLEET PROFILE*

	Number as at 30th June 2013				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	Total	‘13	‘14	‘15 and beyond	Total	‘13	‘14	‘15	‘16	‘17	‘18 and beyond	Options
Aircraft operated by Cathay Pacific:															
A330-300	14	15	8[(a)]	**37**	3	5	3	**11**			2	1	3	2	
A340-300	6	5		**11**											
A350-900							22[(b)]	**22**							
A350-1000							26	**26**							
747-400	13		1	**14**							1				
747-400F	3[(c)]	3		**6**											
747-400BCF	1[(d)]		1[(e)]	**2**										1	
747-400ERF		6		**6**											
747-8F		9		**9**	4			**4[(d)]**							
777-200	5			**5**											
777-200F															5[(d)]
777-300	7	5		**12**											
777-300ER	5	11	16	**32**	6	8	4	**18**					2	14	
Total	54	54	26	**134**	13	13	55	**81**			3	1	5	17	5
Aircraft operated by Dragonair:															
A320-200	5		10[(f)]	**15**							2	2		6	
A321-200	2		4[(f)]	**6**		2[(g)]		**2**			2	2			
A330-300	4	1	13[(h)]	**18**					3	5	1	2	2		
Total	11	1	27	**39**		2		**2**	3	5	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	**67**	**61**	**56**	**184**	**13**	**15**	**55**	**83**	**3**	**5**	**8**	**8**	**9**	**23**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 30th June 2013.

(a) One aircraft was transferred to Dragonair in July 2013.
(b) Including two aircraft on 12-year operating leases.
(c) One aircraft was parked in May 2013.
(d) Four Boeing 747-400BCF aircraft were agreed to be sold to The Boeing Company in March 2013. Three of these aircraft were delivered in the first half of 2013. One will be delivered in August 2013. An order for eight Boeing 777-200F aircraft was cancelled in March 2013. At the same time, three new Boeing 747-8F aircraft were agreed to be purchased (for delivery in the second half of 2013) and options to purchase five Boeing 777-200F aircraft were acquired.
(e) Aircraft was parked in August 2013.
(f) The operating leases of three Airbus A320-200 and three Airbus A321-200 aircraft were extended in July 2013. The leases of these aircraft will expire after 2018.
(g) In February, the Group agreed to lease two new Airbus A321-200 aircraft. These aircraft will be delivered in February and October 2014.
(h) One aircraft was returned to the lessor in July 2013.

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

AHK Air Hong Kong Limited ("Air Hong Kong")

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- The airline operates a fleet of eight owned Airbus A300-600F freighters, three Boeing 747-400BCF converted freighters dry-leased from Cathay Pacific and two wet-leased Airbus A300-600F freighters.
- Air Hong Kong operates six flights per week to each of Bangkok, Nagoya, Osaka, Seoul, Shanghai, Singapore, Taipei and Tokyo, and five flights per week to each of Beijing, Ho Chi Minh City, Manila and Penang (via Ho Chi Minh City).
- On-time performance was 91% within 15 minutes.
- Capacity increased by 1.0% compared with the first half of 2012. The load factor decreased by 2.0 percentage points. Revenue tonne kilometres decreased by 2.2%.
- Air Hong Kong achieved an increase in profit in the first half of 2013 compared with the first half of 2012.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and overseas kitchens

- CPCS, a wholly owned subsidiary, is the principal flight kitchen in Hong Kong.
- CPCS reported a decrease in profit in the first half of 2013 compared to the first half of 2012 mainly due to higher operating costs.
- During the period, CPCS increased its capacity from 80,000 to 100,000 meals a day.
- Outside Hong Kong, profits increased in all kitchens.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, was established to design, build and operate the new Cathay Pacific cargo terminal at Hong Kong International Airport. The terminal started to operate in February. When fully operational by the last quarter of 2013, it will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff. The HK$5.9 billion facility will significantly reduce the time it takes to process and ship cargo in Hong Kong.
- CPSL reported a loss for the first half of 2013 during the ramp up period before it becomes fully operational by the last quarter of 2013.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services in Hong Kong. It provides ground services to 29 airlines, including Cathay Pacific and Dragonair. It also holds a 25% interest in Shanghai International Airport Services Co., Limited.

- In the first half of 2013, HAS had 50% and 25% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.

- The number of customers for passenger handling decreased from 25 to 24 in the first half of 2013. The number of customers for ramp handling decreased from 26 to 25. Passenger handling flights increased by 3.3% and ramp handling flights decreased by 0.6%, in each case compared with the same period in 2012.

- The financial results for the first half of 2013 deteriorated compared to those of the first half of 2012. The deterioration primarily reflected cost increases in a highly competitive environment at Hong Kong International Airport.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific has a 20.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline related services in Mainland China.

- At 30th June 2013, Air China operated 220 domestic and 88 international (including regional) routes to 30 countries and regions, including 46 overseas cities, four regional cities and 98 domestic cities.

- The Group's share of Air China's results is based on its accounts drawn up three months in arrear. Consequently the 2013 interim results include Air China's results for the six months ended 31st March 2013.

- The Group recorded a decrease in profit from Air China's results in the first half of 2013. This primarily reflected reduced demand and pressure on yields.

- In March 2013, as part of a package of transactions among 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.

- In May 2013, Air China ordered 100 Airbus A320 aircraft, 60 for itself and 40 for its subsidiary, Shenzhen Airlines Co., Ltd. The aircraft are to be delivered from 2014 to 2020.

Air China Cargo Co., Ltd. ("Air China Cargo")

- 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 a decrease in loss from Air China Cargo's results in the first half of 2013. This was mainly due to a decrease in fuel costs.
- At 30th June 2013, Air China Cargo operated a fleet of eight freighters. It operates scheduled freighter services to eight countries and regions. It flies to six cities in Mainland China and 11 cities outside Mainland China. Taking account of its right to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections with a total of 148 destinations.
- In March 2013, as part of a package of transactions among 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.

HAECO ITM Limited ("HAECO ITM")

- HAECO ITM, in which Cathay Pacific has a 30% interest, offers aircraft inventory technical management services to Cathay Pacific and other airlines.
- At 30th June 2013, HAECO ITM provided inventory technical management services to 213 aircraft.
- HAECO ITM's financial results for the first half of 2013 were satisfactory.

Shanghai International Airport Services Co., Limited ("SIAS")

- SIAS is a joint venture between Shanghai Airport Authority (10%), Shanghai International Airport Co. Ltd. (41%), HAS (25%) and Air China (24%). SIAS started to provide airport ground handling services at Shanghai Pudong International Airport and Shanghai Hongqiao International Airport in December 2012.
- SIAS provides services to 13 domestic airlines (including three airlines operating private jets) and three international airlines at Hongqiao. At Pudong, SIAS provides services to 12 domestic airlines (including three airlines operating private jets) and 20 international airlines.
- The financial results of SIAS for the first half of 2013 were not as good as expected, principally because fewer flights were serviced than expected.

PASSENGER SERVICES

Our passenger business in the first half of 2013 improved compared to the same period in 2012. Cathay Pacific and Dragonair carried a total of 14.5 million passengers in the first six months of 2013 – a 1.3% increase compared to the same period in 2012. Revenue increased by 0.8% to HK$34,978 million, although capacity decreased by 4.8%. The load factor increased by 1.2 percentage points to 81.3%. Yield also improved by 4.4% to HK69.0 cents.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Dragonair passenger services for the first half of 2013 were as follows:

	ASK (million)			Load factor (%)			Yield
	2013	2012	**Change**	**2013**	2012	**Change**	**Change**
India, Middle East, Pakistan and Sri Lanka	**5,356**	5,605	**-4.4%**	**75.5**	77.3	**-1.8%pt**	**+2.5%**
Southwest Pacific and South Africa	**8,783**	9,482	**-7.4%**	**78.5**	75.2	**+3.3%pt**	**+2.3%**
Southeast Asia	**9,001**	8,612	**+4.5%**	**79.5**	80.3	**-0.8%pt**	**+3.6%**
Europe	**10,316**	10,812	**-4.6%**	**86.8**	84.0	**+2.8%pt**	**+4.9%**
North Asia	**13,973**	13,616	**+2.6%**	**73.9**	72.2	**+1.7%pt**	**-5.0%**
North America	**14,758**	17,224	**-14.3%**	**89.3**	87.4	**+1.9%pt**	**+13.6%**
Overall	**62,187**	65,351	**-4.8%**	**81.3**	80.1	**+1.2%pt**	**+4.4%**

- The high price of jet fuel continued to affect the profitability of our passenger services, particularly on long-haul routes. However, its effect was mitigated to an extent by 2012's reduction in some long-haul frequencies which were gradually restored in 2013 and by operating more long-haul services using fuel-efficient Boeing 777-300ER aircraft.
- The weakness of a number of operating currencies relative to the Hong Kong and United States dollars had a negative impact on yields. However, the beneficial effect on traffic (for example on the Japan routes) resulted in an overall improvement in revenue.
- Our passenger business started the year slowly. There was no pre-Chinese New Year rush. But from February to April, leisure traffic was strong over the Chinese New Year and Easter holidays and during the Hong Kong Sevens rugby competition. Business traffic was also strong during this period.
- Business in May and June was not as strong as expected, particularly on regional routes. On these routes, demand in the first half of 2013 did not match the increase in capacity, which put yields under pressure. Travel within the Asia Pacific region was affected by H7N9 avian flu and political issues in Northeast Asia.
- There was an overall reduction in capacity on long-haul routes. Reduced capacity on long-haul routes increased load factors and yields.
- All of the long-haul passenger frequencies that were cancelled as part of 2012's cost reductions are restored by September 2013. We restored flights to Los Angeles (to three times daily from June) and Toronto (to 10 flights per week from March). We intend to restore flights to New York to four times daily from September.

- In the first six months of 2013, Dragonair introduced services to four new destinations – Da Nang, Wenzhou, Yangon and Zhengzhou – and increased frequencies on the Chiang Mai, Kaohsiung, Kota Kinabalu and Wuhan routes. The service to Da Nang increased from three to four flights a week from July.

- Cathay Pacific's new premium economy class, introduced in 2012, is growing in popularity with passengers and has helped to improve economy class yield. By 30th June 2013, premium economy class was available on 68 of our long-haul aircraft. By the end of the year it will be available on 85 aircraft.

- Demand for leisure travel from Hong Kong was robust in the first half of 2013. Our weekly "fanfares" promotion (which started in October 2012) is popular with price sensitive customers. Demand for business travel from Hong Kong was stronger than in the first half of 2012.

- There was an increase in traffic derived from the Pearl River Delta region, but competition for this traffic from other airlines is strong.

- Demand for travel to and from Mainland China was reasonably robust up to April. However, demand for travel to Mainland China (and particularly Eastern China) reduced sharply following the outbreak of H7N9 avian flu. Demand for travel from Mainland China was less affected. We cancelled flights on an ad hoc basis in April and May, with a view to aligning capacity with demand.

- Yield on Taiwan routes was under considerable pressure in the first half of 2013 as a result of intense competition.

- Demand for travel to Korea, which had been strong for much of 2012, weakened in the first half of 2013. The weakness of the yen increased the popularity of Japan as a leisure destination at the expense of Korea. Demand for travel from Korea to and through Hong Kong remained reasonably firm.

- Demand for travel to Japan benefited from the weakness of the yen in the first half of 2013, with more flights being put on during holiday periods. Demand for travel from Japan was adversely affected by the country's economic situation.

- We will introduce a new four-time-weekly service to Male in the Maldives in October and a new daily service to Newark in the U.S.A. in March 2014, subject to government approval.

- Dragonair's new Da Nang and Chiang Mai routes have performed well. Demand on most other routes in Southeast Asia was in line with expectations. A new three-times-weekly seasonal service to Siem Reap in Cambodia will be introduced in October, subject to government approval.

- Demand for travel to and from the Philippines was robust.

- Demand for travel to and from Mumbai and Delhi was robust. Passengers have responded well to the introduction of the new business class seats and the new premium economy class on these routes. The Kolkata route has performed strongly since its introduction in 2012. The performance of the Hyderabad route is gradually improving.

- Load factors on the Middle Eastern routes benefited from strong demand from foreigners working in the Middle East.
- The Africa route performed reasonably well but revenues were affected by the depreciation of the South African currency. We are facing strong competition from Mainland China carriers on the Africa route.
- Traffic on the Australia routes was reasonably strong, reflecting the country's generally robust economy and its attractiveness as a leisure destination. Business on the New Zealand route benefited from the alliance with Air New Zealand, which started in January.
- Demand for travel on our four United States routes was strong throughout the first half of 2013, in all classes of travel. Frequencies are being restored on the Los Angeles and New York routes in line with demand.
- Our Canada routes continued to be affected by strong competition. However, stronger demand for travel to and from Toronto led to the restoration of frequencies on this route to 10 flights per week.
- Demand for travel to and from London was consistently strong in all classes. We added a fifth daily flight on the route in June. Demand for travel to and from other European destinations held up well despite the economic problems of the region.

CARGO SERVICES

Our cargo business has been affected by weak demand since April 2011. High fuel prices, weak demand and fierce competition continue to affect the business. In the first six months of 2013, Cathay Pacific and Dragonair carried 741,000 tonnes of cargo and mail – a reduction of 1.7% compared to the same period in 2012. The Group's cargo revenue for the first half of 2013 was down by 5.2% to HK$11,278 million compared to the same period in 2012. Capacity for Cathay Pacific and Dragonair was down by 1.8%. The load factor was down by 1.9 percentage points to 62.4%. Yield was down by 3.3% to HK$2.33. Capacity was adjusted in line with demand.

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Dragonair cargo services for the first half of 2013 were as follows:

	ATK (million)			Load factor (%)			Yield
	2013	2012	**Change**	**2013**	2012	**Change**	**Change**
Cathay Pacific and Dragonair	**6,607**	6,729	**-1.8%**	**62.4**	64.3	**-1.9%pt**	**-3.3%**

- In the first half of 2013 we did our best to align capacity with demand and to maintain load factor and yield. We reduced our schedules and made ad hoc flight cancellations. We carried more cargo in the bellies of passenger aircraft in order to reduce costs.

- Demand for cargo shipments from our main market, Hong Kong, remained weak. In the light of increasing competition on European routes, we merged flights in order to manage capacity. Demand on transpacific routes was more robust but was still below expectations. Demand on routes within Asia was relatively robust, but yields were under pressure due to surplus capacity made available by other airlines.

- Competition for shipments from Shanghai remained strong. We merged our Chengdu and Chongqing routes in order to reduce costs and to make ourselves more competitive. We reduced the Zhengzhou schedule from six flights a week to three due to reduced demand from major hi-tech manufacturers.

- In North Asia, demand for shipments from Japan was significantly weaker. The depreciation of the yen has not, as yet, helped to revive exports. The performance of our Taiwan and Korea routes was below expectations.

- In Southeast Asia, demand for shipments of hi-tech consumer products from Hanoi was strong. We split the Hanoi-Dhaka service to enable more tonnage to be carried from both places. We also put on additional Hanoi services.

- Weak demand for shipments from Hong Kong itself resulted in more space being available on transpacific flights from Hong Kong. Some of this space was used for shipments transiting Hong Kong from the Indian sub-continent.

- Demand for shipments (particularly, from May, of perishables) from North America was relatively strong.

- Subject to government approval, we will start flying to Guadalajara in Mexico in the last quarter of 2013. We will operate two flights a week using our Boeing 747-8F freighters. We expect to carry shipments of automotive parts and hi-tech products to Guadalajara, and shipments of automotive products and perishables from Guadalajara.

- Demand for shipments to and from the Southwest Pacific was steady, particularly for shipments of perishables destined for Asian markets.

- We suspended cargo services to Brussels and Stockholm in February, due to continued weak demand for cargo shipments to and from Europe.

- In Europe, we focused on priority and special cargo, for example pharmaceuticals and aircraft engines, in an effort to maintain yield.

- High fuel prices continued to affect the financial performance of our cargo operations, particularly on long-haul routes. We continued to improve the efficiency of our freighter fleet.

- In March 2013, we entered into agreements in relation to our cargo fleet as part of a package of transactions among The Boeing Company, Cathay Pacific, Air China Cargo and Air China. Under these transactions, we agreed to purchase three Boeing 747-8F freighters, for delivery in the second half of 2013, cancelled orders for eight Boeing 777-200F freighters, acquired options to purchase five Boeing 777-200F freighters and agreed to sell four Boeing 747-400BCF converted freighters. Three of the converted freighters have already left our fleet.

- By June we have taken delivery of nine Boeing 747-8F freighters, and the tenth in August. With the addition of the three freighters ordered in March, we will operate 13 of these highly fuel-efficient aircraft by the end of 2013.

- In May we parked one of our standard Boeing 747-400 freighters in response to continued weak demand. A Boeing 747-400BCF converted freighter was parked in August.

- Despite the 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.

- This confidence is demonstrated by the opening in February of the HK$5.9 billion Cathay Pacific cargo terminal at Hong Kong International Airport. The terminal began by handling high value cargo, transit civil mail and transshipments for Cathay Pacific and Dragonair. In June the terminal started to handle imports for Cathay Pacific, Dragonair and Air Hong Kong. It is expected to be fully operational by the last quarter of 2013.

ASIA MILES

- Asia Miles is Cathay Pacific's and Dragonair's award-winning travel reward programme. It has more than five million members.

- Asia Miles has over 500 partners in nine categories, including airlines, hotels and major financial institutions. There are 21 airline partners, which together fly to over 1,000 destinations.

- There was a 22% increase in redemptions by Asia Miles members in the first half of 2013. More than 90% of Cathay Pacific flights carry passengers who have redeemed frequent flyer miles through the Asia Miles programme.

ANTITRUST PROCEEDINGS

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with the accounting policy 20 set out on page 97 in the 2012 Annual Report.

TURNOVER

	Group		Cathay Pacific and Dragonair	
	Six months ended 30th June		Six months ended 30th June	
	2013 HK$M	2012 HK$M	**2013 HK$M**	2012 HK$M
Passenger services	**34,978**	34,713	**34,978**	34,713
Cargo services	**11,278**	11,897	**9,625**	10,441
Catering, recoveries and other services	**2,328**	2,251	**2,038**	1,992
Turnover	**48,584**	48,861	**46,641**	47,146

- Group passenger turnover increased 0.8% against a 4.8% decrease in capacity. The increased turnover principally reflected an improvement on revenue management.
- Group cargo turnover decreased by 5.2%. Combined Cathay Pacific and Dragonair cargo turnover decreased by 7.8% against a 1.8% decrease in capacity.
- Group turnover from catering, recoveries and other services increased by 3.4%.

OPERATING EXPENSES

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2013 HK$M	2012 HK$M (restated)	**Change**	**2013 HK$M**	2012 HK$M (restated)	**Change**
Staff	**8,432**	8,046	**+4.8%**	**7,590**	7,306	**+3.9%**
Inflight service and passenger expenses	**1,986**	1,979	**+0.4%**	**1,986**	1,979	**+0.4%**
Landing, parking and route expenses	**6,668**	6,714	**-0.7%**	**6,563**	6,586	**-0.3%**
Fuel, net of hedging gains	**18,674**	20,407	**-8.5%**	**18,245**	19,958	**-8.6%**
Aircraft maintenance	**3,861**	4,643	**-16.8%**	**3,703**	4,542	**-18.5%**
Aircraft depreciation and operating leases	**4,565**	4,415	**+3.4%**	**4,448**	4,346	**+2.3%**
Other depreciation, amortisation and operating leases	**889**	669	**+32.9%**	**632**	546	**+15.8%**
Commissions	**386**	388	**-0.5%**	**386**	388	**-0.5%**
Others	**2,088**	1,911	**+9.3%**	**2,118**	2,189	**-3.2%**
Operating expenses	**47,549**	49,172	**-3.3%**	**45,671**	47,840	**-4.5%**
Net finance charges	**542**	381	**+42.3%**	**518**	359	**+44.3%**
Total operating expenses	**48,091**	49,553	**-3.0%**	**46,189**	48,199	**-4.2%**

- The Group's total operating expenses decreased by 3.0% to HK$48,091 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.72 to HK$3.69.

CATHAY PACIFIC AND DRAGONAIR OPERATING RESULTS ANALYSIS

	Six months ended 30th June	
	2013 HK$M	2012 HK$M (restated)
Airlines' profit/(loss) before taxation	**452**	(1,053)
Tax (charge)/credit	**(171)**	16
Airlines' profit/(loss) after taxation	**281**	(1,037)
Share of (losses)/profits from subsidiaries and associates	**(257)**	108
Profit/(loss) attributable to the owners of Cathay Pacific	**24**	(929)

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

	HK$M	
2012 interim airlines' loss before taxation (restated)	**(1,053)**	
Passenger and cargo turnover	**(551)**	**Passenger** – Increased due to a 1.2% points increase in load factor and a 4.4% increase in yield offset by a 4.8% decrease in capacity. **Cargo** – Decreased due to a 1.8% decrease in capacity, a 1.9% points decrease in load factor and a 3.3% decrease in yield.
Fuel	**1,713**	– Fuel costs decreased due to a 3.7% decrease in the average into-plane fuel price and a 5.0% decrease in consumption.
Landing, parking and route expenses	**23**	– Decreased mainly due to a decrease in operations in cargo business.
Aircraft maintenance	**839**	– Decreased mainly due to retirement of older aircraft resulting in reduced requirement for maintenance.
Depreciation, amortisation and operating leases	**(188)**	– Increased mainly due to additional operating lease rental.
Staff	**(284)**	– Increased mainly due to increases in headcount and salaries.
Others	**(47)**	– Increased mainly due to an increase in net finance charges.
2013 interim airlines' profit before taxation	**452**	

FUEL EXPENDITURE AND HEDGING

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

	Six months ended 30th June	
	2013 HK$M	2012 HK$M
Gross fuel cost	**18,974**	20,798
Fuel hedging gains	**(300)**	(391)
Net fuel cost	**18,674**	20,407

FINANCIAL POSITION

- Additions to fixed assets were HK$6,543 million, comprising HK$6,181 million for aircraft and related equipment and HK$362 million for other equipment and buildings.
- Borrowings decreased by 2.3% to HK$58,168 million. These are fully repayable by 2025 and are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, with 69.0% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 75.8% of which are denominated in United States dollars, decreased by 3.3% to HK$23,384 million.
- Net borrowings decreased by 1.6% to HK$34,784 million.
- Funds attributable to the owners of Cathay Pacific increased by 3.4% to HK$57,924 million. The net debt/equity ratio decreased to 0.60 times from 0.63 times (restated).
- 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 2012 Annual Report.

Review Report

TO THE BOARD OF DIRECTORS OF CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

KPMG

INTRODUCTION

We have reviewed the interim financial report set out on pages 25 to 46 which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited and its subsidiaries (together "the Group") as of 30th June 2013 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim Financial Reporting* ("HKAS 34"), issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

BASIS FOR QUALIFIED CONCLUSION

Our review conclusion on the Group's interim financial report for the six months ended 30th June 2012 was qualified as we were unable to carry out sufficient review procedures to enable us to express a conclusion as to whether anything had come to our attention that caused us to believe that the carrying amount of the Group's investment in Air China Limited ("Air China") and the Group's share of Air China's results as included in the Group's interim financial report as at and for the six months ended 30th June 2012 were not prepared, in all material respects, in accordance with HKAS 34. Air China is an associate of the Group accounted for under the equity method. As this limitation in the scope of our review with respect to the Group's share of the results of Air China for the six months ended 30th June 2012 still exists, our conclusion on the current period's interim financial report is also qualified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures in the consolidated statement of profit or loss and other comprehensive income.

QUALIFIED CONCLUSION

Based on our review, except for the possible effects on the corresponding figures of the matters described in the basis for qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2013 is not prepared, in all material respects, in accordance with HKAS 34.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14th August 2013

Condensed Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30th June 2013 – Unaudited

	Note	2013 HK$M	2012 HK$M (restated)	2013 US$M	2012 US$M (restated)
Turnover					
Passenger services		**34,978**	34,713	**4,484**	4,450
Cargo services		**11,278**	11,897	**1,446**	1,525
Catering, recoveries and other services		**2,328**	2,251	**299**	289
Total turnover	3	**48,584**	48,861	**6,229**	6,264
Expenses					
Staff		**(8,432)**	(8,046)	**(1,081)**	(1,032)
Inflight service and passenger expenses		**(1,986)**	(1,979)	**(255)**	(254)
Landing, parking and route expenses		**(6,668)**	(6,714)	**(855)**	(861)
Fuel, net of hedging gains		**(18,674)**	(20,407)	**(2,394)**	(2,616)
Aircraft maintenance		**(3,861)**	(4,643)	**(495)**	(595)
Aircraft depreciation and operating leases		**(4,565)**	(4,415)	**(585)**	(566)
Other depreciation, amortisation and operating leases		**(889)**	(669)	**(114)**	(86)
Commissions		**(386)**	(388)	**(49)**	(49)
Others		**(2,088)**	(1,911)	**(268)**	(245)
Operating expenses		**(47,549)**	(49,172)	**(6,096)**	(6,304)
Operating profit/(loss)	5	**1,035**	(311)	**133**	(40)
Finance charges		**(658)**	(681)	**(85)**	(87)
Finance income		**116**	300	**15**	38
Net finance charges	6	**(542)**	(381)	**(70)**	(49)
Share of losses of associates		**(155)**	(71)	**(20)**	(9)
Profit/(loss) before taxation		**338**	(763)	**43**	(98)
Taxation	7	**(173)**	(57)	**(22)**	(7)
Profit/(loss) for the period		**165**	(820)	**21**	(105)
Non-controlling interests		**(141)**	(109)	**(18)**	(14)
Profit/(loss) attributable to the owners of Cathay Pacific		**24**	(929)	**3**	(119)
Profit/(loss) for the period		**165**	(820)	**21**	(105)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**1,806**	(18)	**232**	(2)
Revaluation of available-for-sale financial assets		**26**	(1)	**3**	–
Share of other comprehensive income of associates		**137**	50	**17**	6
Exchange differences on translation of foreign operations		**225**	(314)	**29**	(40)
Other comprehensive income for the period, net of taxation	8	**2,194**	(283)	**281**	(36)
Total comprehensive income for the period		**2,359**	(1,103)	**302**	(141)
Total comprehensive income attributable to					
Owners of Cathay Pacific		**2,218**	(1,212)	**284**	(155)
Non-controlling interests		**141**	109	**18**	14
		2,359	(1,103)	**302**	(141)
Earnings/(loss) per share (basic and diluted)	9	**0.6¢**	(23.6)¢	**0.1¢**	(3.0)¢

The accounts are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at HK$7.8.

The notes on pages 29 to 46 form part of these accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2013 – Unaudited

	Note	30th June 2013 HK$M	31st December 2012 HK$M (restated)	30th June 2013 US$M	31st December 2012 US$M (restated)
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Fixed assets	*11*	**86,519**	84,278	**11,092**	10,805
Intangible assets	*12*	**9,610**	9,425	**1,232**	1,208
Investments in associates	*13*	**19,037**	18,522	**2,440**	2,375
Other long-term receivables and investments		**6,674**	6,254	**856**	802
Deferred tax assets		**219**	95	**28**	12
		122,059	118,574	**15,648**	15,202
Long-term liabilities		**(50,666)**	(52,753)	**(6,496)**	(6,763)
Related pledged security deposits		**1,224**	1,364	**157**	175
Net long-term liabilities	*14*	**(49,442)**	(51,389)	**(6,339)**	(6,588)
Other long-term payables	*15*	**(2,575)**	(3,205)	**(330)**	(411)
Deferred tax liabilities		**(8,521)**	(8,156)	**(1,092)**	(1,046)
		(60,538)	(62,750)	**(7,761)**	(8,045)
Net non-current assets		**61,521**	55,824	**7,887**	7,157
Current assets and liabilities					
Stock		**1,246**	1,194	**160**	153
Trade, other receivables and other assets	*16*	**10,242**	9,922	**1,313**	1,272
Assets held for sale	*17*	**231**	911	**29**	117
Liquid funds	*18*	**23,384**	24,182	**2,998**	3,100
		35,103	36,209	**4,500**	4,642
Current portion of long-term liabilities		**(9,146)**	(10,758)	**(1,173)**	(1,379)
Related pledged security deposits		**420**	2,601	**54**	333
Net current portion of long-term liabilities	*14*	**(8,726)**	(8,157)	**(1,119)**	(1,046)
Trade and other payables	*19*	**(17,907)**	(17,470)	**(2,296)**	(2,240)
Unearned transportation revenue		**(11,307)**	(9,581)	**(1,449)**	(1,228)
Taxation		**(634)**	(687)	**(81)**	(88)
		(38,574)	(35,895)	**(4,945)**	(4,602)
Net current (liabilities)/assets		**(3,471)**	314	**(445)**	40
Total assets less current liabilities		**118,588**	118,888	**15,203**	15,242
Net assets		**58,050**	56,138	**7,442**	7,197
CAPITAL AND RESERVES					
Share capital	*20*	**787**	787	**101**	101
Reserves		**57,137**	55,234	**7,325**	7,081
Funds attributable to the owners of Cathay Pacific		**57,924**	56,021	**7,426**	7,182
Non-controlling interests		**126**	117	**16**	15
Total equity		**58,050**	56,138	**7,442**	7,197

The accounts are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at HK$7.8.

The notes on pages 29 to 46 form part of these accounts.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30th June 2013 – Unaudited

	2013 HK$M	2012 HK$M	2013 US$M	2012 US$M
Operating activities				
Cash generated from operations	**6,853**	4,077	**878**	523
Interest received	**76**	86	**10**	11
Net interest paid	**(390)**	(272)	**(50)**	(35)
Tax paid	**(219)**	(195)	**(28)**	(25)
Net cash inflow from operating activities	**6,320**	3,696	**810**	474
Investing activities				
Net (increase)/decrease in liquid funds other than cash and cash equivalents	**(3,411)**	267	**(438)**	34
Proceeds from scrap/sales of fixed assets	**888**	1,673	**114**	214
Proceeds from sales of assets held for sale	**657**	34	**84**	4
Net decrease/(increase) in other long-term receivables and investments	**30**	(66)	**4**	(8)
Purchases of shares in associates	**(546)**	–	**(70)**	–
Dividends received from associates	**12**	35	**2**	4
Payments for fixed and intangible assets	**(6,801)**	(9,811)	**(872)**	(1,257)
Net cash outflow from investing activities	**(9,171)**	(7,868)	**(1,176)**	(1,009)
Financing activities				
New financing	**3,974**	12,664	**509**	1,624
Loan and finance lease repayments	**(4,826)**	(6,359)	**(619)**	(815)
Security deposits placed	**(19)**	(19)	**(2)**	(2)
Dividends paid – to the owners of Cathay Pacific	**(315)**	(1,338)	**(40)**	(172)
– to non-controlling interests	**(132)**	(115)	**(17)**	(15)
Net cash (outflow)/inflow from financing activities	**(1,318)**	4,833	**(169)**	620
(Decrease)/increase in cash and cash equivalents	**(4,169)**	661	**(535)**	85
Cash and cash equivalents at 1st January	**12,798**	9,612	**1,641**	1,232
Effect of exchange differences	**(30)**	(44)	**(4)**	(6)
Cash and cash equivalents at 30th June	**8,599**	10,229	**1,102**	1,311

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The notes on pages 29 to 46 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2013 – Unaudited

	Attributable to the owners of Cathay Pacific								
	Share capital HK$M	Retained profit HK$M (restated)	Share premium HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Capital redemption reserve and others HK$M (restated)	Total HK$M	Non-controlling interests HK$M (restated)	Total equity HK$M
At 1st January 2013	**787**	**38,363**	**16,295**	**931**	**(830)**	**1,640**	**57,186**	**120**	**57,306**
Impact of changes in accounting policies (note 2)	**–**	**(1,085)**	**–**	**–**	**–**	**(80)**	**(1,165)**	**(3)**	**(1,168)**
Restated balance at 1st January 2013	**787**	**37,278**	**16,295**	**931**	**(830)**	**1,560**	**56,021**	**117**	**56,138**
Changes in equity for the six months ended 30th June 2013:									
Profit for the period	**–**	**24**	**–**	**–**	**–**	**–**	**24**	**141**	**165**
Other comprehensive income	**–**	**–**	**–**	**26**	**1,806**	**362**	**2,194**	**–**	**2,194**
Total comprehensive income for the period	**–**	**24**	**–**	**26**	**1,806**	**362**	**2,218**	**141**	**2,359**
2012 interim dividend	**–**	**(315)**	**–**	**–**	**–**	**–**	**(315)**	**–**	**(315)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(132)**	**(132)**
At 30th June 2013	**787**	**36,987**	**16,295**	**957**	**976**	**1,922**	**57,924**	**126**	**58,050**
At 1st January 2012	787	38,785	16,295	885	(2,417)	1,474	55,809	135	55,944
Impact of changes in accounting policies (note 2)	–	(1,175)	–	–	–	(1)	(1,176)	–	(1,176)
Restated balance at 1st January 2012	787	37,610	16,295	885	(2,417)	1,473	54,633	135	54,768
Changes in equity for the six months ended 30th June 2012:									
Loss for the period (restated)	–	(929)	–	–	–	–	(929)	109	(820)
Other comprehensive income (restated)	–	–	–	(1)	(18)	(264)	(283)	–	(283)
Total comprehensive income for the period (restated)	–	(929)	–	(1)	(18)	(264)	(1,212)	109	(1,103)
2011 second interim dividend	–	(1,338)	–	–	–	–	(1,338)	–	(1,338)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(115)	(115)
Restated balance at 30th June 2012	787	35,343	16,295	884	(2,435)	1,209	52,083	129	52,212

The notes on pages 29 to 46 form part of these accounts.

NOTES TO THE ACCOUNTS

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 14th August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2013 annual accounts. Details of these changes in accounting policies are set out in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRS") and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's accounts:

- HKFRSs (Amendment) "Annual Improvements 2009-2011 Cycle"
- Amendments to HKAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income"
- Amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities"
- HKFRS 10 "Consolidated Financial Statements"
- HKFRS 11 "Joint Arrangements"
- Revised HKAS 19 "Employee Benefits"
- HKFRS 13 "Fair Value Measurement"

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

The annual improvements to HKFRSs 2009 to 2011 Cycle consist of six amendments to five existing standards, including an amendment to HKAS 34. The amendment aligns the disclosure requirements for segment assets and liabilities in interim financial report with those in HKFRS 8 "Operating Segments". It has had no significant impact on the results and financial position of the Group.

2. Changes in accounting policies (continued)

The amendment to HKAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" focuses on improving the presentation of components of other comprehensive income items. It requires items presented in other comprehensive income to be grouped on the basis of whether they are potentially reclassifiable to the statement of profit or loss subsequently or not. The Group's presentation of other comprehensive income in these interim accounts has been modified accordingly.

The amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 "Financial Instruments: Presentation" and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. The adoption of the amendments does not have an impact on the Group's interim financial report.

HKFRS 10 "Consolidated Financial Statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1st January 2013.

HKFRS 11 "Joint Arrangements" which replaces HKAS 31 "Interests in Joint Ventures", divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the Group's consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

The adoption of HKFRS 11, which converges with International Financial Reporting Standard ("IFRS") 11 "Joint Arrangements", has affected the Group's share of losses of associates. One of the Group's associates, on adoption of IFRS 11 in the current interim period, has changed its accounting policy with respect to the interests in joint ventures, for which proportionate consolidation was previously applied. This change in accounting policy has been applied retrospectively by restating the balances at 31st December 2012 and the result for the six months ended 30th June 2012 as summarised in the below table.

2. Changes in accounting policies (continued)

HKAS 19 "Employee Benefits" was amended in 2011. The impact on the Group's defined benefit plans and post employment benefits is as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. In addition, it removes the accounting policy choice that previously permitted the recognition of only those actuarial gains and losses outside the 10% "corridor" in the statement of profit or loss. Instead all such remeasurements are required to be recognised in other comprehensive income when they occur. The above change is required to be applied retrospectively. Some of the Group's associates also made certain adjustments to their opening retained profit as at 1st January 2012 on adopting the revised HKAS 19.

The effect of the adoption of the revised HKAS 19 and HKFRS/IFRS 11 is summarised in the below table.

	As previously reported HK$M	Effect of adopting revised HKAS 19 HK$M	Effect of adopting HKFRS/ IFRS 11 HK$M	As restated HK$M
Consolidated statement of profit or loss and other comprehensive income for the six months ended 30th June 2012:				
Staff expenses	(7,956)	(90)	–	(8,046)
Share of losses of associates	(167)	1	95	(71)
Taxation	(57)	10	(10)	(57)
Loss attributable to the owners of Cathay Pacific	(935)	(79)	85	(929)
Exchange differences on translation of foreign operations	(182)	–	(132)	(314)
Total comprehensive income attributable to the owners of Cathay Pacific	(1,086)	(79)	(47)	(1,212)
Consolidated statement of financial position as at 31st December 2012:				
Investments in associates	18,481	(9)	50	18,522
Retirement benefit assets/(liabilities)	363	(1,346)	–	(983)
Deferred tax assets	79	16	–	95
Deferred tax liabilities	(8,277)	133	(12)	(8,156)
Reserves	(56,399)	1,203	(38)	(55,234)
Non-controlling interests	(120)	3	–	(117)

2. Changes in accounting policies (continued)

HKFRS 13 "Fair Value Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use in all relevant HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how fair value should be measured where its use is already required or permitted by other standards in HKFRSs. It also provides new disclosure requirements. The adoption of HKFRS 13 only affects disclosures of fair value measurements of financial assets and financial liabilities in the Group's interim accounts.

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	
	2013 HK$M	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)	**2013 HK$M**	2012 HK$M (restated)
Sales to external customers	**48,025**	48,340	**559**	521			**48,584**	48,861
Inter-segment sales	**4**	4	**1,165**	857			**1,169**	861
Segment revenue	**48,029**	48,344	**1,724**	1,378			**49,753**	49,722
Segment results	**1,391**	(372)	**(356)**	61			**1,035**	(311)
Net finance charges	**(535)**	(378)	**(7)**	(3)			**(542)**	(381)
	856	(750)	**(363)**	58			**493**	(692)
Share of losses of associates					**(155)**	(71)	**(155)**	(71)
Profit/(loss) before taxation	**856**	(750)	**(363)**	58	**(155)**	(71)	**338**	(763)
Taxation	**(235)**	(33)	**62**	(24)			**(173)**	(57)
Profit/(loss) for the period							**165**	(820)

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 services. 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	
	2013 HK$M	2012 HK$M
Turnover by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**22,499**	21,366
– Japan, Korea and Taiwan	**5,560**	6,384
India, Middle East, Pakistan and Sri Lanka	**2,506**	2,268
Southwest Pacific and South Africa	**3,284**	3,494
Southeast Asia	**3,927**	3,956
Europe	**4,301**	4,415
North America	**6,507**	6,978
	48,584	48,861

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. 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 2012 Annual Report.

5. Operating profit/(loss)

	Six months ended 30th June	
	2013 HK$M	2012 HK$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
– leased	**1,231**	1,093
– owned	**2,237**	2,219
Amortisation of intangible assets	**73**	42
Operating lease rentals		
– land and buildings	**426**	399
– aircraft and related equipment	**1,471**	1,314
– others	**16**	17
Provision for impairment of assets held for sale	**12**	37
Loss on scrapping an aircraft	**–**	247
Loss/(gain) on disposal of fixed assets, net	**53**	(34)
Cost of stock expensed	**1,026**	1,087
Exchange differences, net	**236**	(11)
Auditors' remuneration	**5**	4
Dividend income from unlisted investments	**(7)**	(56)

6. Net finance charges

	Six months ended 30th June	
	2013 HK$M	2012 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**325**	337
– interest income on related security deposits, notes and bonds	**(51)**	(127)
	274	210
– bank loans		
– wholly repayable within five years	**136**	82
– not wholly repayable within five years	**41**	38
– other loans		
– wholly repayable within five years	**34**	25
– not wholly repayable within five years	**25**	13
– other long-term receivables	**(13)**	(14)
	497	354
Loss/(income) from liquid funds:		
– funds with investment managers and other liquid investments	**11**	(94)
– bank deposits and others	**(63)**	(44)
	(52)	(138)
Fair value change:		
– (gain)/loss on obligations under finance leases designated as at fair value through profit or loss	**(93)**	20
– loss on financial derivatives	**190**	145
	97	165
	542	381

Finance income and charges relating to defeasance arrangements have been netted off in the above figures.

Included in fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK$67 million (2012: HK$47 million).

7. Taxation

	Six months ended 30th June	
	2013 HK$M	2012 HK$M (restated)
Current tax expenses		
– Hong Kong profits tax	**77**	62
– overseas tax	**108**	142
– over provision for prior years	**(35)**	(135)
Deferred tax		
– origination and reversal of temporary differences	**23**	(12)
	173	57

Hong Kong profits tax is calculated at 16.5% (2012: 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 accounts).

8. Other comprehensive income

	Six months ended 30th June	
	2013 HK$M	2012 HK$M (restated)
Cash flow hedges		
– recognised during the period	**2,113**	241
– reclassified to profit or loss	**(92)**	(291)
– deferred tax recognised	**(215)**	32
Revaluation of available-for-sale financial assets	**26**	(1)
Share of other comprehensive income of associates		
– recognised during the period	**126**	50
– reclassified to profit or loss	**11**	–
Exchange differences on translation of foreign operations		
– recognised during the period	**259**	(314)
– reclassified to profit or loss	**(34)**	–
Other comprehensive income for the period	**2,194**	(283)

9. Earnings/(loss) per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the owners of Cathay Pacific of HK$24 million (2012: a loss of HK$929 million (restated)) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2012: 3,934 million) shares.

10. Dividend

The Directors have declared a first interim dividend of HK$0.06 per share (2012: nil) for the six months ended 30th June 2013. The interim dividend which totals HK$236 million (2012: nil) will be paid on 3rd October 2013 to shareholders registered at the close of business on the record date, being Friday, 6th September 2013. Shares of the Company will be traded ex-dividend as from Wednesday, 4th September 2013. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 6th September 2013, 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, 5th September 2013.

11. Fixed assets

	Aircraft and related equipment HK$M	Other equipment HK$M	Buildings HK$M	Building under construction HK$M	Total HK$M
Cost					
At 1st January 2013	**127,335**	**4,091**	**5,513**	**5,432**	**142,371**
Exchange differences	**(2)**	**–**	**–**	**3**	**1**
Additions	**6,181**	**134**	**144**	**84**	**6,543**
Disposals	**(4,923)**	**(38)**	**–**	**–**	**(4,961)**
Transfers	**–**	**–**	**5,449**	**(5,449)**	**–**
At 30th June 2013	**128,591**	**4,187**	**11,106**	**70**	**143,954**
Accumulated depreciation					
At 1st January 2013	**52,789**	**2,717**	**2,587**	**–**	**58,093**
Charge for the period	**3,094**	**147**	**227**	**–**	**3,468**
Disposals	**(4,090)**	**(36)**	**–**	**–**	**(4,126)**
At 30th June 2013	**51,793**	**2,828**	**2,814**	**–**	**57,435**
Net book value					
At 30th June 2013	**76,798**	**1,359**	**8,292**	**70**	**86,519**
At 31st December 2012	74,546	1,374	2,926	5,432	84,278

Fixed assets at 30th June 2013 include leased assets of HK$41,191 million (31st December 2012: HK$41,776 million).

12. Intangible assets

	Goodwill HK$M	Computer systems HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2013	**7,666**	**2,417**	**148**	**10,231**
Additions	**–**	**258**	**–**	**258**
At 30th June 2013	**7,666**	**2,675**	**148**	**10,489**
Accumulated amortisation				
At 1st January 2013	**–**	**806**	**–**	**806**
Charge for the period	**–**	**73**	**–**	**73**
At 30th June 2013	**–**	**879**	**–**	**879**
Net book value				
At 30th June 2013	**7,666**	**1,796**	**148**	**9,610**
At 31st December 2012	7,666	1,611	148	9,425

13. Investments in associates

	30th June 2013 HK$M	31st December 2012 HK$M (restated)
Share of net assets		
– listed in Hong Kong	**13,739**	12,790
– unlisted	**1,094**	1,547
Goodwill	**4,107**	4,088
Loans due from associates	**97**	97
	19,037	18,522

14. Long-term liabilities

	30th June 2013		31st December 2012	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**4,922**	**18,605**	4,428	20,209
Obligations under finance leases	**3,804**	**30,837**	3,729	31,180
	8,726	**49,442**	8,157	51,389

15. Other long-term payables

Other long-term payables include retirement benefit obligations (31st December 2012: as restated) and the long-term portion of derivative financial liabilities.

16. Trade, other receivables and other assets

	30th June 2013 HK$M	31st December 2012 HK$M
Trade debtors	**5,884**	5,600
Derivative financial assets – current portion	**1,221**	1,094
Other receivables and prepayments	**3,105**	3,141
Due from associates and other related companies	**32**	87
	10,242	9,922

	30th June 2013 HK$M	31st December 2012 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,820**	5,467
One to three months overdue	**52**	115
More than three months overdue	**12**	18
	5,884	5,600

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.

17. Assets held for sale

	30th June 2013 HK$M	31st December 2012 HK$M
Assets held for sale	**231**	911
	231	911

18. Liquid funds

	30th June 2013 HK$M	31st December 2012 HK$M
Short-term deposits and bank balances	**8,599**	12,798
Short-term deposits maturing beyond three months when placed	**3,543**	7
Funds with investment managers		
– debt securities listed outside Hong Kong	**9,521**	9,353
– bank deposits	**31**	203
Other liquid investments		
– debt securities listed outside Hong Kong	**1,427**	1,529
– bank deposits	**263**	292
	23,384	24,182

Included in other liquid investments are bank deposits of HK$263 million (31st December 2012: HK$292 million) and debt securities of HK$1,427 million (31st December 2012: HK$1,529 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

19. Trade and other payables

	30th June 2013 HK$M	31st December 2012 HK$M
Trade creditors	**7,700**	7,357
Derivative financial liabilities – current portion	**813**	1,087
Other payables	**9,072**	8,716
Due to associates	**134**	56
Due to other related companies	**188**	254
	17,907	17,470

	30th June 2013 HK$M	31st December 2012 HK$M
Analysis of trade creditors by age:		
Current	**7,413**	7,039
One to three months overdue	**271**	298
More than three months overdue	**16**	20
	7,700	7,357

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

20. Share capital

During the period under review, the Group did not purchase, sell or redeem any of its shares. At 30th June 2013, 3,933,844,572 shares were in issue (31st December 2012: 3,933,844,572 shares).

21. Related party transactions

Material transactions between the Group and associates and other related parties which were carried out in the normal course of business on commercial terms are summarised below:

	Six months ended 30th June 2013		Six months ended 30th June 2012	
	Associates HK$M	Other related parties HK$M	Associates HK$M	Other related parties HK$M
Turnover	**99**	**6**	123	9
Aircraft maintenance costs	**63**	**1,280**	2	1,206
Operating costs	**218**	**103**	309	87
Dividend income	**243**	**–**	400	–
Sale of fixed assets	**206**	**–**	–	–

Other related parties are companies under control of a company which has a significant influence on the Group.

22. Commitments and contingencies

(a) Outstanding commitments for capital expenditure authorised at the end of the period but not provided for in the accounts:

	30th June 2013 HK$M	31st December 2012 HK$M
Authorised and contracted for	**92,059**	99,146
Authorised but not contracted for	**10,515**	10,046
	102,574	109,192

(b) Guarantees in respect of lease obligations, bank loans and other liabilities outstanding at the end of the period:

	30th June 2013 HK$M	31st December 2012 HK$M
Related parties	**1,111**	1,141
Staff	**200**	200
	1,311	1,341

Related parties are companies under control of a company which has a significant influence on the Group.

(c) The Company has under certain circumstances undertaken to maintain specified rates of return within the Group's leasing arrangements. The Directors do not consider that an estimate of the potential financial effect of these contingencies can practically be made.

(d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcomes of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.

22. Commitments and contingencies (continued)

(e) Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously. The proceedings are focused on issues relating to pricing and competition. The Company is represented by legal counsel in connection with these matters.

In 2006 the Competition Bureau of Canada (the "Bureau") commenced a non-public investigation of the Company's air cargo operations. On 20th June 2013, pursuant to a plea agreement entered into by the Company and the Bureau, the Ontario Superior Court of Justice accepted the Company's plea of guilty with respect to certain violations of the Canadian Competition Act relating to a NavCan surcharge. Pursuant to the plea agreement and the Court's judgment, the Company agreed to pay a fine of CAD$1.5 million (approximately HK$11.21 million at the exchange rate current when the judgment was entered). Cathay Pacific has satisfied the judgment.

In December 2008, the Company received a Statement of Claim, since amended, from the New Zealand Commerce Commission ("NZCC") with regard to Cathay Pacific's air cargo operations. Agreement has been reached between Cathay Pacific and the NZCC to settle the allegations which arose out of the amended statement of claim. Under the settlement, which has been approved by the High Court of New Zealand, Cathay Pacific has pleaded guilty to certain violations of the Commerce Act 1986 and agreed to make a payment of NZ$4.56 million (approximately HK$29.95 million at the April 2013 exchange rate), made up of a penalty of NZ$4.30 million and a contribution of NZ$0.26 million to the legal costs of the NZCC. Cathay Pacific has satisfied the judgment.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57,120,000 (equivalent to HK$618 million at the exchange rate current as of the date of the announcement) on the Company. In January 2011, the Company filed an appeal with the General Court of the European Union. The appeal is currently pending.

The Company has been named as a defendant in a number of civil complaints, including class litigation and third party contribution claims, in a number of countries including the United States, Canada, the United Kingdom, the Netherlands and Australia alleging violations of applicable competition laws arising from the Company's conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States and Canada alleging violations of applicable competition laws arising from the Company's conduct relating to certain of its passenger operations. The Company is represented by legal counsel and is defending these actions.

The proceedings and civil actions, except as otherwise stated above, are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the accounting policy 20 set out on page 97 in the 2012 Annual Report.

23. Financial risk management

(a) Fair values

The fair values of the following financial instruments differ from their carrying amounts shown in the statement of financial position:

	30th June 2013		31st December 2012	
	Carrying amount HK$M	Fair value HK$M	Carrying amount HK$M	Fair value HK$M
Loans receivable	**693**	**760**	722	817
Long-term loans	**(23,527)**	**(24,456)**	(24,637)	(25,687)
Obligations under finance leases	**(36,285)**	**(37,809)**	(38,874)	(40,840)
Pledged security deposits	**1,644**	**1,915**	3,965	4,291

(b) Financial instrument carried at fair value

The following table presents the carrying value of financial instruments measured at fair value as at 30th June 2013 across three levels of the fair value hierarchy defined in HKFRS 7 "Financial Instruments: Disclosures" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using dividend discount model and discounted cash flow valuation techniques in which any significant input is not based on observable market data.

	30th June 2013			
	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement				
Assets				
Investments at fair value				
– listed	**166**	**–**	**–**	**166**
– unlisted	**–**	**–**	**1,151**	**1,151**
Liquid funds				
– funds with investment managers	**–**	**9,521**	**–**	**9,521**
– other liquid investments	**–**	**1,427**	**–**	**1,427**
Derivative financial assets	**–**	**3,930**	**–**	**3,930**
	166	**14,878**	**1,151**	**16,195**
Liabilities				
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(3,674)**	**–**	**(3,674)**
Derivative financial liabilities	**–**	**(1,347)**	**–**	**(1,347)**
	–	**(5,021)**	**–**	**(5,021)**

23. Financial risk management (continued)

	31st December 2012			
	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement				
Assets				
Investments at fair value				
– listed	140	–	–	140
– unlisted	–	–	1,151	1,151
Liquid funds				
– funds with investment managers	–	9,353	–	9,353
– other liquid investments	–	1,529	–	1,529
Derivative financial assets	–	3,316	–	3,316
	140	14,198	1,151	15,489
Liabilities				
Obligations under finance leases designated as at fair value through profit or loss	–	(3,973)	–	(3,973)
Derivative financial liabilities	–	(2,230)	–	(2,230)
	–	(6,203)	–	(6,203)

There were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 fair value hierarchy classifications.

The fair value of the unlisted investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate. Information about fair value measurements using significant unobservable inputs (Level 3):

Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Positive/ (negative) impact on valuation (HK$M)
Unlisted investment				
– Discount rate	8.0%	The higher the discount rate, the lower the fair value	+/–0.5%	(62)/73
– Growth rate	2.2%	The higher the future growth rate, the higher the fair value	+/–0.1%	12/(12)

23. Financial risk management (continued)

The movement during the period/year in the balance of Level 3 fair value measurements is as follows:

	30th June 2013 HK$M	31st December 2012 HK$M
Investments at fair value – unlisted		
At 1st January	**1,151**	1,062
Additions	**–**	47
Net unrealised gains or losses recognised in other comprehensive income during the period/year	**–**	42
At 30th June/31st December	**1,151**	1,151

Information Provided in Accordance with the Listing Rules

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 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") set out 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 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 2013 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

DIRECTORS' PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. Peter Wong was appointed as a Deputy Chairman of The Hongkong and Shanghai Banking Corporation Limited with effect from 20th May 2013.

2. Tung Chee Chen retired as an Independent Non-Executive Director of Sing Tao News Corporation Limited, Wing Hang Bank, Limited and BOC Hong Kong (Holdings) Limited with effect from the conclusion of their Annual General Meetings held on 8th, 9th and 28th May 2013 respectively.

DIRECTORS' INTERESTS

At 30th June 2013, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following beneficial interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of issued capital (%)
Ian Shiu	Personal	1,000	0.00003

Other than as stated above, no Director or chief executive of Cathay Pacific Airways Limited had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares (including options) and debentures of Cathay Pacific Airways Limited or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that as at 30th June 2013 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	No. of shares	Percentage of issued capital (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company	2,949,997,987	74.99	Attributable interest (b)
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest (a)
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest (c)

Note: At 30th June 2013:

(a) Under Section 317 of the SFO, each of Air China, China National Aviation Company Limited ("CNAC") and Swire Pacific, being a party to the Shareholders' Agreement in relation to the Company dated 8th June 2006, was deemed to be interested in a total of 2,949,997,987 shares of the Company, comprising:

- (i) 1,770,238,000 shares directly held by Swire Pacific;
- (ii) 1,179,759,987 shares indirectly held by Air China and its subsidiaries CNAC, Super Supreme Company Limited and Total Transform Group Limited, comprising the following shares held by their wholly owned subsidiaries: 288,596,335 shares held by Angel Paradise Ltd., 280,078,680 shares held by Custain Limited, 191,922,273 shares held by Easerich Investments Inc., 189,976,645 shares held by Grand Link Investments Holdings Ltd., 207,376,655 shares held by Motive Link Holdings Inc. and 21,809,399 shares held by Perfect Match Assets Holdings Ltd.

(b) China National Aviation Holding Company is deemed to be interested in a total of 2,949,997,987 shares of the Company, in which its subsidiary Air China is deemed interested.

(c) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group's interests in shares of Swire Pacific representing approximately 45.80% of the issued capital and approximately 59.74% of the voting rights.

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