Media Information

18 March 2015

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CATHAY PACIFIC ANNOUNCES 2014 ANNUAL RESULTS

Results		**2014**	2013	Change
Turnover	*HK$ million*	**105,991**	100,484	**+5.5%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**3,150**	2,620	**+20.2%**
Earnings per share	*HK cents*	**80.1**	66.6	**+20.3%**
Dividend per share	*HK$*	**0.36**	0.22	**+63.6%**

The Cathay Pacific Group reported an attributable profit of HK$3,150 million for 2014. This compares to a profit of HK$2,620 million in 2013. Earnings per share were HK80.1 cents compared to HK66.6 cents in 2013. Turnover for the year increased by 5.5% to HK$105,991 million.

In the first half of 2014 the Group's business was affected by high fuel prices, reduced passenger yield and continued weakness and over-capacity in the air cargo market. Business was better in the second half of the year. For the full year, passenger demand was reasonably firm, with high demand during the peak summer and Christmas periods. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was strong in the fourth quarter, which is the peak period for cargo. The Group's business benefited from lower fuel prices in the fourth quarter, but this was partially offset by fuel hedging losses.

Passenger revenue for Cathay Pacific and Dragonair in 2014 increased by 5.4% to HK$75,734 million compared to the previous year. Capacity increased by 5.9% as a result of the introduction of new routes (to Doha, Manchester and Newark) and increased frequencies on some existing routes. The load factor increased by 1.1 percentage points to 83.3% and the number of passengers carried increased by 5.5% to 31.6 million. Yield decreased by 1.8% to HK67.3 cents despite an improvement in the second half compared to the first half of the year. Passenger demand was strong in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes.

After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was very strong in the fourth quarter. The Group's cargo revenue in 2014 increased by 7.3% to HK$25,400 million compared to the previous year. Over-capacity in the air cargo market put downward pressure on rates in the first half of the year. Yield for the full year for Cathay Pacific and Dragonair decreased by 5.6% to HK$2.19, despite improved cargo demand in the second half. Capacity increased by 10.4%. The load factor increased by 2.5 percentage points to 64.3%. Capacity was managed in line with demand in the first half of 2014 but an almost full freighter schedule was operated for most of the second half. The new Cathay Pacific cargo terminal worked effectively in its first full year of operation and made the Group's cargo operations more efficient.

Media Information

Fuel is the Group's most significant cost and its fuel costs in 2014 (disregarding the effect of fuel hedging) increased by 0.7% compared to 2013, significantly below the increase in passenger and cargo capacity of 5.9% and 10.4% respectively. Fuel consumption increased because more flights were operated, but the introduction of more fuel efficient aircraft and the retirement of less fuel efficient aircraft moderated the increase. The Group also benefited from lower fuel costs in the fourth quarter. Fuel accounted for 39.2% of total operating costs, compared to 39.0% in 2013. Managing the risk associated with high and volatile fuel prices is a priority and fuel hedging contracts extend to 2018. The sharp reduction in fuel prices in the fourth quarter of 2014 caused a very welcome net benefit to overall profits. However, it resulted in losses on our hedging contracts. It also resulted in significant unrealised hedging losses. These unrealised losses are reflected in the consolidated statement of financial position at 31st December 2014 and caused a reduction in our consolidated net assets.

The Group continues to invest heavily in its fleet, taking delivery of 16 new aircraft in 2014: nine Boeing 777-300ER aircraft, five Airbus A330-300 aircraft and (for Dragonair) two Airbus A321-200 aircraft. Six Boeing 747-400 passenger aircraft were retired during the period. In 2013, it agreed to sell its six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016. At 31st December 2014 the Group had 79 new aircraft on order for delivery up to 2024. A total of nine new aircraft are scheduled for delivery in 2015.

The Group also continues to develop its passenger and cargo networks. In 2014, Cathay Pacific introduced passenger services to Doha, Manchester and Newark, and will introduce passenger services to Zurich, Boston and Dusseldorf in March, May and September 2015, respectively. The Los Angeles service was increased to four-times-daily from June 2014. The San Francisco service will be increased to 17-times-weekly in June 2015. Dragonair started flying to Denpasar-Bali and Penang (replacing Cathay Pacific on the latter route), increased frequencies on a number of other routes and will introduce a daily service to Haneda in Tokyo in March 2015. Cathay Pacific introduced cargo services to Columbus, Calgary and Phnom Penh in 2014, and added Kolkata to its freighter network in March 2015.

Cathay Pacific has completed the installation of new or refreshed seats in all its aircraft which started in 2011. At 31st December 2014, new business and economy class seats had been installed in all Dragonair Airbus A330-300 and six A321-200 aircraft, and new first class seats had been installed in six Dragonair Airbus A330-300 aircraft. In November 2014 the installation of new business and economy class seats began in Dragonair's Airbus A320-200 aircraft and is expected to be completed in 2018. In October 2014 a refreshed logo was introduced for Cathay Pacific. This is part of a new approach to design, to be seen on the airline's website, in the new lounge at Haneda in Tokyo, and in the refurbished first class lounge in The Pier at Hong Kong International Airport, which will open in June 2015.

The contribution from Air China (the results of which are included in the Group's results three months in arrear) was below expectations in 2014. Air China's results were adversely affected by a difficult operating environment and substantial exchange losses caused by the depreciation of the Renminbi in the early part of the year. As the year progressed, Air China's results improved as a result of lower fuel prices. In 2014 the Group and Air China made a substantial injection of

Media Information

capital and loans into Air China Cargo. This capital injection provided funds to enable the carrier to buy new aircraft and improve the performance of its cargo business.

Cathay Pacific Chairman John Slosar said: “It was encouraging to see an overall improvement in our business in 2014. That improvement has continued in the first quarter of this year and we are positive about the overall prospects for 2015. Demand in our cargo business continues to improve and is currently being helped by the congestion in sea ports on the West Coast of the United States. We continue to benefit from the lower net fuel prices. Our associates are also benefiting from these positive factors. While we face growing competition in our passenger business, which makes it harder to maintain yield, overall demand remains strong and the outlook is positive.

In 2014 we continued our efforts to make Cathay Pacific and Dragonair better airlines for our customers. The fact that we won the World’s Best Airline award for the fourth time is clear recognition from air travellers worldwide of the work we have put into providing superior products and services. The Group’s financial position remains strong, which will enable us to continue with our long-term strategic investment in the business and our commitment to reinforcing Hong Kong’s position as one of the world’s premier aviation hubs.”

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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement
2014 Annual Results

Financial and Operating Highlights

Group Financial Statistics

Results		2014	2013	Change
Turnover	*HK$ million*	**105,991**	100,484	**+5.5%**
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Earnings per share	*HK cents*	**80.1**	66.6	**+20.3%**
Dividend per share	*HK$*	**0.36**	0.22	**+63.6%**
Profit margin	*%*	**3.0**	2.6	**+0.4%pt**
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**51,722**	62,888	**-17.8%**
Net borrowings	*HK$ million*	**43,998**	39,316	**+11.9%**
Shareholders' funds per share	*HK$*	**13.1**	15.9	**-17.6%**
Net debt/equity ratio	*Times*	**0.85**	0.63	**+0.22 times**

Operating Statistics – Cathay Pacific and Dragonair

		2014	2013	Change
Available tonne kilometres (“ATK”)	*Million*	**28,440**	26,259	**+8.3%**
Available seat kilometres (“ASK”)	*Million*	**134,711**	127,215	**+5.9%**
Revenue passengers carried	*‘000*	**31,570**	29,920	**+5.5%**
Passenger load factor	*%*	**83.3**	82.2	**+1.1%pt**
Passenger yield	*HK cents*	**67.3**	68.5	**-1.8%**
Cargo and mail carried	*‘000 tonnes*	**1,723**	1,539	**+12.0%**
Cargo and mail load factor	*%*	**64.3**	61.8	**+2.5%pt**
Cargo and mail yield	*HK$*	**2.19**	2.32	**-5.6%**
Cost per ATK (with fuel)	*HK$*	**3.50**	3.58	**-2.2%**
Cost per ATK (without fuel)	*HK$*	**2.12**	2.16	**-1.9%**
Aircraft utilisation	*Hours per day*	**12.2**	11.8	**+3.4%**
On-time performance	*%*	**70.1**	75.5	**-5.4%pt**
Average age of fleet	*Years*	**9.1**	9.3	**-2.2%**
GHG emissions	*Million tonnes of CO_2e*	**15.0**	15.5	**-3.2%**
GHG emissions per ATK	*Grammes of CO_2e*	**576**	589	**-2.2%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**3.67**	4.84	**-24.2%**

Capacity, Load Factor and Yield – Cathay Pacific and Dragonair

	Capacity ASK/ATK (million)*			Load factor (%)			Yield
	2014	2013	**Change**	**2014**	2013	**Change**	**Change**
Passenger services							
India, Middle East, Pakistan and Sri Lanka	**10,685**	10,697	**-0.1%**	**80.1**	75.5	**+4.6%pt**	**-1.7%**
Southwest Pacific and South Africa	**18,032**	17,490	**+3.1%**	**85.1**	80.7	**+4.4%pt**	**-1.7%**
Southeast Asia	**18,625**	18,246	**+2.1%**	**81.3**	80.3	**+1.0%pt**	**-1.9%**
Europe	**21,056**	21,536	**-2.2%**	**88.0**	87.3	**+0.7%pt**	**+4.6%**
North Asia	**29,649**	28,450	**+4.2%**	**77.9**	75.8	**+2.1%pt**	**-3.0%**
North America	**36,664**	30,796	**+19.1%**	**86.1**	88.8	**-2.7%pt**	**-3.9%**
Overall	**134,711**	127,215	**+5.9%**	**83.3**	82.2	**+1.1%pt**	**-1.8%**
Cargo services	**15,630**	14,162	**+10.4%**	**64.3**	61.8	**+2.5%pt**	**-5.6%**

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

Passenger Services

Home market - Hong Kong and Pearl River Delta

- Demand for leisure travel from Hong Kong was strong for most of 2014, especially during the Chinese New Year, summer and Christmas peak periods.
- Korea was the most popular leisure destination for Hong Kong travellers in 2014. The depreciation of the Japanese yen increased demand for travel to Japan, but increased capacity put yield under pressure.
- There was strong demand for travel to our three destinations in Taiwan, especially during the summer.
- Demand for premium economy class seats increased in 2014.
- Demand for leisure and business travel from the Pearl River Delta continued to increase in 2014. We increased our sales force in Guangzhou.
- Demand for corporate travel increased in 2014. However, it was not as strong as expected in the normally seasonally strong second half of the year.

India, Middle East, Pakistan and Sri Lanka

- Passenger traffic on our South Asia routes was generally robust in 2014. The Delhi non-stop service was increased from daily to twice-daily in March 2014. Four of the seven flights a week to Colombo became non-stop in October 2014.
- We stopped flying to Karachi in June 2014.
- In March 2014, Cathay Pacific introduced a daily service to Doha. We introduced codeshare services with Qatar Airways at the same time. Load factors on the Doha route increased during the year.
- We reoganised our network in the Middle East in 2014. We stopped flights to Abu Dhabi and Jeddah but improved our schedules on other Middle Eastern routes. Competition has intensified and market conditions are difficult in the Middle East. More airlines are flying direct between the Middle East and Southeast Asia.

Southwest Pacific and South Africa

- The performance of our Australian routes was satisfactory in 2014. Traffic between Mainland China and Australia was stable, despite competition from airlines flying non-stop.
- Our business on the Sydney route was helped by the cancellation of a competitor's services between Hong Kong and Sydney in May 2014. We began using Boeing 777-300ER aircraft on one of our Sydney flights in December 2014, so adding capacity on the route. In October 2015, we will add another Boeing 777-300ER aircraft to the route.

- We reorganised certain services to Australia. We now operate four-times-weekly direct flights to Adelaide, three-times-daily direct flights to Melbourne and a daily direct flight to Brisbane. There is also a tagged flight between Brisbane and Cairns, four times a week.
- The New Zealand route was robust in 2014, helped by the joint venture with Air New Zealand. We increased the frequency of the Auckland service to twice-daily in the northern winter.
- The South African route was weak in 2014. It was adversely affected by the weakness of the South African currency and, in the second half, by a decline in group travel to Africa as a result of negative publicity about the Ebola outbreak in West Africa.

Southeast Asia

- Demand for travel to Malaysia, Thailand and Vietnam was adversely affected by political unrest in the first half of 2014. We reduced capacity on the Bangkok route but gradually restored it towards the end of the year.
- Strong competition affected the performance of our Philippines routes.
- The Singapore route performed well despite intense competition.
- Business to and from Indonesia was affected by the presidential election in the third quarter of 2014.
- Cathay Pacific stopped and Dragonair started flying to Penang in March 2014. The schedule and frequency (10 flights per week) remain the same. Dragonair introduced a twice-weekly service to Denpasar-Bali in April 2014.
- Dragonair increased the frequency of its flights to Phuket, Siem Reap and Yangon.

Europe

- Demand was strong on most European routes in 2014. Demand for premium economy class seats was good, particularly on the Frankfurt and London routes.
- Boeing 777-300ER aircraft replaced Airbus A340-300 aircraft on the Amsterdam route in November 2014 and on the Paris and Rome routes in January 2015. In Europe, Airbus A340-300 aircraft now only fly to Moscow.
- The London route performed well in 2014, with good loads in all classes. Demand for travel to and from the Southwest Pacific through Hong Kong was strong.
- We introduced a four-times-weekly service to Manchester in December 2014. Initial results are encouraging. In December 2014, Cathay Pacific entered into codeshare arrangements with Flybe. The arrangements cover Flybe flights between Manchester and Aberdeen, Belfast, Edinburgh, Exeter, Inverness, the Isle of Man and Southampton. In January 2015, the arrangements were extended to cover Flybe flights between Paris and Birmingham, Manchester and Exeter, and between Amsterdam and Birmingham and Southampton.
- Revenue on the Moscow route was affected by political instability and economic sanctions.
- We will introduce a daily service to Zurich in March 2015 and a four-times-weekly service to Dusseldorf in September 2015.

North Asia

- Demand for group travel from Mainland China weakened in 2014 following the imposition of travel restrictions in October 2013. But there were more individual travellers, which increased yield.
- Demand for premium class travel from Mainland China was affected by restrictions on public spending.
- Dragonair added a four-times-weekly overnight service to Beijing in March 2014. This became a daily service in July 2014.
- There was increased competition on our Taiwan routes. However, demand for leisure travel to Taiwan was strong, assisted by political unrest in some Southeast countries.

- The depreciation of the Japanese yen increased demand for travel to Japan, but increased capacity put yield under pressure.
- The performance of our Korean routes was very strong in 2014. Revenue was well above expectations, primarily due to high demand from Hong Kong.
- Dragonair will introduce a daily service to Haneda in Tokyo in March 2015.

North America

- We introduced a daily service to Newark in March 2014. The Los Angeles service was increased to four-times-daily in June 2014. We will introduce a four-times-weekly service to Boston in May 2015 and will increase our San Francisco service to 17 flights per week in June 2015.
- The increase in passenger numbers did not match the increase in capacity on North American routes.
- Strong competition affected the performance of our Canada routes, putting yield under pressure.

Cargo Services

- Over-capacity in the air cargo market put downward pressure on rates in the first half of the year. But rates increased in the second half in response to improved demand for shipments from Hong Kong and Mainland China. Demand for cargo shipments to North America was particularly strong, reflecting exports of consumer electronic products.
- When demand was weak in the first half of the year (particularly in the first two months), we managed freighter capacity in line with demand accordingly. We reduced schedules and made ad hoc cancellations as necessary. However, the subsequent increase in demand enabled us to operate an almost full freighter schedule for most of the second half. During the peak period (from October to mid-December), we put on extra scheduled and charter flights.
- The tonnage carried in 2014 increased by 12.0% compared to 2013. This was more than the capacity increase of 10.4%.
- High fuel prices affected the profitability of our cargo services until the fourth quarter of the year, when a lower fuel prices benefited the business, but this was partially offset by fuel hedging losses. We also benefited from operating more fuel efficient freighter aircraft.
- Demand for cargo shipments from our main market, Hong Kong, was very weak in January and February 2014, but began to improve in March 2014. Demand increased further in July and August 2014 and became strong from September 2014. Demand for shipments to Europe was weaker than expected for most of the year. Demand for shipments to North America was strong, especially in the second half of the year.
- Our cargo business in Mainland China grew in volume and we increased our market share. Exports from the Yangtze River Delta area were strong, particularly in the second half of the year. Demand for shipments from new manufacturing centres (Chengdu, Chongqing and Zhengzhou) fluctuated in the early part of 2014. Later in the year, exports of new consumer electronic products were strong. Our cargo business in Mainland China benefited from an increase in mail shipments.
- Freight movements within Asia have become more important to us. Demand for shipments of manufactured goods from Hanoi was strong for most of the year. We introduced a twice-weekly service to Phnom Penh in November 2014 in response to Cambodia's growth as a manufacturing centre.
- There was relatively strong demand for cargo shipments to and from India in 2014, though the depreciation of the Indian rupee affected profitability. Demand for shipments from Dhaka was affected by political unrest and exports were weak for most of the year. Our business to and from the Middle East was affected by strong competition from Middle Eastern carriers. We introduced a twice-weekly service to Kolkata in March 2015.

- Demand for shipments to and from the Southwest Pacific region was steady. There was strong demand for shipments of fresh produce to Asian markets and milk powder to Mainland China. Chilled meat shipments to the Middle East were also strong.
- We reduced the number of scheduled cargo flights to Europe from 11 to nine per week because of weak demand for shipments to Europe and over-capacity in the market. We concentrated on shipping pharmaceutical and other special products from Europe, in an effort to improve yield. In November 2014 we shipped approaching 2,000 tonnes of Beaujolais wine from Paris and other European airports, most of which went to Japan.
- We stopped operating cargo services to Manchester in June 2014. Cargo is carried in the bellies of the passenger aircraft which started flying to Manchester in December 2014 (and in the bellies of the passenger aircraft which fly to London).
- Demand for shipments from Asia to North America was strong from March 2014, and was particularly strong in the fourth quarter, when we frequently operated more than 40 transpacific services per week. There was high demand for shipments of perishables (fruit and seafood) and pharmaceuticals from North America to Asia. Our business was helped by severe congestion in the major shipping ports on the west coast of the United States, which resulted in more freights needing to be moved by air.
- In March 2014, we introduced a twice-weekly service to Columbus in the United States, which moved to three flights per week in June 2014. We tagged Mexico City onto our Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. We also introduced a twice-weekly freighter service to Calgary, our third freighter destination in Canada, in October 2014.
- We increased the frequency of other cargo services to North America in 2014. Chicago moved from seven to nine flights a week in April 2014 and then increased to 11 flights a week in September 2014. Los Angeles moved from six to 10 flights a week in April 2014.
- In 2013, we agreed to sell our six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016. We now operate 13 fuel-efficient Boeing 747-8F freighters and have one more scheduled for delivery in 2016.
- 2014 was the first full year of operation of our cargo terminal at Hong Kong International Airport. It made our cargo operations more efficient. It handled 1.45 million tonnes of cargo in 2014. It handles cargo for Cathay Pacific, Dragonair, Air Hong Kong and four other airlines.
- The investments we have made in new freighters and a new cargo terminal and the strengthening of our cargo network demonstrate our confidence in the long-term prospects of our cargo business and Hong Kong's future as an international air cargo hub.

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$3,150 million for 2014. This compares to a profit of HK$2,620 million in 2013. Earnings per share were HK80.1 cents compared to HK66.6 cents in 2013. Turnover for the year increased by 5.5% to HK$105,991 million.

In the first half of 2014 our business was affected by high fuel prices, reduced passenger yield and continued weakness and over-capacity in the air cargo market. Our business is normally better in the second half than in the first half. This was the case in 2014. For the full year, passenger demand was reasonably firm, with high demand during the peak summer and Christmas periods. After a prolonged period of weakness, cargo demand started to improve in the summer of 2014 and was strong in the fourth quarter, which is the peak period for cargo. Our business benefited from lower fuel prices in the fourth quarter, but this was partially offset by fuel hedging losses.

The Group's passenger revenue for 2014 increased by 5.4% to HK$75,734 million. Capacity increased by 5.9% as a result of the introduction of new routes (to Doha, Manchester and Newark) and increased frequencies on some existing routes. The load factor increased by 1.1 percentage points to 83.3% and the number of passengers carried increased by 5.5% to 31.6 million. Yield decreased by 1.8% to HK67.3 cents despite an improvement in the second half compared to the first half of the year. Passenger demand was strong in all classes of travel on long-haul routes. However, the increase in passenger numbers did not match the increase in capacity on North American routes. Strong competition put downward pressure on yield on regional routes.

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Fuel is the Group's most significant cost and our fuel costs in 2014 (disregarding the effect of fuel hedging) increased by 0.7% compared to 2013, significantly below the increase in passenger and cargo capacity of 5.9% and 10.4% respectively. Fuel consumption increased because more flights were operated, but the introduction of more fuel efficient aircraft and the retirement of less fuel efficient aircraft moderated the increase. We also benefited from lower fuel costs in the fourth quarter. Fuel accounted for 39.2% of our total operating costs, compared to 39.0% in 2013. Managing the risk associated with high and volatile fuel prices is a priority. Our fuel hedging contracts extend to 2018. The sharp reduction in fuel prices in the fourth quarter of 2014 caused a very welcome net benefit to overall profits. However, it resulted in losses on our hedging contracts. It also resulted in significant unrealised hedging losses. These unrealised losses are reflected in the consolidated statement of financial position at 31st December 2014 and caused a reduction in our consolidated net assets.

We continue to invest heavily in our fleet. We took delivery of 16 new aircraft in 2014: nine Boeing 777-300ER aircraft, five Airbus A330-300 aircraft and (for Dragonair) two Airbus A321-200 aircraft. Six Boeing 747-400 passenger aircraft were retired during the period. In 2013, we agreed to sell our six Boeing 747-400F freighters back to The Boeing Company. One of them was delivered in November 2014. Two of the remaining freighters are parked and all five of them will have left the fleet by the end of 2016. At 31st December 2014 we had 79 new aircraft on order for delivery up to 2024. A total of nine new aircraft are scheduled for delivery in 2015.

We continue to develop our passenger and cargo networks. In 2014, Cathay Pacific introduced passenger services to Doha, Manchester and Newark. We will introduce passenger services to Zurich in March 2015, to Boston in May 2015 and to Dusseldorf in September 2015. We reorganised our network in the Middle East in 2014. We stopped flights to Abu Dhabi and Jeddah but improved our schedules on other Middle Eastern routes. We stopped flying to Karachi. The Los Angeles service was increased to four-times-daily from June 2014. The San Francisco service will be increased to 17-times-weekly in June 2015. Dragonair started flying to Denpasar-Bali and Penang (replacing Cathay Pacific on the latter route), increased frequencies on a number of other routes and will introduce a daily service to Haneda in Tokyo in March 2015. Dragonair will stop operating to Manila in March 2015. Cathay Pacific tagged Mexico City onto its Guadalajara cargo service in March 2014 and increased this service to five flights per week in October 2014. We introduced cargo services to Columbus in March 2014, to Calgary in October 2014, to Phnom Penh in November 2014 and to Kolkata in March 2015.

We continue to invest heavily in our product and brand. We have completed the installation of new or refreshed seats in all Cathay Pacific's aircraft which started in 2011. We will install new cabins in our Airbus A350 aircraft, which are expected to start being delivered in February 2016. At 31st December 2014, new business and economy class seats had been installed in all Dragonair Airbus A330-300 and six A321-200 aircraft and new first class seats had been installed in six Dragonair Airbus A330-300 aircraft. In November 2014 we started to install new business and economy class seats in Dragonair's Airbus A320-200 aircraft and expect the installation to be completed in 2018. In October 2014 we introduced a refreshed logo for Cathay Pacific. This is part of a new approach to design, to be seen for example on our website, in our new lounge at Haneda in Tokyo and in our refurbished first class lounge in The Pier at Hong Kong International Airport, which will open in June 2015.

The contribution from Air China (the results of which are included in the Group's results three months in arrear) was below expectations in 2014. Air China's results were adversely affected by a difficult operating environment and substantial exchange losses caused by the depreciation of the Renminbi in the early part of the year. As the year progressed, Air China's results improved as a result of lower fuel prices. In 2014 we and Air China made a substantial injection of capital and loans into Air China Cargo (our cargo joint venture with Air China). This capital injection provided funds to enable the carrier to buy new aircraft and improve the performance of its cargo business. Operational efficiency at Air China Cargo has been improved by the replacement of three Boeing 747-400BCF converted freighters with four Boeing 777-200F freighters in 2014. Air China Cargo also benefited from the general improvement in the air cargo market which began in the summer of 2014.

Prospects

It was encouraging to see an overall improvement in our business in 2014. That improvement has continued in the first quarter of this year and we are positive about the overall prospects for 2015. Demand in our cargo business continues to improve and is currently being helped by the congestion in sea ports on the West Coast of the United States. We continue to benefit from the lower net fuel prices. Our associates are also benefiting from these positive factors. While we face growing competition in our passenger business, which makes it harder to maintain yield, overall demand remains strong and the outlook is positive.

In 2014 we continued our efforts to make Cathay Pacific and Dragonair better airlines for our customers. The fact that we won the World's Best Airline award for the fourth time is clear recognition from air travellers worldwide of the work we have put into providing superior products and services. The Group's financial position remains strong, which will enable us to continue with our long-term strategic investment in the business and our commitment to reinforcing Hong Kong's position as one of the world's premier aviation hubs.

John Slosar
Chairman
Hong Kong, 18th March 2015

CATHAY PACIFIC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2014

	Note	2014 HK$M	2013 HK$M
Turnover			
Passenger services		**75,734**	71,826
Cargo services		**25,400**	23,663
Catering, recoveries and other services		**4,857**	4,995
Total turnover	2	**105,991**	100,484
Expenses			
Staff		**(18,101)**	(17,027)
Inflight service and passenger expenses		**(4,438)**	(4,138)
Landing, parking and route expenses		**(14,196)**	(13,531)
Fuel, net of hedging (losses)/gains		**(40,299)**	(38,132)
Aircraft maintenance		**(7,077)**	(7,542)
Aircraft depreciation and operating leases		**(10,411)**	(9,537)
Other depreciation, amortisation and operating leases		**(2,116)**	(1,926)
Commissions		**(799)**	(775)
Others		**(4,119)**	(4,116)
Operating expenses		**(101,556)**	(96,724)
Operating profit	4	**4,435**	3,760
Finance charges		**(1,460)**	(1,370)
Finance income		**302**	351
Net finance charges	5	**(1,158)**	(1,019)
Share of profits of associates		**772**	838
Profit before taxation		**4,049**	3,579
Taxation	6	**(599)**	(675)
Profit for the year		**3,450**	2,904
Non-controlling interests		**(300)**	(284)
Profit attributable to the shareholders of Cathay Pacific		**3,150**	2,620
Profit for the year		**3,450**	2,904
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plans		**(316)**	997
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(12,468)**	3,170
Revaluation of available-for-sale financial assets		**67**	53
Share of other comprehensive income of associates		**(52)**	89
Exchange differences on translation of foreign operations		**(527)**	491
Other comprehensive income for the year, net of taxation	7	**(13,296)**	4,800
Total comprehensive income for the year		**(9,846)**	7,704
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		**(10,144)**	7,418
Non-controlling interests		**298**	286
		(9,846)	7,704
Earnings per share (basic and diluted)	8	**80.1¢**	66.6¢

Consolidated Statement of Financial Position

at 31st December 2014

	Note	2014 HK$M	2013 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Fixed assets		**98,471**	94,935
Intangible assets		**10,318**	9,802
Investments in associates		**22,918**	20,314
Other long-term receivables and investments		**6,372**	7,135
Deferred tax assets		**428**	204
		138,507	132,390
Long-term liabilities		**(55,814)**	(57,460)
Related pledged security deposits		**499**	626
Net long-term liabilities		**(55,315)**	(56,834)
Other long-term payables		**(9,354)**	(1,318)
Deferred tax liabilities		**(9,691)**	(9,633)
		(74,360)	(67,785)
Net non-current assets		**64,147**	64,605
Current assets and liabilities			
Stock		**1,589**	1,511
Trade, other receivables and other assets	*10*	**10,591**	9,827
Assets held for sale	*11*	**189**	111
Liquid funds		**21,098**	27,736
		33,467	39,185
Current portion of long-term liabilities		**(10,002)**	(11,179)
Related pledged security deposits		**221**	961
Net current portion of long-term liabilities		**(9,781)**	(10,218)
Trade and other payables	*12*	**(23,543)**	(18,206)
Unearned transportation revenue		**(12,238)**	(11,237)
Taxation		**(199)**	(1,116)
		(45,761)	(40,777)
Net current liabilities		**(12,294)**	(1,592)
Total assets less current liabilities		**126,213**	130,798
Net assets		**51,853**	63,013
CAPITAL AND RESERVES			
Share capital: nominal value	*13*	**-**	787
Other statutory capital reserves		**-**	16,319
Share capital and other statutory capital reserves		**17,106**	17,106
Other reserves		**34,616**	45,782
Funds attributable to the shareholders of Cathay Pacific		**51,722**	62,888
Non-controlling interests		**131**	125
Total equity		**51,853**	63,013

Notes:

1. Basis of accounting

The annual results set out in this announcement are extracted from the Group's statutory financial statements for the year ended 31st December 2014.

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These financial statements also comply with the requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with the transitional and saving arrangements in Part 9 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of that Schedule. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3rd March 2014 (i.e. 1st January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

The HKICPA has issued a number of new HKFRSs 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 financial statements:

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

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

The amendments to HKAS 32 "Offsetting Financial Assets and Financial Liabilities" clarify the offsetting criteria in HKAS 32. The amendments have had no significant impact on the Group's financial statements.

The amendments to HKAS 36 "Recoverable Amount Disclosures for Non-Financial Assets" modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The Group has provided the disclosure requirements applicable to the Group.

The amendments to HKAS 39 "Novation of Derivatives and Continuation of Hedge Accounting" provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have had no significant impact on the Group's financial statements.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) "Investment Entities" provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. The amendments have had no significant impact on the Group's financial statements.

The HK (IFRIC) Interpretation 21 "Levies" provides guidance on when a liability to pay a levy imposed by a government should be recognised. The interpretation has had no significant impact on the Group's financial statements.

2. Turnover

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

3. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Profit or loss								
Sales to external customers	**104,869**	99,284	**1,122**	1,200			**105,991**	100,484
Inter-segment sales	**8**	8	**3,111**	2,206			**3,119**	2,214
Segment revenue	**104,877**	99,292	**4,233**	3,406			**109,110**	102,698
Segment results	**4,422**	4,214	**13**	(454)			**4,435**	3,760
Net finance charges	**(1,148)**	(1,008)	**(10)**	(11)			**(1,158)**	(1,019)
	3,274	3,206	**3**	(465)			**3,277**	2,741
Share of profits of associates					**772**	838	**772**	838
Profit before taxation							**4,049**	3,579
Taxation	**(600)**	(681)	**1**	6			**(599)**	(675)
Profit for the year							**3,450**	2,904
Other segment information								
Depreciation and amortisation	**7,919**	6,948	**420**	404			**8,339**	7,352
Purchase of fixed and intangible assets	**14,348**	19,751	**470**	783			**14,818**	20,534

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 profits of associates.

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

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

3. Segment information (continued)

(b) Geographical information

	2014 HK$M	2013 HK$M
Turnover by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**51,526**	48,293
- Japan, Korea and Taiwan	**10,932**	11,145
India, Middle East, Pakistan and Sri Lanka	**4,686**	4,775
Southwest Pacific and South Africa	**7,043**	6,455
Southeast Asia	**8,486**	7,970
Europe	**9,096**	8,791
North America	**14,222**	13,055
	105,991	100,484

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2014 Annual Report.

4. Operating profit

	2014 HK$M	2013 HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of fixed assets		
- leased	**2,442**	2,525
- owned	**5,574**	4,617
Amortisation of intangible assets	**323**	210
Operating lease rentals		
- land and buildings	**979**	938
- aircraft and related equipment	**3,167**	3,139
- others	**42**	34
Provision for impairment of fixed assets	**599**	210
Provision for impairment of assets held for sale	**14**	13
Gain on disposal of fixed assets, net	**(215)**	(213)
Gain on deemed disposal of an associate	**-**	(24)
Cost of stock expensed	**2,007**	2,152
Exchange differences, net	**316**	171
Auditors' remuneration	**15**	16
Net losses on financial assets and liabilities classified as held for trading	**89**	5
Dividend income from unlisted investments	**(15)**	(26)
Dividend income from listed investments	**(5)**	(5)

5. Net finance charges

	2014 HK$M	2013 HK$M
Net interest charges comprise:		
- obligations under finance leases stated at amortised cost	**664**	659
- interest income on related security deposits, notes and zero coupon bonds	**(37)**	(96)
	627	563
- bank loans and overdrafts		
- wholly repayable within five years	**139**	231
- not wholly repayable within five years	**230**	96
- other loans		
- wholly repayable within five years	**107**	96
- not wholly repayable within five years	**16**	24
- other long-term receivables	**(24)**	(26)
	1,095	984
Income from liquid funds:		
- funds with investment managers and other liquid investments at fair value through profit or loss	**(57)**	(53)
- bank deposits and others	**(175)**	(152)
	(232)	(205)
Fair value change:		
- (gain)/loss on obligations under finance leases designated as at fair value through profit or loss	**(40)**	29
- loss on financial derivatives	**335**	211
	295	240
	1,158	1,019

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$89 million (2013: net gains of HK$34 million).

6. Taxation

	2014 HK$M	2013 HK$M
Current tax expenses		
- Hong Kong profits tax	**181**	182
- overseas tax	**177**	182
- under/(over) provisions for prior years	**20**	(36)
Deferred tax		
- origination and reversal of temporary differences	**221**	347
	599	675

Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 30(d) to the financial statements in the 2014 Annual Report).

6. Taxation (continued)

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

	2014 HK$M	2013 HK$M
Consolidated profit before taxation	**4,049**	3,579
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2013: 16.5%)	**(668)**	(591)
Expenses not deductible for tax purposes	**(122)**	(287)
Tax (under)/over provisions arising from prior years	**(20)**	36
Effect of different tax rates in other countries	**157**	216
Tax losses not recognised	**(57)**	(80)
Income not subject to tax	**111**	31
Tax charge	**(599)**	(675)

Further information on deferred taxation is shown in note 18 to the financial statements in the 2014 Annual Report.

7. Other comprehensive income

	2014 HK$M	2013 HK$M
Defined benefit plans		
- remeasurements recognised during the year	**(356)**	1,119
- deferred taxation	**40**	(122)
Cash flow hedges		
- recognised during the year	**(14,385)**	4,147
- transferred to profit or loss	**427**	(664)
- transferred to intangible assets	**-**	66
- deferred tax recognised	**1,490**	(379)
Revaluation of available-for-sale financial assets		
- recognised during the year	**67**	53
Share of other comprehensive income of associates		
- recognised during the year	**(52)**	78
- reclassified to profit or loss	**-**	11
Exchange differences on translation of foreign operations		
- recognised during the year	**(525)**	525
- reclassified to profit or loss	**(2)**	(34)
Other comprehensive income for the year	**(13,296)**	4,800

8. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$3,150 million (2013: HK$2,620 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2013: 3,934 million) shares.

9. Dividends

	2014 HK$M	2013 HK$M
First interim dividend paid on 6th October 2014 of HK$0.10 per share (2013: first interim dividend of HK$0.06 per share)	**393**	236
Second interim dividend proposed on 18th March 2015 of HK$0.26 per share (2013: second interim dividend of HK$0.16 per share)	**1,023**	629
	1,416	865

9. Dividends (continued)

The second interim dividend is not accounted for in 2014 because it had not been declared at the year end date. The actual amount payable in respect of 2014 will be accounted for as an appropriation of the retained profit in the year ending 31st December 2015.

The Directors have declared a second interim dividend of HK$0.26 per share for the year ended 31st December 2014. Together with the first interim dividend of HK$0.10 per share paid on 6th October 2014, this makes a total dividend for the year of HK$0.36 per share. This represents a total distribution for the year of HK$1,416 million. The second interim dividend will be paid on 7th May 2015 to shareholders registered at the close of business on the record date, being Friday, 10th April 2015. Shares of the Company will be traded ex-dividend as from Wednesday, 8th April 2015.

The register of members will be closed on Friday, 10th April 2015, during which day no transfer of shares will be effected. In order to qualify for entitlement to the 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, 9th April 2015.

To facilitate the processing of proxy voting for the annual general meeting to be held on 20th May 2015, the register of members will be closed from 15th May 2015 to 20th May 2015, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, 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, 14th May 2015.

10. Trade, other receivables and other assets

	Group	
	2014 **HK$M**	2013 HK$M
Trade debtors	**5,527**	5,421
Derivative financial assets – current portion	**891**	2,022
Other receivables and prepayments	**4,050**	2,314
Due from associates and other related companies	**123**	70
	10,591	9,827

As at 31st December 2014, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,315 million (2013: HK$1,329 million).

	Group	
	2014 **HK$M**	2013 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,379**	5,319
One to three months overdue	**96**	86
More than three months overdue	**52**	16
	5,527	5,421

10. Trade, other receivables and other assets (continued)

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

11. Assets held for sale

	Group	
	2014	2013
	HK$M	HK$M
Assets held for sale	**189**	111
	189	111

An impairment loss amounting to HK$14 million was recognised for the year ended 31st December 2014 (2013: HK$13 million). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount of HK$97 million (2013: HK$437 million) which is the higher of the value in use and the fair value less costs of disposal. The recoverable amount was determined based on the fair value less costs of disposal, using market comparison approach by reference to the estimated sales value as at 31st December 2014 and 2013. The fair value on which the recoverable amount is based is catergorised as a Level 2 measurement.

12. Trade and other payables

	Group	
	2014	2013
	HK$M	HK$M
Trade creditors	**6,756**	7,601
Derivative financial liabilities - current portion	**7,291**	799
Other payables	**8,996**	9,331
Due to associates	**239**	166
Due to other related companies	**261**	309
	23,543	18,206

As at 31st December 2014, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK$201 million (2013: HK$233 million).

	Group	
	2014	2013
	HK$M	HK$M
Analysis of trade creditors by age:		
Current	**6,561**	7,408
One to three months overdue	**176**	174
More than three months overdue	**19**	19
	6,756	7,601

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

13. Share capital

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

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

14. Corporate governance

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

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

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

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

Details of the Company's corporate governance principles and processes will be available in the 2014 Annual Report.

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

15. Annual Report

The 2014 Annual Report containing all the information required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website and the Company's website *www.cathaypacific.com* by 8th April 2015. It will be available to shareholders by 8th April 2015.

Operating Expenses

	Group			Cathay Pacific and Dragonair		
	2014 HK$M	2013 HK$M	**Change**	**2014 HK$M**	2013 HK$M	**Change**
Staff	**18,101**	17,027	**+6.3%**	**16,247**	15,269	**+6.4%**
Inflight service and passenger expenses	**4,438**	4,138	**+7.2%**	**4,438**	4,138	**+7.2%**
Landing, parking and route expenses	**14,196**	13,531	**+4.9%**	**13,954**	13,287	**+5.0%**
Fuel, net of hedging (losses)/gains	**40,299**	38,132	**+5.7%**	**39,473**	37,264	**+5.9%**
Aircraft maintenance	**7,077**	7,542	**-6.2%**	**6,766**	7,207	**-6.1%**
Aircraft depreciation and operating leases	**10,411**	9,537	**+9.2%**	**10,179**	9,298	**+9.5%**
Other depreciation, amortisation and operating leases	**2,116**	1,926	**+9.9%**	**1,490**	1,354	**+10.0%**
Commissions	**799**	775	**+3.1%**	**799**	775	**+3.1%**
Others	**4,119**	4,116	**+0.1%**	**5,177**	4,500	**+15.0%**
Operating expenses	**101,556**	96,724	**+5.0%**	**98,523**	93,092	**+5.8%**
Net finance charges	**1,158**	1,019	**+13.6%**	**1,115**	974	**+14.5%**
Total operating expenses	**102,714**	97,743	**+5.1%**	**99,638**	94,066	**+5.9%**

- The Group's total operating expenses increased by 5.1% to HK$102,714 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.58 to HK$3.50.

Cathay Pacific and Dragonair Operating Results Analysis

	2014 HK$M	2013 HK$M
Airlines' profit before taxation	**2,409**	2,375
Taxation	**(563)**	(536)
Airlines' profit after taxation	**1,846**	1,839
Share of profits from subsidiaries and associates	**1,304**	781
Profit attributable to the shareholders of Cathay Pacific	**3,150**	2,620

Cathay Pacific and Dragonair Operating Results Analysis (continued)

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

	HK$M	
2013 airlines' profit before taxation	**2,375**	
Increase/(decrease) of turnover	**5,606**	- Passenger turnover increased due to a 1.1% point increase in load factor and a 5.9% increase in capacity, offset in part by a 1.8% decrease in yield. - Cargo turnover increased due to a 2.5% point increase in load factor and a 10.4% increase in capacity, offset in part by a 5.6% decrease in yield.
Decrease/(increase) of:		
Fuel, net of hedging (losses)/gains	**(2,209)**	- Fuel costs increased due to a 5.6% increase in consumption. The average into-plane fuel price decreased by 4.7%, which was partially offset by hedging losses.
Aircraft maintenance	**441**	- Decreased mainly due to the retirement of older aircraft, resulting in a reduction in maintenance costs.
Depreciation, amortisation and operating leases	**(1,017)**	- Increased mainly due to the accelerated retirement of Airbus A340-300 aircraft and the addition of new aircraft.
Staff	**(978)**	- Increased mainly due to increases in headcount and salaries.
Inflight service, landing and parking, commissions, net finance charges and others	**(1,809)**	- Increased due to an increase in various operating expenses and in the provision for impairment of fixed assets.
2014 airlines' profit before taxation	**2,409**	

Fuel Expenditure and Hedging

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

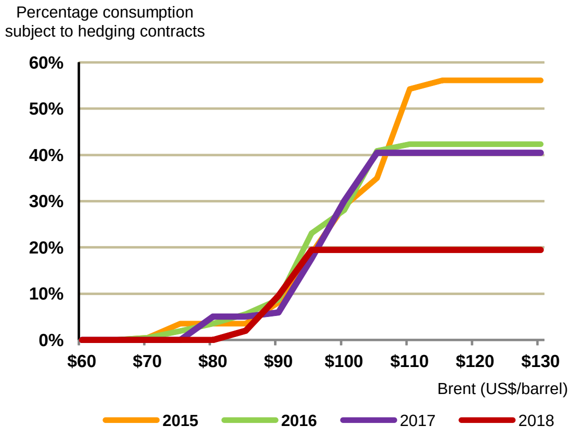
	2014 **HK$M**	2013 HK$M
Gross fuel cost	**39,388**	39,117
Fuel hedging losses/(gains)	**911**	(985)
Net fuel cost	**40,299**	38,132

Fuel consumption in 2014 was 41.7 million barrels (2013: 39.5 million barrels).

The Group's fuel hedging exposure at 31st December 2014 is set out in the table opposite:

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

Maximum fuel hedging exposure



Assets

- Total assets as at 31st December 2014 were HK$171,974 million.
- During the year, additions to fixed assets were HK$13,979 million, comprising HK$13,148 million for aircraft and related equipment, HK$480 million for buildings and HK$351 million for other equipment.

Borrowings and Capital

- Borrowings decreased by 2.9% to HK$65,096 million in 2014 from HK$67,052 million in 2013.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2026, with 55% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 62.4% of which are denominated in United States dollars, decreased by 23.9% to HK$21,098 million.
- Net borrowings increased by 11.9% to HK$43,998 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 17.8% to HK$51,722 million. This was due to significant unrealised hedging losses of HK$12,468 million recognised in the cash flow hedge reserve in 2014.
- The net debt/equity ratio increased from 0.63 times to 0.85 times.

Fleet Profile*

Aircraft type	Number at 31st December 2014				Firm orders				Expiry of operating leases						Options
		Leased													
	Owned	Finance	Operating	Total	'15	'16	'17 and beyond	Total	'15	'16	'17	'18	'19	'20 and beyond	
Aircraft operated by Cathay Pacific:															
A330-300	19	15	6	40	3[(a)]			3		1	3			2	
A340-300	8	3		11[(b)]											
A350-900						12[(c)]	10	22							
A350-1000							26	26							
747-400	6[(d)]		1	7					1						
747-400F	5			5[(e/f)]											
747-400BCF			1[(g)]	1								1			
747-400ERF		6		6											
747-8F	2	11		13		1[(f)]		1							
777-200	5			5											
777-200F															5[(h)]
777-300	8	4		12											
777-300ER	13	11	23	47	6[(f/i)]			6			2	2		19	
777-9X							21[(f)]	21							
Total	66	50	31	147	9	13	57	79	1	1	5	3		21	5
Aircraft operated by Dragonair:															
A320-200	5		10	15								2	1	7	
A321-200	2		6	8										6	
A330-300	10		8	18					1	1	5		1		
Total	17		24	41					1	1	5	2	2	13	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6	1	9								1			
747-400BCF			3	3						1	2				
Total	2	6	4	12[(j)]						1	2	1			
Grand total	**85**	**56**	**59**	**200**	**9**	**13**	**57**	**79**	**2**	**3**	**12**	**6**	**2**	**34**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2014.

(a) One aircraft was delivered in February 2015.

(b) Cathay Pacific is accelerating the retirement of 11 Airbus A340-300 aircraft. Four of these aircraft, one of which was retired in March 2015, will have been retired by the end of 2015. The remainder will be retired by the end of 2017.

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

(d) One aircraft was retired in January 2015 and three aircraft were retired in March 2015.

(e) Two aircraft were parked in January 2014.

(f) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters. One of the Boeing 747-400F freighters was delivered to The Boeing Company in November 2014.

(g) Aircraft was parked in August 2013.

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

(i) One aircraft was delivered in February 2015 and one aircraft was delivered in March 2015.

(j) Air Hong Kong also has one wet-leased Airbus A300-600F freighter. Accordingly, it operates a total of 13 aircraft.

Review of Subsidiaries and Associates

- AHK Air Hong Kong Limited achieved an increase in profit for 2014 compared with 2013. Capacity increased by 0.3%, the load factor increased by 0.6 percentage points and revenue tonne kilometers increased by 1.1%.
- Asia Miles Limited achieved an increase in profit compared with 2013 due to an increase in business volume. There was a 16% increase in redemptions by Asia Miles members on Cathay Pacific and Dragonair flights in 2014.
- Cathay Pacific Catering Services (H.K.) Limited produced 27.2 million meals and handled 69,000 flights in 2014 (representing a daily average of 74,500 meals and 189 flights and an increase of 5.9% and 5.0% respectively over 2013). Increased business volume and effective management of costs resulted in higher turnover and profit in 2014. Outside Hong Kong, profits increased in all kitchens.
- Cathay Pacific Services Limited ("CPSL") provided cargo handling services to six airlines (Cathay Pacific, Dragonair, Air Hong Kong and three others) in 2014. A seventh airline became a customer in January 2015. It handled 1.45 million tonnes of cargo during 2014. 2014 was the first year of full operation of CPSL. As a consequence, its financial results improved significantly in the year.
- The financial results of Hong Kong Airport Services Limited improved, reflecting stringent cost control and yield management.
- Air China Limited ("Air China"), in which Cathay Pacific owns a 20.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. The Group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently the 2014 results include Air China's results for the 12 months ended 30th September 2014, adjusted for any significant events or transactions for the period from 1st October 2014 to 31st December 2014. In the first half of 2014, Air China's results were adversely affected by a difficult operating environment and substantial foreign exchange losses caused by the depreciation of the Renminbi. As the year progressed, Air China's results improved as a result of lower fuel prices. Despite this improvement, the Group recorded a decrease in profit from Air China in 2014.
- Air China Cargo Co., Ltd. ("Air China Cargo"), in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. Air China Cargo's financial results improved in 2014. This reflected the general improvement in air cargo market from the summer of 2014 and improved operating efficiency resulting from the replacement of three Boeing 747-400BCF converted freighters with four Boeing 777-200F freighters in 2014.

Corporate Responsibility

- We published our 2013 Sustainable Development Report, entitled "Making the Connection", in September 2014. The report can be viewed at www.cathaypacific.com/sdreport.
- Cathay Pacific is involved in the Global Market-Based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020 and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with groups (the IATA Environment Committee, the Airlines Advisory Group on Global Market-Based Measures, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In compliance with the amended European Union's Emissions Trading Scheme for intra-European flights, the verification of our 2014 emissions data by an external auditor was completed in February 2015 and our emissions reports were submitted to the UK Environment Agency in March 2015.

- In January 2014, 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 70 single-parent families from less-well-off districts in Hong Kong. Most of the participants had never flown before. The flight was organised in support of the Commission on Poverty's "Bless Hong Kong" campaign. We operated another community flight in February 2015, again with the Hong Kong SAR Chief Executive as our guest of honour.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. In September 2014, we announced that the airline's passengers had contributed more than HK$13.1 million in 2013 to help improve the lives of disadvantaged children around the world. Since its introduction in 2001, more than HK$144 million has been raised through the programme.
- Cathay Pacific and its subsidiaries employed more than 32,900 people worldwide at the end of 2014, with around 25,400 of these people are employed in Hong Kong. We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

As at the date of this announcement, the Directors of Cathay Pacific are:
Executive Directors: John Slosar (Chairman), James Barrington, Ivan Chu, Rupert Hogg and Martin Murray;
Non-Executive Directors: Cai Jianjiang, Martin Cubbon, Fan Cheng, Ian Shiu, Song Zhiyong, Merlin Swire, Samuel Swire and Zhao Xiaohang; and
Independent Non-Executive Directors: Irene Lee, Jack So, Tung Chee Chen and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
John Slosar
Chairman
Hong Kong, 18th March 2015

Website: www.cathaypacific.com