

Cathay Pacific Airways Limited – Abridged Financial Statements

To provide shareholders with information on the results and financial position of the Group's significant listed associated company, Cathay Pacific Airways Limited, the following is a summary of its audited consolidated statement of profit or loss and consolidated statement of other comprehensive income for the year ended 31st December 2013 and consolidated statement of financial position as at 31st December 2013, modified to conform to the Group's accounts presentation.

Audit Qualification:

The report of the auditor of Cathay Pacific Airways Limited (the "Cathay Pacific Auditor") on the consolidated financial statements for the year ended 31st December 2012 was qualified due to its inability to obtain sufficient appropriate audit evidence as to whether the carrying amount of the Cathay Pacific group's investments in Air China Limited ("Air China") and Air China Cargo Co., Ltd. ("Air China Cargo") and the Cathay Pacific group's share of results of these investees included in the Cathay Pacific group's consolidated financial statements for the year ended 31st December 2012 were fairly stated. Air China and Air China Cargo are associates of the Cathay Pacific group accounted for under the equity method. As this limitation in the scope of the audit of the Cathay Pacific Auditor with respect to the Cathay Pacific group's share of the results of Air China and Air China Cargo for the year ended 31st December 2012 still exists, the opinion of the Cathay Pacific Auditor on the current year's consolidated financial statements is also qualified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures in the consolidated statement of profit or loss and other comprehensive income.

Impact on Swire Pacific Limited:

Air China and Air China Cargo are not considered significant components of the Swire Pacific Group. The auditors of Swire Pacific Limited have issued an unqualified opinion in relation to the consolidated financial statements of Swire Pacific Limited.

Consolidated Statement of Profit or Loss

For the year ended 31st December 2013

	2013	2012 (Restated)
	HK\$M	HK\$M
Turnover	100,484	99,376
Operating expenses	(96,724)	(97,763)
Operating profit	3,760	1,613
Finance charges	(1,370)	(1,629)
Finance income	351	745
Net finance charges	(1,019)	(884)
Share of profits less losses of associated companies	838	754
Profit before taxation	3,579	1,483
Taxation	(675)	(409)
Profit for the year	2,904	1,074
Profit for the year attributable to:		
– Cathay Pacific's shareholders	2,620	862
– Non-controlling interests	284	212
	2,904	1,074
Dividends		
Interim – paid	236	–
Second interim – declared/paid	629	315
	865	315
	HK¢	HK¢
Earnings per share for profit attributable to Cathay Pacific's shareholders (basic and diluted)	66.6	21.9

Consolidated Statement of Other Comprehensive Income

For the year ended 31st December 2013

	2013	2012 (Restated)
	HK\$M	HK\$M
Profit for the year	2,904	1,074
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Defined benefit plans	997	142
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	3,170	1,587
Net fair value gains on available-for-sale assets	53	46
Share of other comprehensive income of associated companies	89	3
Net translation differences on foreign operations	491	83
Other comprehensive income for the year, net of tax	4,800	1,861
Total comprehensive income for the year	7,704	2,935
Total comprehensive income attributable to:		
Cathay Pacific's shareholders	7,418	2,726
Non-controlling interests	286	209
	7,704	2,935

Consolidated Statement of Financial Position

At 31st December 2013

	2013	2012
	HK\$M	(Restated) HK\$M
ASSETS AND LIABILITIES		
Non-current assets		
Fixed assets	94,935	84,278
Intangible assets	9,802	9,425
Investments in associates	20,314	18,522
Other long-term receivables and investments	7,135	6,254
Deferred tax assets	204	95
	132,390	118,574
Current assets		
Stock	1,511	1,194
Trade, other receivables and other assets	9,938	10,833
Liquid funds	27,736	24,182
	39,185	36,209
Current liabilities		
Current portion of long-term liabilities	11,179	10,758
Related pledged security deposits	(961)	(2,601)
Net current portion of long-term liabilities	10,218	8,157
Trade and other payables	18,206	17,470
Unearned transportation revenue	11,237	9,581
Taxation	1,116	687
	40,777	35,895
Net current assets/(liabilities)	(1,592)	314
Total assets less current liabilities	130,798	118,888
Non-current liabilities		
Long-term liabilities	57,460	52,753
Related pledged security deposits	(626)	(1,364)
Net long-term liabilities	56,834	51,389
Other long-term payables	1,318	3,205
Deferred taxation	9,633	8,156
	67,785	62,750
NET ASSETS	63,013	56,138
EQUITY		
Share capital	787	787
Reserves	62,101	55,234
Equity attributable to Cathay Pacific's shareholders	62,888	56,021
Non-controlling interests	125	117
TOTAL EQUITY	63,013	56,138

Notes to the Accounts

At 31st December 2013

Contingencies

- (a) Cathay Pacific Airways (“Cathay Pacific”) has under certain circumstances undertaken to maintain specified rates of return within the Cathay Pacific group’s leasing arrangements. The Directors of Cathay Pacific do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (b) At 31st December 2013, contingent liabilities existed in respect of guarantees given by the Cathay Pacific group on behalf of associated companies and staff relating to lease obligations, bank loans and other liabilities of up to HK\$2,017 million (2012: HK\$1,341 million).
- (c) Cathay Pacific operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome 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.
- (d) Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions and continues to defend itself vigorously except as otherwise noted below. The proceedings are focused on issues relating to pricing and competition. Cathay Pacific 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 Cathay Pacific’s air cargo operations. On 20th June 2013, pursuant to a plea agreement entered into by Cathay Pacific and the Bureau, the Ontario Superior Court of Justice accepted Cathay Pacific’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, Cathay Pacific 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, Cathay Pacific received a statement of claim, since amended, from the New Zealand Commerce Commission (“NZCC”) with regard to Cathay Pacific’s air cargo operations. Agreement was reached between Cathay Pacific and the NZCC to settle the allegations which arose out of the amended statement of claim. Under the settlement, which was approved by the High Court of New Zealand, Cathay Pacific 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 exchange rate current when the judgment was entered), 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 satisfied the judgment in April 2013.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, Cathay Pacific 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 €57.12 million (equivalent to HK\$618 million at the exchange rate current as of the date of the announcement) on Cathay Pacific. In January 2011, Cathay Pacific filed an appeal with the General Court of the European Union. The appeal is currently pending.

Cathay Pacific 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, Norway and Australia alleging violations of applicable competition laws arising from Cathay Pacific’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 Cathay Pacific’s conduct relating to certain of its passenger operations. Cathay Pacific is represented by legal counsel and is defending these actions, except as noted below.

Cathay Pacific is a defendant in various putative class action cases filed in the United States, in which the plaintiffs allege Cathay Pacific and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of United States federal and state antitrust laws, and certain foreign competition laws. Those cases have been consolidated into one case for all pre-trial purposes, *In re Air Cargo Shipping Services Antitrust Litigation*, MDL No. 1775, EDNY. Damages are demanded, but the amounts are not specified. Cathay Pacific has reached an agreement to settle this matter in February 2014, by paying the plaintiffs US\$65 million (approximately HK\$504 million at the exchange rate current at date of payment). The settlement, which is subject to Court approval, will resolve claims against all putative class members who choose not to opt out of the agreement.

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 relevant accounting policy.