CATHAY PACIFIC

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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement
2017 Interim Results

Financial and Operating Highlights

Group Financial Statistics

		2017	2016	
		Six months ended 30th June		**Change**
Results				
Revenue	*HK$ million*	**45,858**	45,683	**+0.4%**
(Loss)/profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**(2,051)**	353	**-681.0%**
(Loss)/earnings per share	*HK cents*	**(52.1)**	9.0	**-678.9%**
Dividend per share	*HK$*	**-**	0.05	**-100.0%**
(Loss)/profit margin	*%*	**(4.5)**	0.8	**-5.3%pt**

		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**53,077**	55,365	**-4.1%**
Net borrowings	*HK$ million*	**55,046**	49,879	**+10.4%**
Shareholders' funds per share	*HK$*	**13.5**	14.1	**-4.3%**
Net debt/equity ratio	*Times*	**1.04**	0.90	**+0.14 times**

Operating Statistics – Cathay Pacific and Cathay Dragon

		2017	2016	
		Six months ended 30th June		**Change**
Available tonne kilometres (“ATK”)	*Million*	**15,190**	14,929	**+1.7%**
Available seat kilometres (“ASK”)	*Million*	**73,444**	72,647	**+1.1%**
Revenue passengers carried	*‘000*	**17,163**	17,249	**-0.5%**
Passenger load factor	*%*	**84.7**	84.5	**+0.2%pt**
Passenger yield	*HK cents*	**51.5**	54.3	**-5.2%**
Cargo and mail carried	*‘000 tonnes*	**966**	866	**+11.5%**
Cargo and mail load factor	*%*	**66.2**	62.2	**+4.0%pt**
Cargo and mail yield	*HK$*	**1.66**	1.59	**+4.4%**
Cost per ATK (with fuel)	*HK$*	**3.14**	2.98	**+5.4%**
Cost per ATK (without fuel)	*HK$*	**2.17**	2.11	**+2.8%**
Aircraft utilisation	*Hours per day*	**12.3**	12.1	**+1.7%**
On-time performance	*%*	**73.1**	71.4	**+1.7%pt**

Capacity, load factor and yield – Cathay Pacific and Cathay Dragon

	Capacity ASK/ATK (million)*			Load factor (%)			Yield
	2017	2016	**Change**	**2017**	2016	**Change**	**Change**
Passenger services							
India, Middle East and Sri Lanka	**4,242**	4,679	**-9.3%**	**83.6**	80.6	**+3.0%pt**	**-3.6%**
Southwest Pacific and South Africa	**10,069**	9,911	**+1.6%**	**85.2**	88.2	**-3.0%pt**	**-5.1%**
Southeast Asia	**10,433**	10,662	**-2.1%**	**84.2**	85.1	**-0.9%pt**	**-2.7%**
Europe	**13,548**	12,347	**+9.7%**	**89.0**	86.1	**+2.9%pt**	**-7.3%**
North Asia	**15,349**	15,392	**-0.3%**	**80.0**	79.2	**+0.8%pt**	**-2.8%**
North America	**19,803**	19,656	**+0.7%**	**85.8**	86.2	**-0.4%pt**	**-7.7%**
Overall	**73,444**	72,647	**+1.1%**	**84.7**	84.5	**+0.2%pt**	**-5.2%**
Cargo services	**8,206**	8,021	**+2.3%**	**66.2**	62.2	**+4.0%pt**	**+4.4%**

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

Passenger services

- We introduced a four-times-weekly services to Tel Aviv in March. The service, which is operated by Airbus A350-900 aircraft, has been very well received in all classes. We will put on extra flights to meet seasonal demand on this route from September to November 2017. We introduced seasonal services to Barcelona (July to October 2017) and will introduce seasonal services to Christchurch (December 2017 to February 2018). These services will be operated by Airbus A350-900 aircraft.
- We sold premium class tickets on a promotional basis to non-corporate customers.
- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.
- Demand over the Chinese New Year holiday was strong, but yield was under pressure.
- The performance of our Southwest Pacific routes was below expectations. Demand on Southwest Pacific routes was weak. Increased capacity from Mainland China, Hong Kong and Australian carriers put pressure on yield and the number of transit passengers.
- Yield on routes between Hong Kong and Mainland China and Southeast Asia was under pressure because of increased competition, particularly from low-cost carriers.
- Demand on European routes grew, but from a low base, reflecting security concerns in the early part of 2016.
- Demand for travel to and from Madrid grew. Bookings for our seasonal summer services to Barcelona have been strong.
- Demand for travel to the United States was weak.
- Increased competition on routes to Canada is putting increased pressure on yield, especially during seasonally weak periods.
- In March 2017, we increased the frequency of our services to Boston (from four flights per week to daily) and Vancouver (from 14 to 17 flights per week).
- To meet seasonal demand, we increased the frequency of our service to Toronto by four flights per week between June and August 2017 (making this a twice-daily service).
- From October 2017, we will increase the frequency of our service to San Francisco to three-times-daily (by adding four flights per week) and will reduce the frequency of our service to Los Angeles from 28 to 21 flights per week.
- The load factor on the route to London Gatwick, introduced in 2016, was high, but revenue was adversely affected by the weakness of sterling.
- In June 2017, we increased the frequency of our services to London Gatwick (from four flights per week to daily) and Manchester (from four to five flights per week). The Manchester service is now operated by Airbus A350-900 aircraft. From December 2017, the frequency of the Manchester service will be increased to daily.

- From October 2017, the frequency of our service to Madrid will be increased from four to five flights per week.
- From December 2017, the frequency of our service to Paris will be increased from 10 to 11 flights per week.
- From July 2017, our service to Adelaide became five flights per week year-round.
- From October 2017 to March 2018, we will replace our current four-times-weekly one-stop service to Brisbane via Cairns with direct flights to both cities. The Brisbane frequency will be 11 flights per week. The Cairns frequency will be three flights per week.
- In March 2017, we increased capacity on our daily non-stop flight to Brisbane by using Airbus A350-900 aircraft.
- In March 2017, we increased capacity on our route to Melbourne. The route used to be operated only by Airbus A330-300 aircraft. One of the three daily flights is now operated by Boeing 777-300ER aircraft, one by Airbus A350-900 aircraft and one by Airbus A330-300 aircraft.
- The performance of our routes to Thailand was satisfactory.
- In July 2017, we increased the frequency of our services to Hanoi (from 10 to 12 flights per week) and Ho Chi Minh City (from 18 to 19 flights per week).
- Demand for travel to Northeast Asia was strong in the early part of 2017, but political tensions between Mainland China and South Korea in the second quarter affected demand for travel to South Korea.
- We stopped flying to Riyadh in March 2017.
- In October 2017, we will suspend services between Taipei and Fukuoka and will introduce a second daily flight between Taipei and Tokyo Narita.
- Cathay Dragon now operates the four daily flights to Kuala Lumpur which were previously operated by Cathay Pacific.
- Cathay Dragon’s service to Tokyo Haneda will be suspended from October 2017.

Cargo services

- Cargo demand was robust in the first half of 2017. Tonnage carried grew faster than capacity. Yield benefited from the resumption (from April) of fuel surcharges and from strong demand for Mainland China exports.
- In February 2017, Cathay Pacific’s joint business agreement with Lufthansa Cargo AG came into effect on cargo routes from Hong Kong to Europe. It will come into effect on routes from Europe to Hong Kong in the third quarter of 2018.
- In June 2017, we wet-leased two Atlas Air Worldwide Boeing 747-8F freighters. This enabled us to increase the frequencies of our Atlanta, Chicago, Miami and Amsterdam cargo services and to increase capacity on our Mexico cargo service.
- Cargo exports from Mainland China were very strong during the first six months of 2017, particularly on transpacific routes.
- Demand for shipments of perishable goods to Mainland China increased.
- Demand for shipments to and from the Indian sub-continent was strong during the period.
- In March 2017, we increased the frequency of our Delhi cargo service from four to five flights per week.
- In June 2017, we increased the frequency of our Chennai cargo service from four to six flights per week.
- Demand for shipments within Asia was stronger in the first half of 2017 than in the first half of 2016.
- Our European routes did better. Increased shipments of pharmaceutical products benefited yield.
- Our two-times-weekly service to Portland Oregon which was introduced in November 2016, will become a three-times-weekly service in September 2017, reflecting strong demand.
- Shipments to and from South America grew strongly, assisted by interline arrangements with LATAM Airlines Group, Amerijet International and Atlas Air Worldwide.
- Fuel surcharges were reimposed in April 2017.
- In June 2017, we retired one Boeing 747-400BCF converted freighter.
- CPSL’s air cargo terminal handled 978 thousand tonnes of cargo in the first half of 2017. The terminal handles cargo for Cathay Pacific, Cathay Dragon, Air Hong Kong and 13 other airlines.
- The outlook for our cargo operations in the second half of 2017 is good.

Chairman's Letter

The Group reported an attributable loss of HK$2,051 million for the first six months of 2017. This compares to an attributable profit of HK$353 million for the same period in 2016 and an attributable loss of HK$928 million in the second six months of 2016. The loss per share for the first six months of 2017 was HK52.1 cents compared to earnings per share of HK9.0 cents for the first six months of the previous year.

Fundamental structural changes within the airline industry continue to affect the operating environment for our airlines and created difficult operating conditions in the first half of 2017. The factors which affected our performance were largely the same as in 2016. Intense competition with other airlines was the most significant. Other major adverse factors were higher fuel prices (including the effect of our hedging), the adverse effect of the strength of the Hong Kong dollar on revenues denominated in other currencies, and higher aircraft maintenance costs.

Several special factors affected the results in the first half of 2017. In March, the European Commission issued a decision finding that a number of international air cargo carriers, including Cathay Pacific, had agreed to cargo surcharge levels prior to 2007 and that such agreements infringed European competition law and imposed a fine of Euros 57.12 million (equivalent to approximately HK$498 million) on Cathay Pacific. Although an application has been made to the General Court of the European Union to annul the decision which led to the fine, the full amount of the fine has been recognised. In March, Air China announced the completion of the issue of 1.44 billion A shares. As a result, Cathay Pacific's shareholding in Air China was diluted from 20.13% to 18.13% and a gain of HK$244 million was recognised on the deemed partial disposal. In April, Cathay Pacific disposed of its entire interest in Travelsky Technology Limited at a profit of HK$586 million. In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme intended to address the fundamental challenges that it is facing in the current airline industry environment. In May, as part of this programme, we announced a reorganisation of our head office. The amount of the associated redundancy costs (HK$224 million) has been recognised in staff expenses.

Our three-year corporate transformation programme has the goal of achieving returns above the cost of capital and of reducing our unit costs, excluding fuel. However, it is about more than just cost savings. We must strengthen our brand while maintaining our high standards, identity and excellence in a challenging environment. The objective is a long term sustainable recovery in revenues and financial performance, in which we compete successfully in an industry that is undergoing fundamental structural changes. Through the transformation, Cathay Pacific is intended to emerge as a leaner, more agile and more profitable airline that responds to changing market trends and customer preferences.

Business performance

The Group's passenger revenue in the first six months of 2017 was HK$32,105 million, a decrease of 3.9% compared to the same period in 2016. Capacity increased by 1.1%, reflecting the introduction of a route to Tel Aviv and increased frequencies on other routes. The load factor increased by 0.2 percentage points, to 84.7%. Yield fell by 5.2% to HK51.5 cents, reflecting intense competition in all classes and the adverse effect of the strength of the Hong Kong dollar on revenues denominated in other currencies.

We introduced services to Tel Aviv in March, which have been very well received. We introduced seasonal services to Barcelona (in July) and will introduce seasonal services to Christchurch (in December). To date in 2017, we have increased frequencies to Adelaide, Boston, Hanoi, Ho Chi Minh City, London Gatwick, Manchester, Toronto (between June and August) and Vancouver and will increase frequencies to Madrid, Paris and San Francisco later in the year. We stopped flying to Riyadh in March. In May, Cathay Pacific stopped flying to Kuala Lumpur, with Cathay Dragon operating the four-times-daily service instead. Cathay Dragon's service to Tokyo Haneda will be suspended from October. Cathay Pacific's two-times-weekly cargo service to Portland, Oregon will become a three-times-weekly service in September.

Cargo revenue improved, reflecting robust demand. Tonnage carried grew faster than capacity, and yield benefited from the resumption (from April) of fuel surcharges and improving demand for Mainland China exports. Demand for shipments within Asia was stronger and shipments on European routes grew. The Group’s cargo revenue in the first six months of 2017 was HK$10,515 million, an increase of 11.7% compared to the same period in 2016. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 2.3%. The load factor increased by 4.0 percentage points, to 66.2%. Tonnage carried increased by 11.5%. Yield increased by 4.4% to HK$1.66.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK$2,871 million (or 33.4%) compared with the first half of 2016, reflecting a 31.5% increase in average fuel prices and a 1.6% increase in consumption. Fuel is the Group’s most significant cost, accounting for 30.4% of total operating costs in the first half of 2017 (compared to 29.1% in the same period in 2016). Fuel hedging losses were reduced. After taking them into account, fuel costs increased by HK$1,678 million (or 12.7%) compared with the first half of 2016.

There was a 2.8% increase in non-fuel costs per available tonne kilometre. Excluding fuel and one-off items, the increase was 0.5%. Cost savings offset higher aircraft maintenance, depreciation and finance costs.

The contribution from subsidiary and associated companies was satisfactory.

We took delivery of six Airbus A350-900 aircraft during the first six months of 2017 and another one in July. We now have 17 Airbus A350-900s in our fleet and expect to take delivery of a further five aircraft of this type during the remainder of 2017. The new aircraft have lower operating costs than existing aircraft and have been well received by customers. They have our latest cabins, seats and entertainment systems and inflight connectivity for passengers’ mobile devices. We retired our final four Airbus A340-300 aircraft in the first half of the year. We retired one Boeing 747-400BCF converted freighter aircraft in June and wet-leased two Boeing 747-8F freighters from Atlas Air Worldwide in the same month.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on the Group. We are doing more to improve the reliability of our operations. This was reflected in a 1.7 percentage points improvement in on-time performance between the first halves of 2016 and 2017.

Prospects

We do not expect the operating environment in the second half of 2017 to improve materially. In particular, the passenger business will continue to be affected by strong competition from other airlines and our results are expected to be adversely affected by higher fuel prices and our fuel hedging positions. However, the outlook for the cargo business is good and we expect robust demand and growth in cargo capacity, yield and load factor in the second half of this year. We expect to see the benefits of our transformation in the second half of 2017, and the effects will accelerate in 2018.

We are addressing the industry challenges through our corporate transformation and by expanding our route network, increasing frequencies on our most popular routes and buying more fuel-efficient aircraft. This will help us to increase productivity and to reduce costs while improving the quality of our services to customers. We continue to enhance our high standards of customer service and are proud of the quality, dedication and professionalism of our staff.

The new management team is acting decisively to make Cathay Pacific and Cathay Dragon better airlines and stronger businesses, delivering more to customers with improved productivity. We are confident that we are on the right track to achieve strong and sustainable long-term performance, with a leaner, more competitive business, while enhancing the brand and the quality of services that our customers deserve and expect. These services are always delivered by our people, who remain dedicated in these volatile times. I would like to thank them for their hard work and commitment.

Our commitment to Hong Kong and its people remains unwavering and we will continue to make strategic investments to develop and strengthen Hong Kong's position as Asia's largest international aviation hub.

John Slosar
Chairman
Hong Kong, 16th August 2017

CATHAY PACIFIC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2017 - Unaudited

	Note	**2017 HK$M**	2016 HK$M
Revenue			
Passenger services		**32,105**	33,413
Cargo services		**10,515**	9,415
Catering, recoveries and other services		**3,238**	2,855
Total revenue		**45,858**	45,683
Expenses			
Staff		**(9,845)**	(9,867)
Inflight service and passenger expenses		**(2,412)**	(2,372)
Landing, parking and route expenses		**(7,307)**	(7,376)
Fuel, including hedging losses		**(14,937)**	(13,259)
Aircraft maintenance		**(4,461)**	(4,170)
Aircraft depreciation and operating leases		**(5,581)**	(5,065)
Other depreciation, amortisation and operating leases		**(1,372)**	(1,213)
Commissions		**(320)**	(371)
Others		**(2,157)**	(1,326)
Operating expenses		**(48,392)**	(45,019)
Operating (loss)/profit before non-recurring items		**(2,534)**	664
Gain on disposal of long-term investment		**586**	-
Gain on deemed partial disposal of an associate	*4*	**244**	-
Operating (loss)/profit	*5*	**(1,704)**	664
Finance charges		**(1,061)**	(851)
Finance income		**247**	244
Net finance charges		**(814)**	(607)
Share of profits of associates		**533**	683
(Loss)/profit before taxation		**(1,985)**	740
Taxation	*6*	**84**	(237)
(Loss)/profit for the period		**(1,901)**	503
Non-controlling interests		**(150)**	(150)
(Loss)/profit attributable to the shareholders of Cathay Pacific		**(2,051)**	353
(Loss)/profit for the period		**(1,901)**	503
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**(939)**	4,046
Revaluation of available-for-sale financial assets		**(506)**	73
Share of other comprehensive income of associates		**356**	(180)
Exchange differences on translation of foreign operations		**852**	(493)
Other comprehensive income for the period, net of taxation	*7*	**(237)**	3,446
Total comprehensive income for the period		**(2,138)**	3,949
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		**(2,288)**	3,799
Non-controlling interests		**150**	150
		(2,138)	3,949
(Loss)/earnings per share (basic and diluted)	*8*	**(52.1)¢**	9.0¢

CATHAY PACIFIC

Consolidated Statement of Financial Position

at 30th June 2017 - Unaudited

	Note	30th June 2017 HK$M	31st December 2016 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment		**109,911**	106,456
Intangible assets		**11,133**	10,934
Investments in associates		**24,955**	23,298
Other long-term receivables and investments		**3,517**	4,604
Deferred tax assets		**835**	737
		150,351	146,029
Long-term liabilities		**(64,877)**	(58,906)
Other long-term payables		**(6,543)**	(7,517)
Deferred tax liabilities		**(11,073)**	(11,380)
		(82,493)	(77,803)
Net non-current assets		**67,858**	68,226
Current assets and liabilities			
Stock		**1,573**	1,514
Trade, other receivables and other assets	*10*	**10,080**	9,557
Assets held for sale		**-**	31
Liquid funds		**17,257**	20,290
		28,910	31,392
Current portion of long-term liabilities		**(7,426)**	(11,263)
Trade and other payables	*11*	**(20,909)**	(19,104)
Unearned transportation revenue		**(14,435)**	(12,926)
Taxation		**(772)**	(707)
Dividend payable to non-controlling interests		**-**	(92)
		(43,542)	(44,092)
Net current liabilities		**(14,632)**	(12,700)
Total assets less current liabilities		**135,719**	133,329
Net assets		**53,226**	55,526
CAPITAL AND RESERVES			
Share capital and other statutory capital reserves	*12*	**17,106**	17,106
Other reserves		**35,971**	38,259
Funds attributable to the shareholders of Cathay Pacific		**53,077**	55,365
Non-controlling interests		**149**	161
Total equity		**53,226**	55,526

Notes:

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, 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 16th August 2017.

The financial information relating to the year ended 31st December 2016 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2016 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2016 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies and estimates

The useful life of expenditure on computer software licences and others capitalised as intangible assets has been changed from not exceeding a period of four to ten years to four to fifteen years. This change in accounting estimate is applied prospectively from 1st January 2017 and has no significant impact on the results and financial position of the Group.

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

- HKAS 7 " Statement of Cash Flows"
- HKAS 12 " Income Taxes"

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

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Sales to external customers	**45,197**	45,083	**661**	600			**45,858**	45,683
Inter-segment sales	**4**	4	**1,987**	1,873			**1,991**	1,877
Segment revenue	**45,201**	45,087	**2,648**	2,473			**47,849**	47,560
Segment (loss)/profit	**(1,762)**	367	**58**	297			**(1,704)**	664
Net finance charges	**(716)**	(539)	**(98)**	(68)			**(814)**	(607)
	(2,478)	(172)	**(40)**	229			**(2,518)**	57
Share of profits of associates					**533**	683	**533**	683
(Loss)/profit before taxation							**(1,985)**	740
Taxation	**87**	(237)	**(3)**	-			**84**	(237)
(Loss)/profit for the period							**(1,901)**	503

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.

(b) Geographical information

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Revenue by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**23,111**	22,712
- Japan, Korea and Taiwan	**4,657**	4,175
India, Middle East and Sri Lanka	**1,793**	1,939
Southwest Pacific and South Africa	**2,746**	2,760
Southeast Asia	**3,698**	3,837
Europe	**3,945**	4,075
North America	**5,908**	6,185
	45,858	45,683

A geographic analysis of segment results is not disclosed for the reasons set out in the 2016 Annual Report.

4. Gain on deemed partial disposal of an associate

On 10th March 2017, Air China Limited ("Air China") completed the issuance of 1,440,064,181 A shares. As a consequence, the Company's shareholding in Air China has been diluted from 20.13% to 18.13%. A gain on this deemed partial disposal of HK$244 million was recorded, principally reflecting the change in the Group's share of net assets in Air China immediately before and after the share issuance.

5. Operating (loss)/profit

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
- leased	**1,005**	1,017
- owned	**3,277**	2,870
Amortisation of intangible assets	**254**	243
Operating lease rentals		
- land and buildings	**535**	525
- aircraft and related equipment	**1,855**	1,592
- others	**27**	32
Provision for impairment of assets held for sale	**1**	2
Gain on disposal of assets held for sale	**-**	(232)
Loss on disposal of property, plant and equipment, net	**130**	103
Gain on disposal of long-term investment	**(586)**	-
Cost of stock expensed	**1,090**	1,083
Exchange differences, net	**49**	(10)
Auditors' remuneration	**7**	6
Dividend income from unlisted investments	**(26)**	(15)

6. Taxation

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Current tax expenses		
- Hong Kong profits tax	**85**	97
- overseas tax	**110**	119
- under provisions for prior years	**26**	80
Deferred tax credit		
- origination and reversal of temporary differences	**(305)**	(59)
	(84)	237

Hong Kong profits tax is calculated at 16.5% (2016: 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 21(d) to the financial statements in the 2017 Interim Report).

7. Other comprehensive income

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Cash flow hedges		
- (loss)/gain recognised during the period	**(3,949)**	551
- loss transferred to profit or loss	**2,904**	3,990
- deferred taxation	**106**	(495)
Revaluation of available-for-sale financial assets		
- gain recognised during the period	**69**	73
- reclassified to profit or loss	**(575)**	-
Share of other comprehensive income of associates	**356**	(180)
Exchange differences on translation of foreign operations		
- gain/(loss) recognised during the period	**769**	(493)
- reclassified to profit or loss	**83**	-
Other comprehensive income for the period	**(237)**	3,446

8. (Loss)/earnings per share (basic and diluted)

Loss per share is calculated by dividing the loss attributable to the shareholders of Cathay Pacific of HK$2,051 million (2016: a profit of HK$353 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2016: 3,934 million) shares.

9. Dividend

The Directors decided not to declare a first interim dividend (2016: HK$0.05 per share) for the year ending 31st December 2017.

10. Trade, other receivables and other assets

	30th June 2017	31st December 2016
	HK$M	HK$M
Trade debtors	**5,562**	5,595
Derivative financial assets - current portion	**180**	857
Other receivables and prepayments	**4,302**	3,042
Due from associates and other related companies	**36**	63
	10,080	9,557

	30th June 2017	31st December 2016
	HK$M	HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,221**	5,074
One to three months overdue	**207**	395
More than three months overdue	**134**	126
	5,562	5,595

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

11. Trade and other payables

	30th June 2017 HK$M	31st December 2016 HK$M
Trade creditors	**5,753**	5,061
Derivative financial liabilities – current portion	**6,311**	5,680
Other payables	**8,559**	8,024
Due to associates	**168**	175
Due to other related companies	**118**	164
	20,909	19,104

	30th June 2017 HK$M	31st December 2016 HK$M
Analysis of trade creditors by age:		
Current	**5,587**	4,854
One to three months overdue	**144**	196
More than three months overdue	**22**	11
	5,753	5,061

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

12. Share capital

	30th June 2017		31st December 2016	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 30th June / 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period (2016: nil). At 30th June 2017, 3,933,844,572 shares were in issue (31st December 2016: 3,933,844,572 shares).

13. Corporate governance

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

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

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

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

13. Corporate governance (continued)

The 2017 interim results have been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2016 Annual Report and in the 2017 Interim Report.

14. Interim report

The 2017 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Company website (www.cathaypacific.com) on or before 31st August 2017. Printed copies will be sent to shareholders who have elected to receive printed copies on 1st September 2017.

15. Impact of further new accounting standards

The HKICPA has issued amendments and new standards which become effective for accounting periods beginning on or after 1st January 2018 and which are not adopted in the financial statements. The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course and will be taken into consideration when determining whether to adopt any of these new requirements before their effective date and which transitional approach to take, where there are alternative approaches allowed under the new standards.

HKFRS 9 “Financial Instruments” is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2018. HKFRS 9 contains three principal classification categories for financial assets: measured at (a) amortised cost, (b) fair value through profit or loss and c) fair value through other comprehensive income. If an equity security is designated as fair value through other comprehensive income, then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling. With respect to the Group’s financial assets currently classified as “available-for-sale”, these are investments in equity securities which the Group may classify as either fair value through profit or loss or irrevocably elect to designate as fair value through other comprehensive income (without recycling) on transition to HKFRS 9. The Group has not yet decided whether it will irrevocably designate these investments as fair value through other comprehensive income or classify them as fair value through profit or loss. Either classification would give rise to a change in accounting policy as the current accounting policy for available-for-sale equity investments is to recognise fair value changes in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the Group’s accounting policy. This change in policy will have no impact on the Group’s net assets and total comprehensive income but will impact on reported performance amounts such as profit and earnings per share. The Group has yet to assess the full impact of the new standard.

HKFRS 15 “Revenue from Contracts with Customers” is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2018. The standard deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Areas which are expected to be impacted by the change in accounting standard include the Group’s recognition of rebooking and change fees arising from ticket sales, breakage income, and revenue within our loyalty and rewards programmes. The Group has yet to assess the full impact of the new standard.

15. Impact of further new accounting standards (continued)

HKFRS 16 "Leases" is relevant to the Group and becomes effective for accounting periods beginning on or after 1st January 2019. The standard eliminates the lessee's classification of leases as either operating leases or finance leases and, instead, introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for aircraft and related equipment and buildings and other equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16.

CATHAY PACIFIC

Operating expenses

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2017 HK$M	2016 HK$M	**Change**	**2017 HK$M**	2016 HK$M	**Change**
Staff	**9,845**	9,867	**-0.2%**	**8,736**	8,812	**-0.9%**
Inflight service and passenger expenses	**2,412**	2,372	**+1.7%**	**2,412**	2,372	**+1.7%**
Landing, parking and route expenses	**7,307**	7,376	**-0.9%**	**7,161**	7,250	**-1.2%**
Fuel, including hedging losses	**14,937**	13,259	**+12.7%**	**14,700**	13,081	**+12.4%**
Aircraft maintenance	**4,461**	4,170	**+7.0%**	**4,302**	3,996	**+7.7%**
Aircraft depreciation and operating leases	**5,581**	5,065	**+10.2%**	**5,496**	4,994	**+10.1%**
Other depreciation, amortisation and operating leases	**1,372**	1,213	**+13.1%**	**950**	905	**+5.0%**
Commissions	**320**	371	**-13.7%**	**320**	371	**-13.8%**
Others	**2,157**	1,326	**+62.7%**	**2,929**	2,221	**+31.9%**
Operating expenses	**48,392**	45,019	**+7.5%**	**47,006**	44,002	**+6.8%**
Net finance charges	**814**	607	**+34.1%**	**693**	522	**+32.8%**
Total operating expenses	**49,206**	45,626	**+7.8%**	**47,699**	44,524	**+7.1%**

- The Group's total operating expenses increased by 7.8% to HK$49,206 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon increased from HK$2.98 to HK$3.14.

Cathay Pacific and Cathay Dragon operating results analysis

	Six months ended 30th June	
	2017 HK$M	2016 HK$M
Airlines' loss before taxation	**(2,925)**	(618)
Taxation	**160**	(165)
Airlines' loss after taxation	**(2,765)**	(783)
Share of profits from subsidiaries and associates	**714**	1,136
(Loss)/profit attributable to the shareholders of Cathay Pacific	**(2,051)**	353

Cathay Pacific and Cathay Dragon operating results analysis (continued)

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

	HK$M	
2016 interim airlines' loss before taxation	**(618)**	
Increase of revenue	**37**	- Passenger revenue decreased by 3.9% primarily due to a 5.2% fall in yield and a 0.5% decrease in passengers carried, partially offset by a 0.2% points increase in load factor. - Cargo revenue increased by 13.3% due to a 4.4% increase in yield, a 4.0% points increase in load factor and a 11.5% increase in cargo and mail tonnage carried.
Decrease/(increase) of costs:		
- Fuel, including hedging losses	**(1,619)**	- Fuel costs increased due to a 31.5% increase in the average into-plane fuel price and a 1.6% increase in consumption. This was partially offset by a 27.9% decrease in fuel hedging losses.
- Aircraft maintenance	**(306)**	- Increased mainly due to increases in operational capacity, aircraft retirement costs and higher engine maintenance charge rates.
- Depreciation, amortisation and operating leases	**(547)**	- Increased mainly due to the addition of new aircraft.
- Staff	**76**	- Decreased due to head office restructuring and a reduction of accrued expenses.
- All other operating expenses, including inflight service, landing and parking, commissions, net finance charges and others	**52**	- Decreased mainly due to non-recurring items (the gain on disposal of Travelsky Technology Limited and the gain on the deemed partial disposal of Air China shares, partly offset by recognition of the European Commission airfreight fine) and increased landing and parking charges.
2017 interim airlines' loss before taxation	**(2,925)**	

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2017	2016
	HK$M	HK$M
Gross fuel cost	**11,700**	8,769
Fuel hedging losses	**3,237**	4,490
Fuel cost	**14,937**	13,259

Financial position

- Additions to property, plant and equipment were HK$7,855 million, comprising HK$7,183 million in respect of aircraft and related equipment and HK$672 million in respect of other equipment and buildings.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2027, with 41.3% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 76.0% of which are denominated in United States dollars, decreased by 14.9% to HK$17,257 million.
- Net borrowings (after liquid funds) increased by 10.4% to HK$55,046 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 4.1% to HK$53,077 million. This was due to the loss for the period and unrealised hedging losses of HK$3,949 million recognised in the cash flow hedging reserve, partially offset by other reserve movements.
- The net debt/equity ratio increased from 0.90 times to 1.04 times.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2016 Annual Report.

Fleet profile*

Aircraft type	Number at 30th June 2017				Firm orders				Expiry of operating leases							Options
		Leased														
	Owned	Finance	Operating	Total	'17	'18	'19 and beyond	Total	'17	'18	'19	'20	'21	'22	'23 and beyond	
Aircraft operated by Cathay Pacific:																
A330-300	20	12	6	38						3	1	2				
A350-900	11	3	2	16	6[a]			6							2	
A350-1000						8	18	26								
747-400ERF		6		6												
747-8F	3	11		14												
777-200	5			5												
777-200F																3[b]
777-300	12			12		2	3	5[c]								
777-300ER	19	11	23	53						1	2		5	4	11	
777-9X							21	21								
Total	70	43	31	144	6	10	42	58		4	3	2	5	4	13	3
Aircraft operated by Cathay Dragon:																
A320-200	5		10	15						2	1	1	3	3		
A321-200	2		6	8								1	2	2	1	
A330-300	10		13[d]	23					1	2	3	2	2	3		
Total	17		29	46					1	4	4	4	7	8	1	
Aircraft operated by Air Hong Kong:																
A300-600F	7	1	2[e]	10						2						
747-400BCF			3[f]	3					1	2						
Total	7	1	5	13					1	4						
Grand total	**94**	**44**	**65[d]**	**203**	**6**	**10**	**42**	**58**	**2**	**12**	**7**	**6**	**12**	**12**	**14**	**3**

* The table does not reflect aircraft movements after 30th June 2017.

(a) One of these Airbus A350-900 aircraft was delivered in July 2017.
(b) Purchase options for aircraft to be delivered by 2019.
(c) Five Boeing 777-300 used aircraft will be delivered from 2018.
(d) 57 of the 65 aircraft which are subject to operating leases are leased from third parties. The remaining eight of such aircraft (two Boeing 747-400BCFs and six Airbus A330-300s) are leased within the Group.
(e) Two freighters are on operating leases which expire in 2018.
(f) One of these freighters leased from Cathay Pacific was retired in July 2017.

Review of other subsidiaries and associates

- AHK Air Hong Kong Limited recorded a marginal increase in profit in the first half of 2017 compared with the first half of 2016.
- Asia Miles Limited achieved an increase in profit in the first half of 2017 compared with the first half of 2016 due to an increase in business volume.
- Cathay Pacific Catering Services (H.K.) Limited's profit in the first half of 2017 decreased compared with the first half of 2016. Increases in staff and depreciation costs more than offset an increase in revenue.
- The financial results of Cathay Pacific Services Limited in the first half of 2017 improved compared with the first half of 2016. This was mainly due to an increase in tonnage and effective management of operating costs.
- The financial results of Hong Kong Airport Services Limited for the first half of 2017 were worse than those for the first half of 2016. There were fewer customers and staff costs increased significantly.
- The Group's share of Air China Limited's ("Air China") results is based on its financial statements drawn up three months in arrear. Consequently the 2017 interim results include Air China's results for the six months ended 31st March 2017, adjusted for any significant events or transactions for the period from 1st April 2017 to 30th June 2017. Air China's results decreased in the six months to 31st March 2017. This reflected exchange losses and lower contributions from associates.
- 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. In the first half of 2017, Air China Cargo made a profit compared to a loss recorded in the first half of 2016. Higher fuel prices were more than offset by higher yields.

Corporate Responsibility

- Our Sustainable Development Report for 2016 was published in July 2017. The report is available at www.cathaypacific.com/sdreport.
- Cathay Pacific participates in an International Civil Aviation Organization task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA Environment Committee, 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 European Union's Emissions Trading Scheme, our 2016 emissions data from intra-EU flights were reported on by an external auditor in January 2017 and our emissions report was submitted to the UK Environment Agency in February 2017.
- In May 2017, Hong Kong SAR Financial Secretary Paul Chan was the guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300 aircraft was a special treat for some 230 Hong Kong residents from less-advantaged families. Most of the participants had never flown before.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. In June, nine Cathay Pacific staff travelled to Myanmar as part of a "Change for Good" field trip organised by UNICEF. The aim was to give them a better understanding of how "Change for Good" donations are used to help improve the lives of disadvantaged children and their families.
- At 30th June 2017, the Cathay Pacific Group employed more than 33,200 people worldwide. Around 25,900 of these people are employed in Hong Kong. Cathay Pacific itself employs more than 22,800 people worldwide. Cathay Dragon employs more than 3,400 people. We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

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

Executive Directors: John Slosar (Chairman), Rupert Hogg, Gregory Hughes, Paul Loo, Martin Murray;

Non-Executive Directors: Cai Jianjiang, Ivan Chu, Martin Cubbon, Song Zhiyong, Merlin Swire, Samuel Swire, Xiao Feng, Zhao Xiaohang;

Independent Non-Executive Directors: John Harrison, Irene Lee, Andrew Tung and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
John Slosar
Chairman

Hong Kong, 16th August 2017
Website: http://www.cathaypacific.com