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**CATHAY PACIFIC AIRWAYS LIMITED**  
 (Incorporated in Hong Kong with limited liability)  
 (Stock Code: 293)

**Announcement**  
**2016 Annual Results**

**Financial and Operating Highlights**

**Group Financial Statistics**

<b>Results</b>		<b>2016</b>	<b>2015</b>	<b>Change</b>
Revenue	HK\$ million	<b>92,751</b>	102,342	<b>-9.4%</b>
(Loss)/profit attributable to the shareholders of Cathay Pacific	HK\$ million	<b>(575)</b>	6,000	<b>-109.6%</b>
(Loss)/earnings per share	HK cents	<b>(14.6)</b>	152.5	<b>-109.6%</b>
Dividend per share	HK\$	<b>0.05</b>	0.53	<b>-90.6%</b>
(Loss)/profit margin	%	<b>(0.6)</b>	5.9	<b>-6.5%pt</b>

<b>Financial position</b>		<b>2016</b>	<b>2015</b>	<b>Change</b>
Funds attributable to the shareholders of Cathay Pacific	HK\$ million	<b>55,365</b>	47,927	<b>+15.5%</b>
Net borrowings	HK\$ million	<b>49,879</b>	42,458	<b>+17.5%</b>
Shareholders' funds per share	HK\$	<b>14.1</b>	12.2	<b>+15.6%</b>
Net debt/equity ratio	Times	<b>0.90</b>	0.89	<b>+0.01 times</b>

**Operating Statistics – Cathay Pacific and Cathay Dragon**

		<b>2016</b>	<b>2015</b>	<b>Change</b>
Available tonne kilometres ("ATK")	Million	<b>30,462</b>	30,048	<b>+1.4%</b>
Available seat kilometres ("ASK")	Million	<b>146,086</b>	142,680	<b>+2.4%</b>
Revenue passengers carried	'000	<b>34,323</b>	34,065	<b>+0.8%</b>
Passenger load factor	%	<b>84.5</b>	85.7	<b>-1.2%pt</b>
Passenger yield	HK cents	<b>54.1</b>	59.6	<b>-9.2%</b>
Cargo and mail carried	'000 tonnes	<b>1,854</b>	1,798	<b>+3.1%</b>
Cargo and mail load factor	%	<b>64.4</b>	64.2	<b>+0.2%pt</b>
Cargo and mail yield	HK\$	<b>1.59</b>	1.90	<b>-16.3%</b>
Cost per ATK (with fuel)	HK\$	<b>3.02</b>	3.14	<b>-3.8%</b>
Cost per ATK (without fuel)	HK\$	<b>2.12</b>	2.06	<b>+2.9%</b>
Aircraft utilisation	Hours per day	<b>12.2</b>	12.2	-
On-time performance	%	<b>72.1</b>	64.7	<b>+7.4%pt</b>
Average age of fleet	Years	<b>9.0</b>	9.1	<b>-1.1%</b>
GHG emissions	Million tonnes of CO <sub>2</sub> e	<b>17.2</b>	17.1	<b>+0.6%</b>
GHG emissions per ATK	Grammes of CO <sub>2</sub> e	<b>565</b>	569	<b>-0.7%</b>
Lost time injury rate	Number of injuries per 100 full-time equivalent employees	<b>3.12</b>	2.95	<b>+5.8%</b>

## Capacity, Load Factor and Yield – Cathay Pacific and Cathay Dragon

	Capacity			Load factor (%)			Yield
	ASK/ATK (million)*			2016	2015	Change	
	2016	2015	Change				2016
<b>Passenger services</b>							
India, Middle East and Sri Lanka	9,172	10,127	-9.4%	79.3	82.9	-3.6%pt	-6.8%
Southwest Pacific and South Africa	19,702	19,350	+1.8%	87.8	89.3	-1.5%pt	-12.0%
Southeast Asia	21,151	20,641	+2.5%	84.2	83.2	+1.0%pt	-8.0%
Europe	25,958	23,969	+8.3%	86.6	88.5	-1.9%pt	-12.8%
North Asia	30,802	30,267	+1.8%	79.5	80.6	-1.1%pt	-7.4%
North America	39,301	38,326	+2.5%	86.8	88.4	-1.6%pt	-8.9%
Overall	146,086	142,680	+2.4%	84.5	85.7	-1.2%pt	-9.2%
<b>Cargo services</b>	<b>16,572</b>	<b>16,481</b>	<b>+0.6%</b>	<b>64.4</b>	<b>64.2</b>	<b>+0.2%pt</b>	<b>-16.3%</b>

\* 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

- Passenger volume grew slightly, but at the expense of yield. Promotional pricing benefited the premium class load factor.
- Fewer Hong Kong passengers travelled to Japan in 2016 than in 2015, due to the strength of the yen. More passengers travelled to Korea in 2016 than in 2015, when demand was adversely affected by concerns over middle east respiratory syndrome.
- In February 2016, the suspension of Hong Kong fuel surcharges adversely affected yield. In September, we re-imposed fuel surcharges on tickets booked outside Hong Kong and the Philippines. Yield was also adversely affected by strong competition and overcapacity in Asia.
- Corporate travel originating in Hong Kong was below expectations, particularly to London and New York. The number of corporate travellers declined for the first time since 2009, when business was affected by the global financial crisis. The decline prompted us to sell premium class tickets on a promotional basis to leisure travellers.
- Transit traffic between Japan and the Pearl River Delta was adversely affected by the introduction of direct services. Transit traffic between North America (on the one hand) and Southeast Asia and the Pearl River Delta (on the other hand) grew.

### India, Middle East and Sri Lanka

- The performance of our India routes was reasonable in 2016. However, increased competition adversely affected demand for travel between North America and North Asia (on the one hand) and India (on the other hand).
- Low oil prices adversely affected Middle Eastern economies.
- Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route.
- Demand on the Colombo route was strong.

### Southwest Pacific and South Africa

- There was a slight increase in passenger numbers on Southwest Pacific routes. Yield was adversely affected by the weakness of the Australian dollar and by overcapacity in the market.
- Transit traffic between Mainland China and Australia was adversely affected by the availability of additional cheap direct flights.
- In October 2016, we started to use Airbus A350-900 aircraft on the Auckland route. One of the flights on this route was operated by larger Boeing 777-300ER aircraft.

- From October 2017 to March 2018, we will replace the current tagged service between Cairns and Brisbane by providing direct flights to both destinations. The service to Brisbane will have 11 flights per week and the service to Cairns will have three flights per week.
- Cathay Pacific will introduce a three-times-weekly passenger service to Christchurch between December 2017 and February 2018.
- The strategic agreement between Cathay Pacific and Air New Zealand in relation to the Auckland route has been extended until 31st October 2019.
- Demand for travel between Johannesburg (on the one hand) and Japan and Mainland China (on the other hand) remained strong.

### **Southeast Asia**

- The performance of our Southeast Asian routes was satisfactory. We carried more passengers despite strong competition and the depreciation of local currencies. Yield on these routes was affected by overcapacity and intense competition.
- From October 2016 to March 2017, Cathay Pacific reduced flights to Bangkok from 63 to 56 per week.
- From September 2016, Cathay Dragon increased the frequency of its Phnom Penh service from 12 to 14 flights per week. It reduced the frequency of its services to Kota Kinabalu from seven to five flights per week from May 2016 and of its Clark service from four to three flights per week from March 2016. In October 2016 a fourth weekly Clark flight was restored.
- In November 2016, Cathay Dragon stopped the tagged flight between Kathmandu and Dhaka, providing direct services to both destinations instead.
- Cathay Pacific will stop flying to Kuala Lumpur in May 2017. Cathay Dragon will operate this four-times-daily service instead.

### **Europe**

- We increased capacity to Europe in 2016. This reflected the introduction of new routes (Madrid and London Gatwick). The use of A350 aircraft reduced capacity on some routes.
- Our London and Manchester routes were adversely affected by the weakness of sterling and strong competition. Passenger volumes numbers were maintained.
- There was some recovery in demand for travel to Europe in 2016. Premium class demand from leisure travellers benefited from promotions. But demand for corporate travel weakened.
- Increases in capacity by Middle Eastern carriers on routes between Mainland China and Europe affected yield.
- In 2016, Cathay Pacific introduced passenger services to Madrid (in June) and London Gatwick (in September). Both services have been well received. In June 2017, we will increase the frequency of the Gatwick service from four flights per week to daily and the Manchester service from four to five flights per week. In December 2017, a sixth weekly flight will be added to the Manchester route.
- In October 2017, the service on the Madrid route will increase from four to five flights per week.
- In December 2017, an 11th weekly service to Paris will be restored.
- Cathay Pacific will introduce a four-times-weekly passenger service to Tel Aviv in March 2017.
- Cathay Pacific will introduce a four-times-weekly passenger service to Barcelona between July and October 2017.

### **North Asia**

- Demand for travel between Mainland China and Taiwan fell sharply in the second half of 2016. Demand for travel between Taiwan (on the one hand) and Japan and Korea (on the other hand) also fell. Yield was under pressure due to increased capacity.
- Demand for travel to Japan was adversely affected by the strength of the Japanese yen. Transit traffic between Japan and Mainland China (including the Pearl River Delta) was adversely affected by the introduction of direct services. In July and August 2016, we increased our services to Sapporo from five times per week to daily. In November 2016, we stopped our service to Hiroshima.

- More passengers went to Korea in 2016 than in 2015, when demand was adversely affected by concerns over middle east respiratory syndrome. Strong competition put pressure on yield.
- In May 2016, Cathay Dragon increased the frequency of its Wenzhou service from seven to 10 flights per week. From May to October 2016, it increased the frequency of its Wuhan service from 11 to 12 flights per week and used bigger aircraft on the Xian route.

### **North America**

- Revenue from United States routes declined in 2016. Passenger numbers did not increase as much as capacity. A reduction in corporate travel affected premium class revenue, especially on the New York route.
- Competition intensified as Mainland China carriers operated more direct flights to the United States, which put pressure on yield.
- Our Boston service has been doing well since its introduction in 2015. From May to August 2016 we increased the number of flights per week from four to five. Daily flights will start at the end of March 2017.
- Demand on our Canada routes was stable. To meet high summer demand, two flights were added per week on the Toronto route between July and August 2016. We will operate a twice daily service on this route between June and September 2017. In April 2017, we will increase the number of flights to Vancouver from 14 to 17 per week.
- In October 2017, four flights will be added per week to San Francisco, so that this service will become three-times-daily. The service will be operated by Airbus A350-900 aircraft.
- In October 2017, the number of flights on the Los Angeles route will be reduced from 28 to 21 per week.

### **Cargo Services**

- Strong competition, overcapacity and the suspension of Hong Kong fuel surcharges put significant pressure on yield. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter.
- Shipments of pharmaceutical products and mail, the yield on which is above average, increased by 11% and 8% respectively in 2016.
- Exports from Hong Kong and Mainland China increased in the second half of the year, resulting in high load factors on North American routes. However, the weakness of the Renminbi adversely affected the yield from exports from Mainland China.
- Northeast Asia exports of electronics, machinery and perishable goods were steady. Other shipments within Asia grew.
- In November 2016, we introduced a twice-weekly service to Portland, Oregon, our 18th cargo destination in the Americas. The service was introduced to cater for growing demand to move goods from the Pacific Northwest to Asia.
- In November 2016, we introduced a weekly service to Brisbane West Wellcamp, principally to carry agricultural products grown in one of Australia's most productive regions.
- In April 2016, we started to operate additional services to the Indian sub-continent in response to strong demand. However, yield was under pressure. Airport congestion at Dhaka limited shipments in and out of the city at some points in the year.
- Shipments of perishable products from the Americas to Asia grew strongly.
- In the last week of September 2016, before the long national holiday in Mainland China, we shipped a record weekly tonnage of cargo. We maximised the number of flights in the last quarter of the year to meet peak seasonal demand, but yield was down.
- In May 2016, we signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement came into effect in the first quarter of 2017.
- Four Boeing 747-400F freighter aircraft were delivered to Boeing in 2016.
- We took delivery of our 14th and final Boeing 747-8F freighter in August 2016.

## Chairman's Letter

The Cathay Pacific Group reported an attributable loss of HK\$575 million for 2016. This compares to a profit of HK\$6,000 million in 2015. The loss per share was HK14.6 cents compared to earnings per share of HK152.5 cents in the previous year.

The operating environment for our airlines was difficult in 2016, with a number of factors adversely affecting their performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for our cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the Hong Kong dollar. Hong Kong dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into Hong Kong dollars. All these factors put severe competitive pressure on yields. We benefited from low fuel prices, but the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today. The contribution from subsidiary and associated companies was satisfactory.

The Group's passenger revenue in 2016 was HK\$66,926 million, a decrease of 8.4% from 2015. Capacity increased by 2.4%, reflecting the introduction of new routes and increased frequencies on other routes. The load factor decreased by 1.2 percentage points, to 84.5%. Yield, which was under intense pressure throughout the year, fell by 9.2% to HK54.1 cents, reflecting overcapacity in the market, a decline in premium class demand and weak foreign currencies.

The Group's cargo revenue in 2016 was HK\$20,063 million, a decrease of 13.2% compared to the previous year. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 0.6%. The load factor increased by 0.2 percentage points, to 64.4%. Tonnage carried increased by 3.1%. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter. Yield fell by 16.3% to HK\$1.59, reflecting strong competition, overcapacity and the suspension of Hong Kong fuel surcharges. Demand on European routes was weak. Demand on transpacific routes grew slightly in the second half of the year. Freighter services to Portland and Brisbane West Wellcamp were introduced. We managed freighter capacity in line with demand and carried a higher proportion of cargo in the bellies of our passenger aircraft.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK\$4,906 million (or 20.4%) compared with 2015. Fuel is still the Group's most significant cost, accounting for 29.6% of our total operating costs in 2016 (compared to 34.0% in 2015). Fuel hedging losses reduced the benefit of low fuel costs. After taking hedging losses into account, the Group's fuel costs decreased by HK\$5,015 million (or 15.2%) compared to 2015.

There was a 2.9% increase in non-fuel costs per available tonne kilometre. Staff costs, landing and parking fees, and aircraft maintenance costs increased at a faster rate than capacity.

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 7.4 percentage points improvement in on-time performance.

In response to weak revenues, we have undertaken a critical review of our business. In the short term, we are implementing measures designed to improve revenues and reduce costs. The longer term strategy which is being developed in response to the review is designed to improve performance over a three year period.

In 2016, Cathay Pacific introduced passenger services to Madrid (in June) and London Gatwick (in September). Both services have been well received. We will increase the frequency of our Gatwick and Manchester services in June 2017. Frequencies on some other routes were increased in 2016. Cathay Pacific will introduce services to Tel Aviv in March 2017, to Barcelona in July 2017 and to Christchurch in December 2017. Cathay Pacific stopped flying to Doha in February 2016, but still offers codeshare services with Qatar Airways on this route. Cathay Dragon increased frequencies on its Phnom Penh, Wenzhou and Wuhan routes and reduced frequencies on its Clark and Kota Kinabalu routes. Cathay Dragon stopped flying to Hiroshima and stopped the tagged flight between Kathmandu and Dhaka, providing direct services to both destinations instead.

In 2016, we took delivery of 10 Airbus A350-900 aircraft. These fuel efficient and technologically advanced long-haul aircraft are being used on our Auckland, Düsseldorf, London Gatwick, Paris and Rome routes. We retired our last three Boeing 747-400 passenger aircraft and three Airbus A340-300 aircraft during the year. One Airbus A340-300 aircraft was retired in January 2017 and the remaining three such aircraft will be retired later in 2017. We took delivery of our final Boeing 747-8F freighter in August.

The new Airbus A350-900 aircraft have our latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices. We opened a new lounge in Vancouver in May 2016, reopened the business class lounge at The Pier in Hong Kong in June 2016, and reopened our first and business class lounges at London Heathrow in December 2016. The G16 lounge in Hong Kong closed for renovations in July 2016 and will reopen in the second quarter of 2017.

In November 2016, Dragonair was rebranded as Cathay Dragon, bringing the brands of our two airlines into closer alignment. The first aircraft featuring the Cathay Dragon livery went into service in April 2016.

## Prospects

We expect the operating environment in 2017 to remain challenging. Strong competition from other airlines and the adverse effect of the strength of the Hong Kong dollar are expected to continue to put pressure on yield. The cargo market got off to a good start, but overcapacity is expected to persist.

We expect to continue to benefit in 2017 from the fact that fuel prices are much lower than their previous high levels, but to a lesser extent (because of some increase in oil prices in recent months) than in 2016. We also expect to incur further fuel hedging losses in 2017, but these should be less than in 2016. Our subsidiaries and associates are expected to continue to perform satisfactorily.

Despite the challenges with which we are faced, we still expect our business to grow in the long-term. Air traffic to, from and within the Asia-Pacific region is expected to grow strongly. We intend to benefit from this growth by increasing our passenger capacity by 4-5% per annum, at least until the third runway at Hong Kong International Airport is open. We will continue to introduce new destinations and to increase frequencies on our most popular routes. We are buying new and more fuel efficient aircraft. This will increase productivity and reduce costs.

We are starting on a three year programme of corporate transformation with the intention of achieving returns above the cost of capital. The goal is to become a more agile and competitive organisation in order to take advantage of changing market trends and customer preferences.

We will continue to make investments designed to strengthen our brand and what we offer to our customers. We aim to deliver better services and to do so more effectively through the use of data analytics and mobile technology. Doing this will increase operational efficiency and help us to meet our customers' needs better. We are reviewing our revenue management, distribution and pricing practices. We intend to increase ancillary revenue.

Just as important as improving revenues is reducing costs. We are working on operational changes intended to improve the reliability of our schedules. This will reduce the costs of disruption and will also enable us to use our assets more efficiently and to improve our on-time performance. Our organisation will become leaner. This will improve productivity and reduce costs and will also enable us to make decisions more quickly. Our aim is to reduce our unit costs excluding fuel over the next three years.

The objective of the Cathay Pacific Group is to provide sustainable growth in shareholder value over the long term. We are confident of longer-term success. We celebrated our 70th anniversary in 2016 and our commitment to Hong Kong and its people remains unwavering.

**John Slosar**

Chairman

Hong Kong, 15th March 2017

**Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 31st December 2016**

	Note	2016 HK\$M	2015 HK\$M
<b>Revenue</b>			
Passenger services		66,926	73,047
Cargo services		20,063	23,122
Catering, recoveries and other services		5,762	6,173
<b>Total revenue</b>		<b>92,751</b>	<b>102,342</b>
<b>Expenses</b>			
Staff		(19,770)	(18,990)
Inflight service and passenger expenses		(4,734)	(4,713)
Landing, parking and route expenses		(14,985)	(14,675)
Fuel, including hedging losses		(27,953)	(32,968)
Aircraft maintenance		(8,856)	(7,504)
Aircraft depreciation and operating leases		(10,551)	(10,883)
Other depreciation, amortisation and operating leases		(2,457)	(2,310)
Commissions		(700)	(798)
Others		(3,270)	(2,837)
<b>Operating expenses</b>		<b>(93,276)</b>	<b>(95,678)</b>
<b>Operating (loss)/profit</b>	3	<b>(525)</b>	<b>6,664</b>
Finance charges		(1,561)	(1,380)
Finance income		260	216
Net finance charges	4	(1,301)	(1,164)
Share of profits of associates		2,049	1,965
<b>Profit before taxation</b>		<b>223</b>	<b>7,465</b>
Taxation	5	(497)	(1,157)
<b>(Loss)/profit for the year</b>		<b>(274)</b>	<b>6,308</b>
Non-controlling interests		(301)	(308)
<b>(Loss)/profit attributable to the shareholders of Cathay Pacific</b>		<b>(575)</b>	<b>6,000</b>
(Loss)/profit for the year		(274)	6,308
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss:			
Defined benefit plans		606	(210)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		9,690	(5,417)
Revaluation of available-for-sale financial assets		178	(321)
Share of other comprehensive income of associates		334	(741)
Exchange differences on translation of foreign operations		(1,536)	(1,060)
<b>Other comprehensive income for the year, net of taxation</b>	6	<b>9,272</b>	<b>(7,749)</b>
<b>Total comprehensive income for the year</b>		<b>8,998</b>	<b>(1,441)</b>
<b>Total comprehensive income attributable to</b>			
Shareholders of Cathay Pacific		8,697	(1,749)
Non-controlling interests		301	308
<b>(Loss)/earnings per share (basic and diluted)</b>	7	<b>(14.6)¢</b>	<b>152.5¢</b>

**Consolidated Statement of Financial Position  
at 31st December 2016**

	Note	2016 HK\$M	2015 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets and liabilities</b>			
Property, plant and equipment		<b>106,456</b>	100,552
Intangible assets		<b>10,934</b>	10,606
Investments in associates		<b>23,298</b>	22,878
Other long-term receivables and investments		<b>4,604</b>	5,069
Deferred tax assets		<b>737</b>	497
		<b>146,029</b>	139,602
Long-term liabilities		<b>(58,906)</b>	(49,867)
Other long-term payables		<b>(7,517)</b>	(15,838)
Deferred tax liabilities		<b>(11,380)</b>	(9,278)
		<b>(77,803)</b>	(74,983)
<b>Net non-current assets</b>		<b>68,226</b>	64,619
<b>Current assets and liabilities</b>			
Stock		<b>1,514</b>	1,366
Trade, other receivables and other assets	9	<b>9,557</b>	9,715
Assets held for sale	10	<b>31</b>	1,497
Liquid funds		<b>20,290</b>	20,647
		<b>31,392</b>	33,225
Current portion of long-term liabilities		<b>(11,263)</b>	(13,782)
Related pledged security deposits		<b>-</b>	544
Net current portion of long-term liabilities		<b>(11,263)</b>	(13,238)
Trade and other payables	11	<b>(19,104)</b>	(23,025)
Unearned transportation revenue		<b>(12,926)</b>	(13,012)
Taxation		<b>(707)</b>	(502)
Dividend payable to non-controlling interests		<b>(92)</b>	-
		<b>(44,092)</b>	(49,777)
<b>Net current liabilities</b>		<b>(12,700)</b>	(16,552)
<b>Total assets less current liabilities</b>		<b>133,329</b>	123,050
<b>Net assets</b>		<b>55,526</b>	48,067
<b>CAPITAL AND RESERVES</b>			
Share capital and other statutory capital reserves	12	<b>17,106</b>	17,106
Other reserves		<b>38,259</b>	30,821
Funds attributable to the shareholders of Cathay Pacific		<b>55,365</b>	47,927
Non-controlling interests		<b>161</b>	140
<b>Total equity</b>		<b>55,526</b>	48,067

**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 2016.

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"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. 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").

The financial information relating to the years ended 31st December 2015 and 2016 that is included in this document does not constitute the Company's statutory annual consolidated financial statements for those years 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 2015 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. The specified financial statements for the year ended 31st December 2016 have not been but will be delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. Auditor's reports have been prepared on the specified financial statements for the years ended 31st December 2015 and 2016. Those reports were not qualified or otherwise modified, did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and did not contain statements under section 406(2) or 407(2) or (3) of the Ordinance.

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of the amendments has had no significant impact on the results and financial position of the Group.

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

## 2. Segment information

### (a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
<b>Profit or loss</b>								
Sales to external customers	91,478	101,199	1,273	1,143			92,751	102,342
Inter-segment sales	9	8	3,598	3,478			3,607	3,486
Segment revenue	91,487	101,207	4,871	4,621			96,358	105,828
Segment (loss)/profit	(986)	6,402	461	262			(525)	6,664
Net finance charges	(1,160)	(1,040)	(141)	(124)			(1,301)	(1,164)
	(2,146)	5,362	320	138			(1,826)	5,500
Share of profits of associates					2,049	1,965	2,049	1,965
Profit before taxation							223	7,465
Taxation	(464)	(1,037)	(33)	(120)			(497)	(1,157)
(Loss)/profit for the year							(274)	6,308
<b>Other segment information</b>								
Depreciation and amortisation	8,101	8,408	449	451			8,550	8,859
Purchase of property, plant and equipment and intangible assets	13,805	11,888	1,330	1,291			15,135	13,179

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.

## 2. Segment information (continued)

### (b) Geographical information

	2016 HK\$M	2015 HK\$M
Revenue by origin of sale:		
North Asia		
- Hong Kong and Mainland China	46,957	51,443
- Japan, Korea and Taiwan	8,766	9,445
India, Middle East and Sri Lanka	3,693	4,442
Southwest Pacific and South Africa	5,607	6,456
Southeast Asia	7,669	8,611
Europe	8,031	8,485
North America	12,028	13,460
	<b>92,751</b>	<b>102,342</b>

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2016 Annual Report.

## 3. Operating (loss)/profit

	2016 HK\$M	2015 HK\$M
Operating (loss)/profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
- leased	2,003	2,234
- owned	6,032	6,153
Amortisation of intangible assets	515	472
Operating lease rentals		
- land and buildings	1,022	969
- aircraft and related equipment	3,372	3,318
- others	64	47
Provision for impairment of assets held for sale	24	4
Gain on disposal of assets held for sale	(232)	(4)
Loss/(gain) on disposal of property, plant and equipment, net	272	(49)
Loss on disposal of intangible assets	42	-
Gain on disposal of long-term investment	(3)	-
Gain on disposal of a subsidiary	-	(106)
Cost of stock expensed	2,181	2,002
Exchange differences, net	306	320
Auditors' remuneration	15	14
Net losses on financial assets and liabilities classified as held for trading	36	192
Dividend income from unlisted investments	(17)	(484)
Dividend income from listed investments	(6)	(5)

#### 4. Net finance charges

	2016 HK\$M	2015 HK\$M
Net interest charges comprise:		
- obligations under finance leases stated at amortised cost	475	457
- interest income on related security deposits, notes and zero coupon bonds	(2)	(18)
	<b>473</b>	439
- bank loans and overdrafts		
- wholly repayable within five years	235	127
- not wholly repayable within five years	439	358
- other loans		
- wholly repayable within five years	101	101
- not wholly repayable within five years	16	16
- other long-term receivables	(19)	(22)
	<b>1,245</b>	1,019
Income from liquid funds:		
- funds with investment managers and other liquid investments at fair value through profit or loss	(83)	(41)
- bank deposits and others	(155)	(128)
	<b>(238)</b>	(169)
Fair value change:		
- gain on obligations under finance leases designated as at fair value through profit or loss	(18)	(157)
- loss on financial derivatives	312	471
	<b>294</b>	314
	<b>1,301</b>	1,164

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

Included in the fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK\$36 million (2015: net losses of HK\$192 million).

#### 5. Taxation

	2016 HK\$M	2015 HK\$M
Current tax expenses		
- Hong Kong profits tax	165	170
- overseas tax	195	197
- under provisions for prior years	272	63
Deferred tax (credit)/charge		
- origination and reversal of temporary differences	(135)	727
	<b>497</b>	1,157

Hong Kong profits tax is calculated at 16.5% (2015: 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 28(d) to the financial statements in the 2016 Annual Report).

## 5. Taxation (continued)

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

	2016 HK\$M	2015 HK\$M
Consolidated profit before taxation	223	7,465
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2015: 16.5%)	(37)	(1,232)
Expenses not deductible for tax purposes	(198)	(364)
Tax under provisions arising from prior years	(272)	(63)
Effect of different tax rates in other countries	699	282
Recognition of (tax losses not recognised)/tax losses previously not recognised	(780)	49
Income not subject to tax	91	171
Tax charge	(497)	(1,157)

Further information on deferred taxation is shown in note 15 to the financial statements in the 2016 Annual Report.

## 6. Other comprehensive income

	2016 HK\$M	2015 HK\$M
Defined benefit plans		
- remeasurements gain/(loss) recognised during the year	687	(243)
- deferred taxation	(81)	33
Cash flow hedges		
- gain/(loss) recognised during the year	3,571	(13,780)
- loss transferred to profit or loss	7,404	7,473
- deferred taxation	(1,285)	890
Revaluation of available-for-sale financial assets		
- gain recognised during the year	178	161
- reclassified to profit or loss	-	(482)
Share of other comprehensive income of associates	334	(741)
Exchange differences on translation of foreign operations		
- loss recognised during the year	(1,536)	(1,075)
- reclassified to profit or loss	-	15
Other comprehensive income for the year	9,272	(7,749)

## 7. (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\$575 million (2015: a profit of HK\$6,000 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2015: 3,934 million) shares.

**8. Dividends**

	2016 HK\$M	2015 HK\$M
First interim dividend paid on 4th October 2016 of HK\$0.05 per share (2015: first interim dividend of HK\$0.26 per share)	197	1,023
No second interim dividend proposed (2015: second interim dividend of HK\$0.27 per share)	-	1,062
	<b>197</b>	<b>2,085</b>

The first interim dividend of HK\$0.05 per share was paid on 4th October 2016, representing a distribution of HK\$197 million. The Directors decided not to declare a second interim dividend for the year ended 31st December 2016.

To facilitate the processing of proxy voting for the annual general meeting to be held on 17th May 2017, the register of members will be closed from 12th May 2017 to 17th May 2017, 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, 11th May 2017.

**9. Trade, other receivables and other assets**

	2016 HK\$M	2015 HK\$M
Trade debtors	5,595	5,360
Derivative financial assets – current portion	857	1,145
Other receivables and prepayments	3,042	3,083
Due from associates and other related companies	63	127
	<b>9,557</b>	<b>9,715</b>

	2016 HK\$M	2015 HK\$M
Analysis of trade debtors (net of allowance for doubtful debts) by invoice date:		
Current	4,370	4,453
One to three months	705	522
More than three months	520	385
	<b>5,595</b>	<b>5,360</b>

	2016 HK\$M	2015 HK\$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	5,074	5,038
One to three months overdue	395	167
More than three months overdue	126	155
	<b>5,595</b>	<b>5,360</b>

## 9. 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.

The movement in the provision for bad debts included in trade debtors during the year was as follows:

	2016 HK\$M	2015 HK\$M
At 1st January	52	52
Amounts written back	(3)	-
At 31st December	<b>49</b>	<b>52</b>

## 10. Assets held for sale

	2016 HK\$M	2015 HK\$M
Assets held for sale	<b>31</b>	<b>1,497</b>

An impairment loss amounting to HK\$24 million was recognised for the year ended 31st December 2016 (2015: HK\$4 million). Impairment of assets held for sale is considered by writing down the carrying value to the estimated recoverable amount of HK\$565 million (2015: HK\$62 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 the market comparison approach with reference to the estimated sales value at 31st December 2016 and 2015. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

## 11. Trade and other payables

	2016 HK\$M	2015 HK\$M
Trade creditors	<b>5,061</b>	5,341
Derivative financial liabilities - current portion	<b>5,680</b>	9,456
Other payables	<b>8,024</b>	7,732
Due to associates	<b>175</b>	227
Due to other related companies	<b>164</b>	269
	<b>19,104</b>	23,025

At 31st December 2016, the Group had a provision of HK\$1,126 million (2015: HK\$1,418 million) for possible or actual taxation, litigation and claims. The provision is included in above.

	2016 HK\$M	2015 HK\$M
Analysis of trade creditors by age:		
Current	4,854	5,023
One to three months overdue	196	308
More than three months overdue	11	10
	<b>5,061</b>	5,341

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

## 12. Share capital

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year and the Group has not adopted any share option scheme.

At 31st December 2016, 3,933,844,572 shares were in issue (31st December 2015: 3,933,844,572 shares). There has been no movement in share capital during the year.

## 13. 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 (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 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 2016 Annual Report.

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

## 14. Annual report

The 2016 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](http://www.cathaypacific.com) by 5th April 2017. It will be available to shareholders by 5th April 2017.

## 15. Event after the reporting period

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%.

## Operating Expenses

	Group			Cathay Pacific and Cathay Dragon		
	2016	2015		2016	2015	
	HK\$M	HK\$M	Change	HK\$M	HK\$M	Change
Staff	<b>19,770</b>	18,990	+4.1%	<b>17,607</b>	17,028	+3.4%
Inflight service and passenger expenses	<b>4,734</b>	4,713	+0.4%	<b>4,734</b>	4,713	+0.4%
Landing, parking and route expenses	<b>14,985</b>	14,675	+2.1%	<b>14,704</b>	14,406	+2.1%
Fuel, including hedging losses	<b>27,953</b>	32,968	-15.2%	<b>27,551</b>	32,475	-15.2%
Aircraft maintenance	<b>8,856</b>	7,504	+18.0%	<b>8,453</b>	7,168	+17.9%
Aircraft depreciation and operating leases	<b>10,551</b>	10,883	-3.1%	<b>10,406</b>	10,724	-3.0%
Other depreciation, amortisation and operating leases	<b>2,457</b>	2,310	+6.4%	<b>1,841</b>	1,712	+7.5%
Commissions	<b>700</b>	798	-12.3%	<b>700</b>	798	-12.3%
Others	<b>3,270</b>	2,837	+15.3%	<b>4,941</b>	4,222	+17.0%
<b>Operating expenses</b>	<b>93,276</b>	95,678	-2.5%	<b>90,937</b>	93,246	-2.5%
Net finance charges	<b>1,301</b>	1,164	+11.8%	<b>1,125</b>	1,007	+11.7%
<b>Total operating expenses</b>	<b>94,577</b>	96,842	-2.3%	<b>92,062</b>	94,253	-2.3%

- The Group's total operating expenses decreased by 2.3% to HK\$94,577 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon decreased from HK\$3.14 to HK\$3.02.

## Cathay Pacific and Cathay Dragon Operating Results Analysis

	2016	2015
	HK\$M	HK\$M
Airlines' (loss)/profit before taxation	(3,045)	4,463
Taxation	(318)	(891)
<b>Airlines' (loss)/profit after taxation</b>	<b>(3,363)</b>	3,572
Share of profits from subsidiaries and associates	<b>2,788</b>	2,428
(Loss)/profit attributable to the shareholders of Cathay Pacific	<b>(575)</b>	6,000

## Cathay Pacific and Cathay Dragon Operating Results Analysis (continued)

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

	HK\$M
2015 airlines' profit before taxation	<b>4,463</b>
Decrease of revenue	<b>(9,699)</b>
	- Passenger revenue decreased due to a 9.2% decrease in yield and a 1.2% points decrease in load factor, offset in part by a 0.8% increase in passengers carried. - Cargo revenue decreased due to a 16.3% decrease in yield, offset in part by a 0.2% points increase in load factor and a 3.1% increase in cargo and mail tonnage carried.
Decrease/(increase) of costs:	
- Fuel, including hedging losses	<b>4,924</b>
	- Fuel costs decreased due to a 21.1% decrease in the average into-plane fuel price, offset in part by a 0.8% increase in consumption.
- Aircraft maintenance	<b>(1,285)</b>
	- Increased mainly due to an increase in operational capacity, higher engine maintenance charge rates, fleet retirement costs and more programmes to improve aircraft availability.
- Depreciation, amortisation and operating leases	<b>189</b>
	- Decreased mainly due to the retirement of aircraft.
- Staff	<b>(579)</b>
	- Increased mainly due to increases in headcount and salaries.
- All other operating expenses, including inflight service, landing and parking, commissions, net finance charges and others	<b>(1,058)</b>
	- Increased mainly due to increased landing and parking rates (from September 2016) and the absence of an exceptional credit in 2015 resulting from the refund of a fine by the European Commission.
<b>2016 airlines' loss before taxation</b>	<b>(3,045)</b>

## Fuel expenditure and hedging

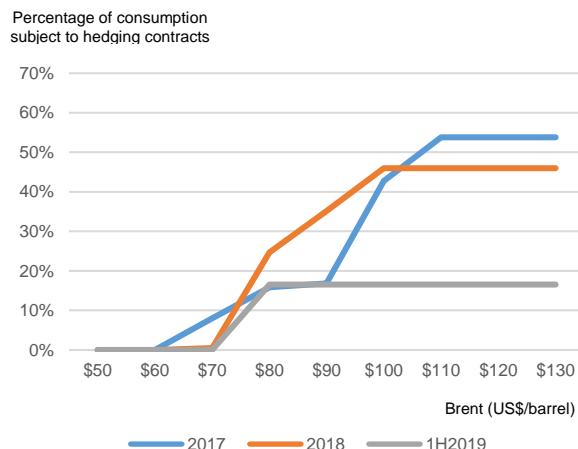
A breakdown of the Group's fuel cost is shown below:

	2016 HK\$M	2015 HK\$M
Gross fuel cost	19,497	24,494
Fuel hedging losses	8,456	8,474
Fuel cost	27,953	32,968

Fuel consumption in 2016 was 43.9 million barrels (2015: 43.5 million barrels).

- The Group's fuel hedging exposure at 31st December 2016 is set out in the chart opposite.
- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart opposite indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices.
- The Group does not speculate on oil prices but uses hedging to manage the risk of increases in oil prices and therefore its fuel costs. Hedging is not risk free and the strategy is to not be 100% hedged. The current hedging position reflects certain assumptions made at the time of hedging. Those assumptions were invalidated by the steep fall in oil prices in 2015 and produced the fuel hedging losses that have been recorded and disclosed. The Group will benefit from lower oil prices on the unhedged share of the fuel requirements but the size of this benefit is not expected to be as large as the benefit to airlines which either do not hedge or hedged less than the Group.

### Fuel hedging exposure



## Assets

- Total assets at 31st December 2016 were HK\$177,421 million.
- During the year, additions to property, plant and equipment were HK\$14,250 million, comprising HK\$12,127 million in respect of aircraft and related equipment, HK\$1,535 million in respect of buildings and HK\$588 million in respect of other equipment.

## Borrowings and capital

- Borrowings increased by 11.2% to HK\$70,169 million at the end of 2016 from HK\$63,105 million at the end of 2015.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2027, with 39.3% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 58.1% of which are denominated in United States dollars, decreased by 1.7% to HK\$20,290 million.
- Net borrowings (after liquid funds) increased by 17.5% to HK\$49,879 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 15.5% to HK\$55,365 million. This was in part due to unrealised hedging gains of HK\$3,571 million recognised in the cash flow hedge reserve.
- The net debt/equity ratio increased from 0.89 times to 0.90 times.

**Fleet profile\***

Aircraft type	Number at 31st December 2016			Firm orders  Leased  Total	'19 and  '17 '18 beyond	Expiry of operating leases					Options  '22 and  '17 '18 '19 '20 '21 beyond	
	Owned	Finance	Operating			Total	'17	'18	'19	'20	'21	
<b>Aircraft operated by Cathay Pacific:</b>												
A330-300	23	12	6	41					3	1	2	
A340-300	4			4 <sup>(a)</sup>								
A350-900	5	3	2	10	12 <sup>(b)</sup>		12				2	
A350-1000					8	18	26					
747-400BCF		1	1					1				
747-400ERF		6		6								
747-8F	3	11		14								
777-200	5			5								
777-200F												3 <sup>(c)</sup>
777-300	12			12	2	3	5 <sup>(d)</sup>					
777-300ER	19	11	23	53				1	2	5	15	
777-9X					21	21						
Total	71	43	32	146	12	10	42	64	5	3	2	5
									17			3
<b>Aircraft operated by Cathay Dragon:</b>												
A320-200	5		10	15				2	1	1	3	3
A321-200	2		6	8					1	2	3	
A330-300	10		10 <sup>(e)</sup>	20				6	2	2	2	
Total	17		26	43				6	2	3	2	7
									7			6
<b>Aircraft operated by Air Hong Kong:</b>												
A300-600F	4	4	2	10				2				
747-400BCF			3 <sup>(e)</sup>	3				3				
Total	4	4	5	13				3	2			
<b>Grand total</b>	<b>92</b>	<b>47</b>	<b>63<sup>(e)</sup></b>	<b>202</b>	<b>12</b>	<b>10</b>	<b>42</b>	<b>64<sup>(d)</sup></b>	<b>6</b>	<b>10</b>	<b>8</b>	<b>4</b>
									12	23		<b>3</b>

\* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2016.

- (a) Cathay Pacific is accelerating the retirement of its Airbus A340-300 aircraft. Three of these aircraft were retired in 2016. One Airbus A340-300 was retired in January 2017. The remaining three such aircraft will be retired before the end of 2017.
- (b) Two of these Airbus A350-900 aircraft were delivered after 31st December 2016, one in February 2017, the other in March 2017.
- (c) Purchase options for aircraft to be delivered by 2019.
- (d) Five Boeing 777-300 used aircraft will be delivered from 2018.
- (e) 57 of the 63 aircraft which are subject to operating leases are leased from third parties. The remaining six of such aircraft (three Boeing 747-400BCFs and three Airbus A330-300s) are leased within the Group.

## Review of Subsidiaries and Associates

- AHK Air Hong Kong Limited recorded a marginal increase in profit for 2016 compared with 2015. Compared with 2015, capacity increased by 0.1% to 777 million available tonne kilometres. The load factor decreased by 1.2 percentage points to 65.3%. Revenue tonne kilometres decreased by 1.6% to 508 million.
- Asia Miles Limited recorded an increase in profit compared with 2015, due to an increase in business volume. There was a 7% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in 2016.
- Cathay Pacific Catering Services (H.K.) Limited produced 30.2 million meals and handled 73,000 flights in 2016 (representing a daily average of 83,000 meals and 200 flights and an increase of 2.5% and 2.0% respectively over 2015). Increased business volume resulted in higher revenue. This was offset by increases in direct labour and overhead costs, which led to a decrease in profit in 2016. Outside Hong Kong, profits decreased.
- Cathay Pacific Services Limited (“CPSL”) provided cargo handling services to 15 airlines in 2016. Seven airlines became new customers in 2016. It handled 1.8 million tonnes of cargo in 2016, 51.3% of which were transshipments. Export and import shipments accounted for 31.1% and 17.6% respectively of the total. The financial results in 2016 improved compared with 2015. This was due to an increase in the number of customers and effective management of operating costs.
- The 2016 financial results of Hong Kong Airport Services Limited (“HAS”) were worse than the 2015 results. HAS stopped providing services to some airlines. This was necessary in order to maintain services to the remaining airlines in a period of labour shortage.
- Air China Limited (“Air China”), in which Cathay Pacific had a 20.13% interest at 31st December 2016, 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 2016 results include Air China’s results for the 12 months ended 30th September 2016, adjusted for any significant events or transactions for the period from 1st October 2016 to 31st December 2016. For the 12 months ended 30th September 2016, Air China’s results improved, principally as a result of low fuel prices and strong passenger demand, partly offset by the adverse effect of the devaluation of the Renminbi. On 10th March 2017, the procedures for Air China’s registration of the new A shares were completed. As a consequence, Cathay Pacific’s shareholding in Air China has been diluted from 20.13% to 18.13%.
- 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 2016 financial results were better than those of 2015. Savings from lower fuel prices were partially offset by unrealised exchange losses on loans denominated in United States dollars and lower yield in the highly competitive air cargo market.

## Corporate Responsibility

- Our online Sustainable Development Report 2015, entitled “Together for Tomorrow” was published in September 2016 and is available at [www.cathaypacific.com/sdreport](http://www.cathaypacific.com/sdreport). The Sustainable Development Report 2016 is scheduled to be published in July 2017.
- In October 2016, an agreement to implement a carbon offset and reduction scheme for international aviation was reached by states attending the International Civil Aviation Organization (ICAO)’s 39th assembly. Cathay Pacific has been involved in discussions about the scheme since 2008. We participate in an ICAO 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 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 as part of its climate change strategy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.

- 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. Cathay Pacific's overall greenhouse gas emissions data for 2016 were reported on by an external auditor.
- In January 2016, Hong Kong SAR Chief Executive CY Leung 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 250 residents from less-advantaged families in Hong Kong. Most of the participants had never flown before.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Our passengers contributed HK\$13.9 million in 2015 to help improve the lives of vulnerable children. Since its introduction in 1991, more than HK\$165 million has been raised through the programme.
- Cathay Pacific and its subsidiaries employed more than 33,800 people worldwide at the end of 2016, with around 26,200 of these people 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.

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

Executive Directors: John Slosar (Chairman), Ivan Chu, Rupert Hogg, Martin Murray, Algernon Yau;

Non-Executive Directors: Cai Jianjiang, 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, 15th March 2017

Website: [www.cathaypacific.com](http://www.cathaypacific.com)