CATHAY PACIFIC

Cathay Pacific Airways Limited

Annual Report 2017

Stock Code: 293

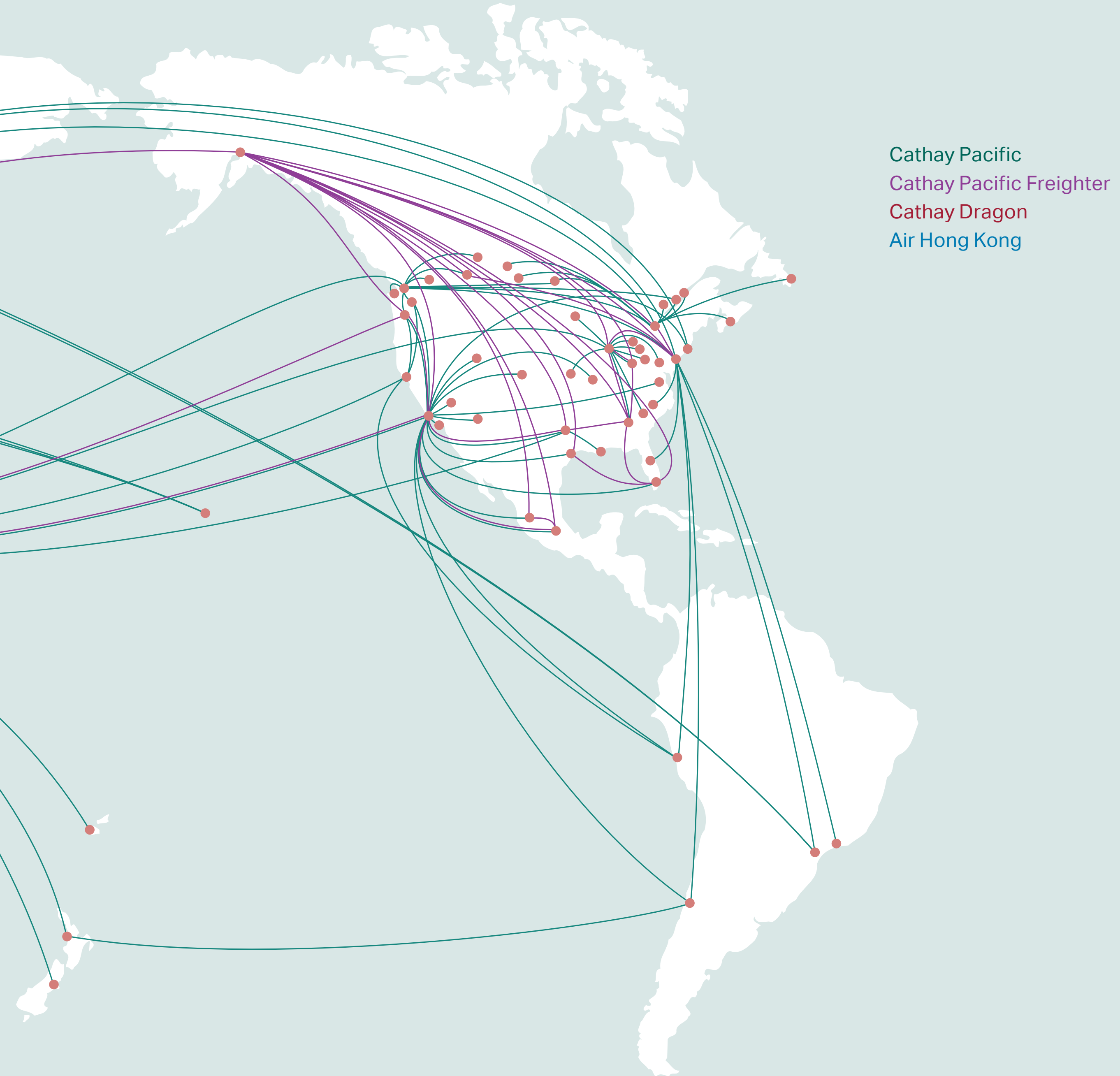
Contents

Cathay Pacific is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 203 destinations in 52 countries and territories.

The airline was founded in Hong Kong in 1946. It has been deeply committed to its home base over the last seven decades and remains so committed, making substantial investments to develop Hong Kong as one of the world's leading international aviation centres.

The Cathay Pacific Group operated 208 aircraft at 31st December 2017. Cathay Pacific itself operated 149 aircraft at that date. Its other investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport. Cathay Pacific continues to invest heavily in its home city. At 31st December 2017 it had 79 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Cathay Dragon"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating



47 aircraft on scheduled services to 51 destinations in Mainland China and elsewhere in Asia. Cathay Pacific owns 18.13% of Air China Limited ("Air China"), the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific is the majority shareholder in AHK Air Hong Kong Limited ("Air Hong Kong"), an all-cargo carrier providing scheduled services in Asia.

Cathay Pacific and its subsidiaries employ more than 32,700 people worldwide, of whom around 25,600 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

Cathay Pacific is a founding member of the **one**world global alliance, whose combined network serves more than 1,000 destinations worldwide. Cathay Dragon is an affiliate member of **one**world.

A Chinese translation of this Annual Report is available upon request from the Company's Registrars.
本年報的中文譯本於本公司的股份登記處備索。

Operational Excellence

Our efficient, environmentally-friendly fleet of aircraft enables us to expand our network, boost our connectivity and provide our customers with more travel choices.

Financial and Operational Highlights

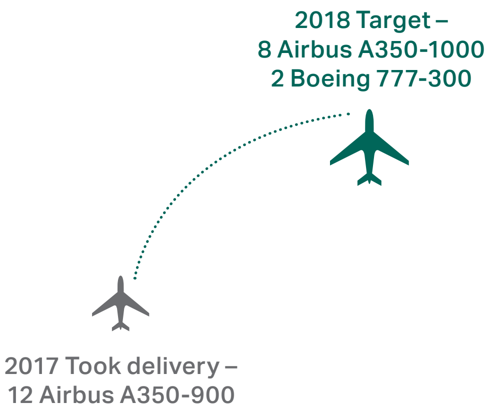
Group Financial Statistics

		2017	2016	Change
Results				
Revenue	*HK$ million*	**97,284**	92,751	**+4.9%**
Loss attributable to the shareholders of Cathay Pacific	*HK$ million*	**(1,259)**	(575)	**-119.0%**
Loss per share	*HK cents*	**(32.0)**	(14.6)	**-119.2%**
Dividend per share	*HK$*	**0.05**	0.05	**–**
Loss margin	*%*	**(1.3)**	(0.6)	**-0.7%pt**
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**61,101**	55,365	**+10.4%**
Net borrowings	*HK$ million*	**59,300**	49,879	**+18.9%**
Shareholders' funds per share	*HK$*	**15.5**	14.1	**+9.9%**
Net debt/equity ratio	*Times*	**0.97**	0.90	**+0.07 times**

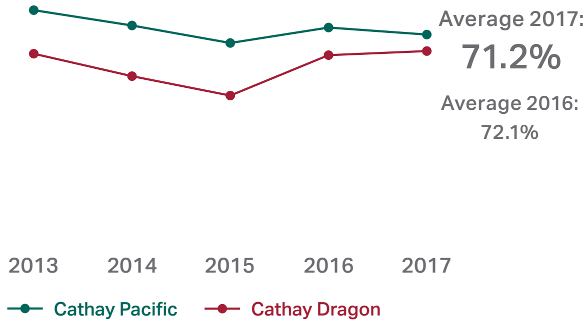
Operating Statistics – Cathay Pacific and Cathay Dragon

		2017	2016	Change
Available tonne kilometres ("ATK")	*Million*	**31,439**	30,462	**+3.2%**
Available seat kilometres ("ASK")	*Million*	**150,138**	146,086	**+2.8%**
Available cargo & mail tonne kilometres ("AFTK")	*Million*	**17,163**	16,572	**+3.6%**
Passenger revenue per ASK	*HK cents*	**44.2**	45.8	**-3.5%**
Revenue passengers carried	*'000*	**34,820**	34,323	**+1.4%**
Passenger load factor	*%*	**84.4**	84.5	**-0.1%pt**
Passenger yield	*HK cents*	**52.3**	54.1	**-3.3%**
Cargo and mail revenue per AFTK	*HK$*	**1.20**	1.03	**+16.5%**
Cargo and mail carried	*'000 tonnes*	**2,056**	1,854	**+10.9%**
Cargo and mail load factor	*%*	**67.8**	64.4	**+3.4%pt**
Cargo and mail yield	*HK$*	**1.77**	1.59	**+11.3%**
Cost per ATK (with fuel)	*HK$*	**3.12**	3.02	**+3.3%**
Cost per ATK (without fuel)	*HK$*	**2.14**	2.12	**+0.9%**
Underlying cost per ATK (without fuel and before exceptional items)	*HK$*	**2.12**	2.12	**–**
ATK per HK$'000 staff cost	*Unit*	**1,775**	1,730	**+2.6%**
Aircraft utilisation	*Hours per day*	**12.3**	12.2	**+0.8%**
On-time performance	*%*	**71.2**	72.1	**-0.9%pt**
Average age of fleet	*Years*	**9.3**	9.1	**+2.2%**
GHG emissions	*Million tonnes of CO_2e*	**17.7**	17.2	**+2.9%**
GHG emissions per ATK	*Grammes of CO_2e*	**564**	565	**-0.2%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**3.53**	3.12	**+13.1%**

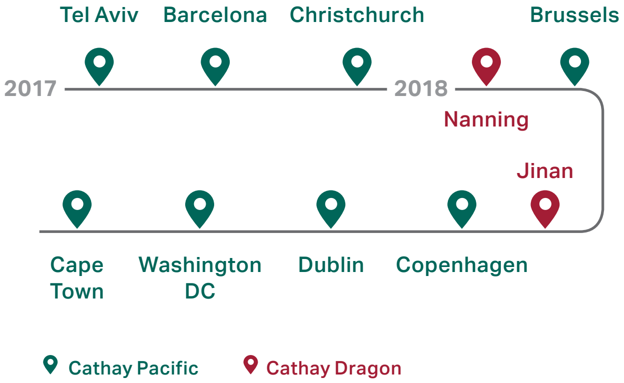
Fleet



On-time Performance



Network



Lounges

New lounge in Singapore opened in October 2017

The Deck at Hong Kong International Airport to open in Q1 2018

Marco Polo Club Improvements

Enhanced club points system

Inflight Entertainment

Customer access to digital newspapers and magazines via PressReader

Overview

Fundamental structural changes within the airline industry continued to create a challenging operating environment for our airline businesses in 2017. In response, we took decisive action through our transformation programme to make our businesses leaner and more agile and more effective competitors. Our focus in 2017 was on building the right foundations, structure and strategy to improve revenue and to better contain costs. Evidence of progress became apparent in the second half of the year. Airline losses in the second half of 2017 were lower than those in each of the two preceding half years.

The Cathay Pacific Group reported an attributable loss of HK$1,259 million for 2017. This compares to a loss of HK$575 million in 2016. The loss per share was HK32.0 cents in 2017 compared to a loss per share of HK14.6 cents in 2016. The Cathay Pacific Group reported an attributable profit of HK$792 million in the second half of 2017, compared to an attributable loss of HK$2,051 million in the first half of 2017 and an attributable loss of HK$928 million in the second half of 2016. Cathay Pacific and Cathay Dragon reported an attributable loss of HK$1,538 million in the second half of 2017, compared to an attributable loss of HK$2,765 million in the first half of 2017 and an attributable loss of HK$2,580 million in the second half of 2016.

Operating environment

The factors which affected our performance were largely the same as in 2016. Overcapacity in passenger markets led to intense competition with other airlines and continued pressure on yields on many of our key routes. Fuel prices were higher, but fuel hedging losses reduced. As the year progressed we began to see positive results from our transformation programme and our business also benefited from a strong cargo business, a weaker US dollar, and improved premium class passenger demand.

The contribution from subsidiary and associated companies was satisfactory.

Several one-off factors impacted results in 2017. In March, the European Commission imposed a fine of Euros 57.12 million (equivalent to approximately HK$498 million) on Cathay Pacific following its decision 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. An application has been made to annul the decision. In the same month, Air China completed an issue of A shares and, as a result, Cathay Pacific's shareholding was diluted. A gain of HK$244 million was recognised on the deemed partial disposal. In April, Cathay Pacific disposed of its interest in TravelSky Technology Limited at a profit of HK$586 million.

In November, Air Hong Kong agreed to enter into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. The other three will be completed in 2018. At the end of 2018, Cathay Pacific will acquire from DHL International the 40% shareholding in Air Hong Kong that it does not already own, with the result that Air Hong Kong will become a wholly owned subsidiary of the Company. At the same time, a new 15-year block space agreement with DHL International will commence.

In the first half of 2017, we commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges we are facing in the current airline industry environment. The programme has the goal of making our airlines more consumer focused and responsive, and in doing so increasing our revenue and containing costs. In 2017, we built the right foundations, strategy and structure. We reorganised our head office, and focused on containing costs and improving efficiencies. We appointed new management and leadership teams. The associated redundancy costs (of HK$224 million) have been recognised in 2017 staff expenses.

Business performance

Passenger revenue in 2017 was HK$66,408 million, a decrease of 0.8% compared to 2016. Capacity increased by 2.8%, reflecting the introduction of new routes and increased frequencies on other routes. The load factor decreased by 0.1 percentage point, to 84.4%. Yield, which was under pressure for most of the year, fell by 3.3% to HK52.3 cents, albeit improving by 3.1% in the second half of the year compared to the first half.

The Group's cargo business benefited from robust demand in 2017, with cargo revenue increasing by 19.1% to HK$23,903 million. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 3.6%. The load factor increased by 3.4 percentage points, to 67.8%. Tonnage carried increased by 10.9%. Yield rose by 11.3% to HK$1.77, benefiting from the resumption (from April) of the collection of fuel surcharges in Hong Kong and from strong demand.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK$5,147 million (or 27.0%) compared with 2016, due to a rise in the price of fuel and increased operations. Fuel is still the Group's most significant cost, accounting for 30.7% of our total operating costs in 2017 (compared to 29.6% in 2016). Fuel hedging losses were reduced. After taking hedging losses into account, fuel costs increased by HK$3,159 million (or 11.3%) compared to 2016. We were able to limit the increase in our cost per ATK (excluding fuel) to 0.9%, and hold our underlying cost per ATK (excluding fuel and before exceptional items) flat, despite a challenging cost environment. This reflected our transformation programme's focus on productivity, efficiency and holding the growth in staff costs below ATK growth.

We introduced a service to Tel Aviv in March and seasonal services to Barcelona in July and to Christchurch in December. We increased frequencies to other destinations in response to demand. We stopped flying to Riyadh in March 2017. We will introduce services to Brussels in March 2018, to Dublin in June 2018 and to Washington D.C. in September 2018. We will start to fly to Barcelona all year round in April 2018. Seasonal services will be introduced to Copenhagen between May and October 2018 and to Cape Town between November 2018 and February 2019. Cathay Dragon introduced a service to Nanning in January 2018 and will introduce a service to Jinan in March 2018.

We took delivery of 12 Airbus A350-900 aircraft in 2017, bringing the total number of this aircraft type to 22 at the end of the year. In September, we ordered 32 Airbus A321-200neo aircraft for Cathay Dragon, to be delivered from 2020, and retired our final four Airbus A340-300 aircraft and two Boeing 747-400BCF freighter aircraft. We wet-leased two Boeing 747-8F freighter aircraft in order to allow us to increase cargo 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.

Prospects

Our priorities for 2018 are our transformation programme, changing the way that we work so as to better contain costs which will strengthen our passenger business further. We are confident of a successful outcome from these efforts. We also look to benefit from a slowing of the decline in passenger yields as global economic conditions improve. The outlook for our cargo business is positive and we will take best advantage of opportunities in the growing global cargo market. Increased fuel costs are increasing operating costs and adversely affecting results. Fuel hedging losses are declining.

We are improving our competitive position by expanding our route network, increasing frequencies on our most popular routes and buying more fuel-efficient aircraft. We have improved productivity and efficiency and at the same time we are improving our already high customer service standards. We are proud of the quality, dedication and professionalism of our people. They have my utmost respect and I would like to thank them for their hard work and commitment during a period of uncertainty. Difficult but necessary decisions have been made. We are acting decisively to make Cathay Pacific and Cathay Dragon better airlines and stronger businesses. We believe we are on track to achieve strong and sustainable long-term performance.

Our commitment to Hong Kong and its people remains unwavering, as has been the case over more than 70 years. We will continue to make strategic investments to develop and strengthen Hong Kong's position as Asia's largest and most popular international aviation hub.

John Slosar
Chairman
Hong Kong, 14th March 2018

Fundamental structural changes within the airline industry continued to create a challenging operating environment for our airline businesses in 2017. The factors which affected our performance were largely the same as in 2016. Overcapacity in passenger markets led to intense competition with other airlines and continued pressure on yields on many of our key routes. Fuel prices were higher, but fuel hedging losses reduced. Excluding one-off exceptional items in the year, the non-fuel cost per ATK was held constant.

First half of 2017

As disclosed in our interim financial statements, in the first half of 2017 the Cathay Pacific Group reported a loss of HK$2,051 million (2016 profit of HK$353 million). Passenger capacity increased by 1.1% in the first half of 2017 compared with the first half of 2016, and the load factor increased by 0.2 of a percentage point to 84.7%. Passenger revenue fell by 3.9% to HK$32,105 million and yield decreased by 5.2% to HK51.5 cents. The cargo business was robust, with a 11.7% increase in cargo revenue to HK$10,515 million. 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%, and the yield increased by 4.4% to HK$1.66.

We commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges we are facing in the current airline industry environment. The programme has the goal of making our airlines more consumer focused and responsive, and in doing so increasing our revenue and containing costs. In 2017, we built the right foundations, strategy and structure. We reorganised our head office, and focused on containing costs and improving efficiencies. We appointed new management and leadership teams.

Second half of 2017

In the second half of the year, the Cathay Pacific Group reported an attributable profit of HK$792 million (2016 loss of HK$928 million). This reflects the early benefits of the transformation programme, a strong cargo business, a weaker US dollar and improved premium class passenger demand. The second half improved by comparison with the first half of the year and there was a marked slowdown in the annualised passenger yield decline from the prior year. Passenger revenue was HK$34,303 million, representing increases of 6.8% and 2.4% compared with the first half of 2017 and the second half of 2016 respectively. Passenger capacity increased by 4.4% (compared with both the first half of 2017 and the second half of 2016). The load factor decreased by 0.7 and 0.6 of a percentage point (to 84.0%), and yield increased by 3.1% and decreased by 1.5% (to HK53.1 cents), in each case compared with the first half of 2017 and the second half of 2016 respectively. The cargo business strengthened. Cargo revenue was HK$13,388 million, representing increases of 27.3% and 25.7% compared with the first half of 2017 and the second half of 2016 respectively. Cargo capacity increased by 9.1% and 4.7%, the load factor increased by 3.0 and 2.7 percentage points (to 69.2%), and the yield increased by 12.0% and 16.3% (to HK$1.86), in each case compared with the first half of 2017 and the second half of 2016 respectively. Underlying cost per ATK (without fuel and before exceptional items) in the second half of 2017 reduced compared with both the first half of 2017 and the second half of 2016.

Innovation

- We took delivery of 12 Airbus A350-900 aircraft in 2017. They have our latest cabins, seats and entertainment systems and inflight connectivity. We will begin taking delivery of Airbus A350-1000 aircraft in 2018.
- We opened a Cathay Pacific lounge at the new terminal 4 at Singapore airport.
- The Deck (previously The G16 Lounge) at Hong Kong International Airport will reopen following refurbishment later in the first quarter of 2018.
- A refreshment of the first class cabins in our Boeing 777-300ER aircraft started in August 2017.
- Cathay Pacific and Cathay Dragon introduced more movie and audio content on their inflight entertainment systems.
- In May 2017, Cathay Dragon completed the introduction of new business and economy class seats and the installation of wireless inflight entertainment on its Airbus A320 aircraft.
- We will be installing wifi on Cathay Pacific and Cathay Dragon Boeing 777 and Airbus A330 aircraft from the middle of 2018.

- Self-service bag drop facilities were introduced in Brisbane, London Gatwick, Paris, Singapore and Toronto. Kiosk bag tagging facilities have been introduced at 10 additional airports, resulting in 22 airports having self tagging capabilities.
- In October, hot lunches and dinners were introduced on the Taipei route.
- The internet booking engine on the Cathay Pacific website has a new look and additional features.
- In May 2017, a new online check-in service was introduced.
- The Asia Miles mobile app has been upgraded so as to be more user friendly and to respond faster.

Awards

- At the Design Air 2016 Awards in January 2017, Cathay Pacific received the Best New Lounge (for the "Pier" Business Class Lounge), the Best Airline Brand and the Best Premium Economy Design (for the Cathay Pacific Airbus A350 premium economy seat) awards.
- In February 2017, Cathay Pacific ranked third in the airlines category in Fortune magazine's World's Most Admired Companies.
- In February 2017, Cathay Pacific won Best First Class Sparkling and Best-Presented First Class Wine List awards at the Cellars in the Sky 2016 Awards.
- In September 2017, Cathay Pacific won the Best Airline – Business Class award at the TTG Travel Awards 2017.
- At the Surface Travel Awards – Aviation in October 2017, Cathay Pacific received an award for The Pier Business Class Lounge.
- In November 2017, Cathay Pacific featured in the World's Top 10 Airlines 2018 on AirlineRatings.com.
- In November 2017, Cathay Dragon won the Best Airline Economy Class award at the Business Traveller China Awards.
- In January 2018, Cathay Pacific and Cathay Dragon service teams and individual staff members won honours at the Customer Service Excellence Awards organised by the Hong Kong Association for Customer Service Excellence Award 2017.

Hub development

- In 2017, the passenger capacity of Cathay Pacific and Cathay Dragon increased by 2.8% compared to 2016, reflecting the introduction of routes to Tel Aviv, Barcelona and Christchurch and increases in frequency on some existing routes. Cathay Pacific's passenger capacity increased by 1.6%. Cathay Dragon's passenger capacity increased by 12.0%.
- We introduced a passenger service of four flights per week to Tel Aviv in March. The service, which is operated by Airbus A350-900 aircraft, has been very well received. We put on extra flights to meet seasonal demand on this route from September to November 2017. Seasonal frequency increases will continue in 2018, with a daily service operating during peak periods from October 2018.
- We introduced seasonal passenger services to Barcelona (July to October 2017) and to Christchurch (December 2017 to February 2018). These services are operated by Airbus A350-900 aircraft. The Barcelona service will become all year round in April 2018.
- We will introduce services to Brussels in March 2018, to Dublin in June 2018 and to Washington D.C. in September 2018. Seasonal services will be introduced to Copenhagen between May and October 2018 and to Cape Town between November 2018 and February 2019.
- 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 operated by Airbus A350-900 aircraft. It became daily from December 2017.
- From October 2017, the frequency of our service to Madrid was increased from four to five flights per week.
- From December 2017, the frequency of our service to Paris was increased from 10 to 11 flights per week. It will increase to 12 flights per week on a seasonal basis in the summer of 2018.
- From March 2017, we increased the frequency of our services to Boston (from four flights per week to daily) and to 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 from the end of June to the beginning of September 2017 (making this a twice-daily service).
- From October 2017, we increased the frequency of our service to San Francisco to three times daily (by adding

four flights per week) and reduced the frequency of our service to Los Angeles from four to three times daily.

- From July 2017, we increased the frequency of our services to Hanoi (from 10 to 12 flights per week) and to Ho Chi Minh City (from 18 to 19 flights per week).
- From July 2017, our service to Adelaide increased to five flights per week from July in each year to March the following year.
- From October 2017 to March 2018, we replaced our four-times-weekly one-stop service to Brisbane via Cairns with direct flights to both cities. The Brisbane frequency became 11 flights per week. The Cairns frequency became three flights per week.
- From December 2017 to February 2018, we increased the frequency of our Male service from four to five flights per week to meet seasonal demand.
- 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. Two out of the three daily Airbus A330-300 services started to be operated by larger aircraft, one by Boeing 777-300ER aircraft and one by Airbus A350-900 aircraft. During the 2017/8 winter period, the third of the daily flights to Melbourne was operated by Airbus A350-900 aircraft instead of Airbus A330-300 aircraft.
- From October 2017, one of the daily flights to San Francisco started to be operated by Airbus A350-900 aircraft instead of Boeing 777-300ER aircraft, the daily flight to Perth and the remaining daily flight to Melbourne operated by Airbus A330-300 aircraft started to be operated by A350-900 aircraft, and one more of the daily flights to Sydney started to be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- In October 2017, we increased capacity to Mumbai. The daily flight started to be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- 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.
- In September 2017, we increased the frequencies of our cargo services to Hanoi from six to seven flights per week and to Portland Oregon from two to three flights per week. The Portland Oregon service was introduced in November 2016.
- In June 2017, we wet-leased two Atlas Air Worldwide Boeing 747-8F freighter aircraft. This enabled us to increase the frequencies of our cargo services to the Americas and to India.
- We stopped flying to Riyadh in March 2017.
- In October 2017, we stopped flying between Taipei and Fukuoka and instead introduced a second daily flight between Taipei and Tokyo Narita.
- Cathay Dragon introduced a service to Nanning in January 2018.
- Cathay Dragon will introduce a four-times-weekly service to Jinan in March 2018.
- 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 was suspended from October 2017, and reintroduced from March 2018.

Fleet development

- At 31st December 2017, Cathay Pacific operated 149 aircraft, Cathay Dragon operated 47 aircraft and Air Hong Kong operated 12 aircraft (a total of 208 aircraft). There are 79 new aircraft on order for delivery up to 2024.
- We took delivery of 12 Airbus A350-900 aircraft in 2017.
- We will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expect to have 20 aircraft of this type in service by the end of 2021.
- We retired our final four Airbus A340-300 aircraft and retired two Boeing 747-400BCF converted freighters in 2017.
- Four Airbus A330-300 aircraft were leased from Cathay Pacific to Cathay Dragon in 2017.

Partnerships

- In January 2017, Cathay Pacific entered into a codeshare and frequent flyer programme agreement with Air Canada. The CX code has been placed on some domestic Air Canada flights. Air Canada's AC code has been placed on some Cathay Pacific and Cathay Dragon flights to Southeast Asia.
- In April 2017, Cathay Pacific entered into a codeshare and frequent flyer programme agreement with the Lufthansa Group, under which Cathay Pacific is extending its codeshare network to more continental European destinations.

- In May 2017, Cathay Pacific entered into a codeshare agreement with **one**world partner Iberia covering Iberia's flights between Madrid and Alicante, Barcelona, Bilbao, Palma, Valencia and Lisbon.
- In July 2017, Cathay Pacific entered into a codeshare arrangement with MIAT Mongolian Airlines. Under the arrangement, the CX code has been placed on MIAT flights between Hong Kong and Ulaanbaatar and MIAT's OM code has been placed on some Cathay Pacific flights between Hong Kong and Brisbane, Melbourne, Perth, Singapore and Sydney.
- In October 2017, Air Berlin ceased to be a **one**world member.
- In December 2017, Cathay Pacific extended its codeshare arrangements with Fiji Airways. Under the arrangements, the CX code has been placed on Fiji Airways' flights between Auckland and Nadi and Fiji Airways' FJ code has been placed on some Cathay Pacific flights between Hong Kong and Bangkok and Singapore.
- In July 2017, Cathay Dragon extended its codeshare arrangements with Shenzhen Airlines. Shenzhen Airlines' ZH code has been placed on Cathay Dragon flights between Hong Kong and Nanjing and Xi'an. Shenzhen Airlines also entered into a frequent flyer programme agreement with Asia Miles, covering flights within Mainland China and between Mainland China and Hong Kong, Macau and Taiwan.
- 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.

Fleet profile*

	Number at 31st December 2017				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	**Total**	'18	'19	'20 and beyond	**Total**	'18	'19	'20	'21	'22	'23	'24 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	11	6	**37**					3[a]	1	2				
A350-900	16	4	2	**22**		2	4	**6**[b]							2
A350-1000					8	4	8	**20**[b]							
747-400ERF		6		**6**											
747-8F	3	11		**14**											
777-200	5			**5**											
777-300	12			**12**	2	3		**5**[c]							
777-300ER	19	11	23	**53**					1	2		5	4	2	9
777-9X							21	**21**							
Total	75	43	31	**149**	10	9	33	**52**	4	3	2	5	4	2	11
Aircraft operated by Cathay Dragon:															
A320-200	5		10	**15**						1	3	3	3		
A321-200	2		6	**8**							1	2	2	1	
A321-200neo							32	**32**[b]							
A330-300	10		14[d]	**24**					2	3	2	2	4		1
Total	17		30	**47**			32	**32**	2	4	6	7	9	1	1
Aircraft operated by Air Hong Kong:															
A300-600F	2	1	7	**10**					7						
747-400BCF			2[d]	**2**					2						
Total	2	1	9	**12**					9						
Grand total	**94**	**44**	**70**[d]	**208**	**10**	**9**	**65**	**84**	**15**	**7**	**8**	**12**	**13**	**3**	**12**

** The table does not reflect aircraft movements after 31st December 2017.*

(a) The operating lease of one Airbus A330-300 expired in January 2018 and the aircraft left the fleet in February 2018.

(b) In September 2017, we agreed with Airbus to purchase 32 new Airbus A321-200neo aircraft (for delivery after 2020) and to convert an existing order for six Airbus A350-1000 aircraft into an order for six smaller Airbus A350-900 aircraft (to be delivered in 2019 and 2020) and to defer the delivery of five Airbus A350-1000 aircraft from 2020 to 2021.

(c) Five Boeing 777-300 used aircraft will be delivered from 2018.

(d) 62 of the 70 aircraft which are subject to operating leases are leased from third parties. The remaining eight of such aircraft (one Boeing 747-400BCF and seven Airbus A330-300s) are leased within the Group.

Review of other subsidiaries and associates

The share of profits from other subsidiaries and associates in 2017 increased by 9.2% to HK$3,044 million from HK$2,788 million. This mainly reflected a strong performance from our associate, Air China Cargo, the results of which benefited from strong cargo demand. Below is a review of the performance and operations of subsidiaries and associates.

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60.0% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- Air Hong Kong operates three owned Airbus A300-600F freighters, seven dry leased Airbus A300-600F freighters, and two Boeing 747-400BCF converted freighters dry leased from Cathay Pacific. It also operates one wet leased Boeing 767-300 freighter.
- Air Hong Kong operates six flights per week services to Bangkok, Ho Chi Minh City, Osaka, Penang (via Ho Chi Minh City), Seoul, Shanghai, Singapore, Taipei and Tokyo and five flights per week services to Beijing, Manila and Nagoya.
- On-time performance was 85% within 15 minutes.
- Compared with 2016, capacity decreased by 2.0% to 762 million available tonne kilometres. The load factor increased by 1.6 percentage points to 66.9%. Revenue tonne kilometres increased by 0.4% to 510 million.
- Air Hong Kong recorded an increase in profit for 2017 compared with 2016.
- In November, Air Hong Kong agreed to enter into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. Three of them will be completed in 2018. Cathay Pacific entered into an agreement with DHL International for Cathay Pacific to acquire from DHL International at the end of 2018 the 40% shareholding in Air Hong Kong that it does not already own, with the result that Air Hong Kong will become a wholly owned subsidiary of Cathay Pacific. Air Hong Kong will continue to operate an agreed freighter network to destinations in Asia for DHL International under a new block space agreement between Air Hong Kong and DHL International for an initial term of 15 years commencing on 1st January 2019.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages the Cathay Pacific Group's reward programme. It has more than 10 million members.
- In 2017, AML achieved an increase in profit compared with 2016, due to an increase in business volume.

Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and kitchens outside Hong Kong

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 50 international airlines in Hong Kong. It produced 30.3 million meals and handled 74,000 flights in 2017 (representing a daily average of 83,000 meals and 203 flights, an increase of 0.3% and 1.5% respectively over 2016).
- An expanded facility with 40% additional capacity started to operate in May 2017.
- Increased business volume resulted in higher revenue, but higher staff costs and the additional depreciation associated with the expanded facility resulted in a decline in profit after tax for CPCS in 2017.
- For other kitchens outside Hong Kong, profits increased compared to the previous year.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes.
- At the end of 2017, CPSL provided cargo handling services to 17 airlines. Three additional airlines became customers in 2017.
- CPSL handled 2.1 million tonnes of cargo in 2017, 47.8% of which were transshipments. Export and import shipments accounted for 34.4% and 17.8% respectively of the total.
- The financial results in 2017 improved compared with 2016. This was due to an increase in existing customer volumes, an increase in the number of customers and effective management of operating costs.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. It provides ground handling services to 21 airlines, including Cathay Pacific and Cathay Dragon.
- In 2017, HAS had 41% and 20% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.
- Passenger handling flights increased by 2.8% in 2017. The number of ramp handling flights was little changed.
- Operational performance and financial results improved in 2017.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific had a 18.13% interest at 31st December 2017, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. In March 2017, Cathay Pacific's shareholding in Air China was reduced from 20.13% as a result of a new issue of A shares by Air China.
- At 31st December 2017, Air China operated 303 domestic and 117 international (including regional) routes to 40 countries and regions, including 66 overseas cities, three regional cities and 116 domestic cities.
- We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, our 2017 results include Air China's results for the 12 months ended 30th September 2017, adjusted for any notified significant events or transactions in the period from 1st October 2017 to 31st December 2017.
- For the 12 months ended 30th September 2017, Air China's underlying results improved compared to the 12 months ended 30th September 2016.

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

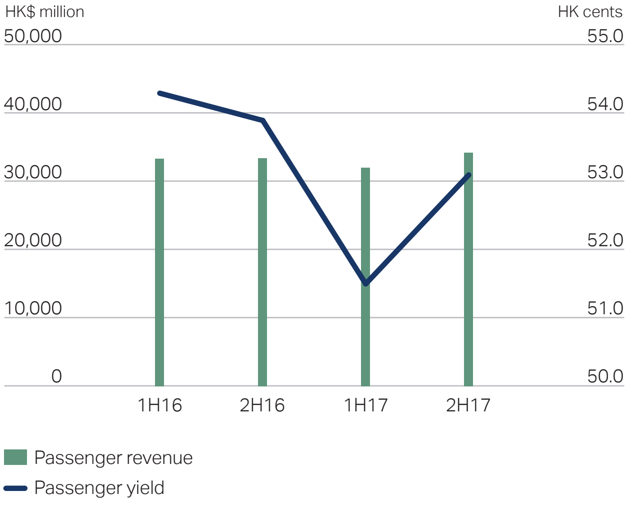
- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- At 31st December 2017, Air China Cargo operated 15 freighters. It flies to 10 cities in Mainland China and 12 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 190 destinations.
- As a result of much improved cargo market conditions, Air China Cargo's 2017 financial results were significantly better than in 2016. Higher operating costs (reflecting increased fuel prices) were more than offset by significantly improved cargo yields and unrealised exchange gains on loans denominated in United States dollars.

Customer Centric

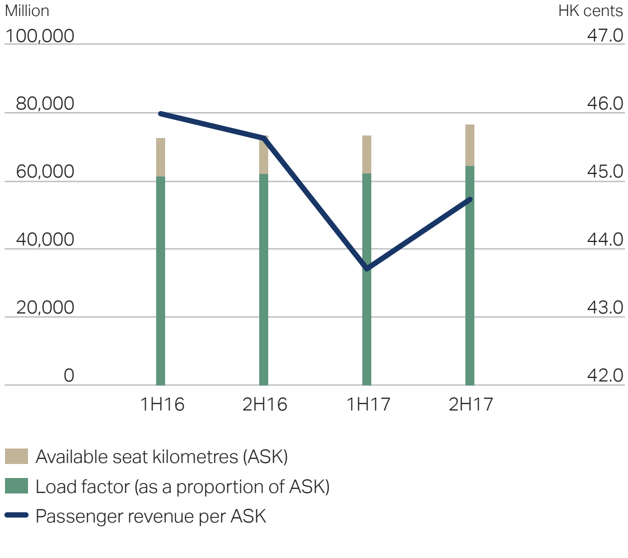
We place great importance in listening to our customers and are continually enhancing our products and services, both on the ground and in the air, to provide a Life Well Travelled.

Cathay Pacific and Cathay Dragon carried 34.8 million passengers in 2017, an increase of 1.4% compared to 2016. Revenue decreased by 0.8% to HK$66,408 million. The load factor decreased by 0.1 percentage point to 84.4%. Capacity increased by 2.8%, reflecting the introduction of new routes (to Tel Aviv, Barcelona and Christchurch) and increased frequencies on other routes. Yield decreased by 3.3%, to HK52.3 cents. The operating environment for our passenger business continued to be difficult in 2017, with a number of factors adversely affecting its performance. Intense competition with other airlines was the most important. Other airlines increased capacity, with more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Economy class demand on North American, Southwest Pacific and Korean routes was weak. Premium class demand was strong, which compensated somewhat for the reduction in economy class yield. The overall yield improved by 3.1% in the second half of the year compared to the first half. Fuel prices increased, although fuel hedging losses, largely incurred on hedges put in place when fuel prices were higher than in 2017, decreased.

Passenger revenue and yield trend



Passenger capacity, load factor and efficiency



Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Cathay Dragon passenger services for 2017 were as follows:

	ASK (million)			Load factor (%)			Yield
	2017	2016	**Change**	**2017**	2016	**Change**	**Change**
India, Middle East and Sri Lanka	**8,454**	9,172	**-7.8%**	**82.8**	79.3	**+3.5%pt**	**-1.4%**
Southwest Pacific and South Africa	**20,502**	19,702	**+4.1%**	**84.8**	87.8	**-3.0%pt**	**-3.2%**
Southeast Asia	**21,054**	21,151	**-0.5%**	**84.0**	84.2	**-0.2%pt**	**-2.9%**
Europe	**28,957**	25,958	**+11.6%**	**87.5**	86.6	**+0.9%pt**	**-2.7%**
North Asia	**30,764**	30,802	**-0.1%**	**81.0**	79.5	**+1.5%pt**	**-2.8%**
North America	**40,407**	39,301	**+2.8%**	**85.0**	86.8	**-1.8%pt**	**-5.0%**
Overall	**150,138**	146,086	**+2.8%**	**84.4**	84.5	**-0.1%pt**	**-3.3%**

Home market – Hong Kong and Pearl River Delta

- 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. These promotions now include air and hotel packages.
- Demand over the 2017 Chinese New Year holiday was strong, but yield was under pressure.

India, Middle East and Sri Lanka

- Our routes to India performed reasonably. The number of passengers carried and yield increased slightly.
- We stopped flying to Riyadh in March 2017.

Southwest Pacific and South Africa

- 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.
- We introduced a seasonal passenger service to Christchurch in December 2017 (until February 2018).
- We will introduce a three-times-weekly seasonal service to Cape Town between November 2018 and February 2019.
- From July 2017, our service to Adelaide increased to five flights per week from July in each year to March the following year.
- From October 2017 to March 2018, we replaced our four-times-weekly one-stop service to Brisbane via Cairns with direct flights to both cities. The Brisbane frequency became 11 flights per week. The Cairns frequency became 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. Two out of the three daily Airbus A330-300 services started to be operated by larger aircraft, one by Boeing 777-300ER aircraft and one by Airbus A350-900 aircraft. During the 2017/8 winter period, the third of the daily flights to Melbourne was operated by Airbus A350-900 aircraft instead of Airbus A330-300 aircraft.

Southeast Asia

- Yield on routes between Hong Kong and Mainland China and Southeast Asia was under pressure due to increased competition, particularly from low-cost carriers.
- The performance of our routes to Thailand was satisfactory.
- From July 2017, we increased the frequency of our services to Hanoi (from 10 to 12 flights per week) and to Ho Chi Minh City (from 18 to 19 flights per week).
- Cathay Dragon now operates the four daily flights to Kuala Lumpur which were previously operated by Cathay Pacific.

Europe

- We introduced a passenger service of four flights per week to Tel Aviv in March. The service, which is operated by Airbus A350-900 aircraft, has been very well received. We put on extra flights to meet seasonal demand on this route from September to November 2017. Seasonal frequency increases will continue in 2018, with a daily service operating during peak periods from October 2018.
- We introduced a seasonal passenger service to Barcelona (July to October 2017). The service will become all year round in April 2018.
- We will introduce a four-times-weekly service to Brussels in March 2018, a four-times-weekly service to Dublin in June 2018 and a seasonal service to Copenhagen between May to October 2018.
- 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.
- 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 operated by Airbus A350-900 aircraft. It became daily from December 2017.
- From October 2017, the frequency of our service to Madrid was increased from four to five flights per week.
- From December 2017, the frequency of our service to Paris was increased from 10 to 11 flights per week. It will further increase to 12 flights per week on a seasonal basis in the summer of 2018.

North Asia

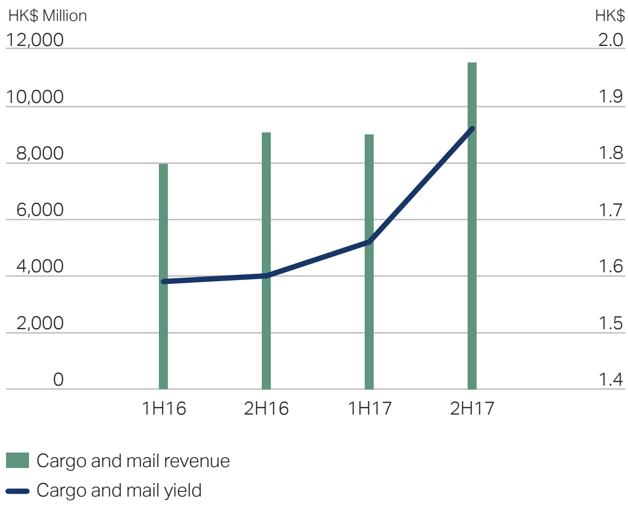
- Traffic between Mainland China and Taiwan increased in the second half of 2017. This improved the performance of our Mainland China and Taiwan routes.
- Demand for travel to Northeast Asia was strong in the early part of 2017, but political tensions between Mainland China and South Korea in the second and third quarters affected demand for travel to South Korea.
- In October 2017, we stopped flying between Taipei and Fukuoka and instead introduced a second daily flight between Taipei and Tokyo Narita.
- Cathay Dragon introduced a four-times-weekly service to Nanning in January 2018.
- Cathay Dragon will introduce a four-times-weekly service to Jinan in March 2018.
- Cathay Dragon's service to Tokyo Haneda was suspended from October 2017, and reintroduced from March 2018.

North America

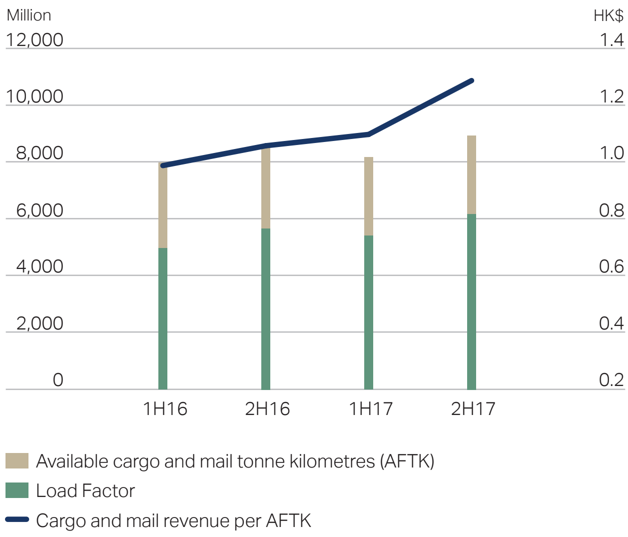
- Economy class demand for travel to the United States was weak. Premium class demand recovered.
- Increased competition on routes to Canada put pressure on yield, especially during seasonally weak periods. The impact was more severe on the Vancouver than on the Toronto route.
- From March 2017, we increased the frequency of our services to Boston (from four flights per week to daily) and to 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 from the end of June to the beginning of September 2017 (making this a twice-daily service).
- We will introduce a four-times-weekly service to Washington D.C. in September 2018.
- From October 2017, we increased the frequency of our service to San Francisco to three times daily (by adding four flights per week) and reduced the frequency of our service to Los Angeles from four to three times daily. To meet seasonal demand, we increased the number of flights to Los Angeles between December 2017 and January 2018.

Cathay Pacific and Cathay Dragon carried 2.1 million tonnes of cargo and mail in 2017, an increase of 10.9% compared to 2016. The cargo revenue of Cathay Pacific and Cathay Dragon was HK$20,553 million, an increase of 20.7% compared to the previous year. This reflected increased demand and starting to collect fuel surcharges again in Hong Kong. Yield rose, by 11.3% to HK$1.77. The market was robust throughout the year. There was strong demand for exports from Mainland China. Shipments on South Asian, Middle Eastern, African and intra-Asian routes grew.

Cargo revenue and yield trend



Cargo capacity, load factor and efficiency



Available cargo and mail tonne kilometres ("AFTK"), load factor and yield for Cathay Pacific and Cathay Dragon cargo services for 2017 were as follows:

	AFTK (million)			Load factor (%)			Yield
	2017	2016	**Change**	**2017**	2016	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**17,163**	16,572	**+3.6%**	**67.8**	64.4	**+3.4%pt**	**+11.3%**

- Cargo demand was robust throughout 2017. Tonnage carried grew faster than capacity. Yield benefited from the resumption (from April) of the collection of fuel surcharges in Hong Kong 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 freighter aircraft. This enabled us to increase the frequencies of our cargo services to the Americas and to India.
- Cargo exports from Mainland China were very strong in the second half 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.
- Demand for shipments within Asia was significantly stronger in 2017 than in 2016, particularly of fresh produce, mail and e-commerce items.
- Shipments to and from South America grew strongly, assisted by interline arrangements.
- The performance of our European routes improved. Increased shipments of pharmaceutical products benefited yield.
- 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.
- In September 2017, we increased the frequencies of our cargo services to Hanoi from six to seven flights per week and to Portland Oregon from two to three flights per week. The Portland Oregon service was introduced in November 2016.
- In April 2017, we started to collect fuel surcharges again in Hong Kong.
- In 2017, we retired two Boeing 747-400BCF converted freighters.
- CPSL's air cargo terminal handled 2.1 million tonnes of cargo in 2017, an increase of 16.7%. The terminal handles cargo for Cathay Pacific, Cathay Dragon, Air Hong Kong and 14 other airlines.
- In October 2017, with CPSL and HAS, we received certification from the centre for excellence for independent validators in pharmaceutical logistics.

Loyalty and reward programmes

The Marco Polo Club

- The Marco Polo Club loyalty programme provides benefits and services to the frequent flyers of Cathay Pacific and Cathay Dragon.
- Marco Polo Club members contribute to almost a quarter of the revenues of Cathay Pacific and Cathay Dragon.
- Club points are earned by reference to cabin class, fare class and distance travelled. Increases in club points for some fare classes took effect in December 2017.
- Silver members (and above) have unlimited access to lounges when flying on Cathay Pacific or Cathay Dragon and all members are entitled to priority boarding and check-in.

Asia Miles

- Asia Miles is a leading travel and lifestyle rewards programme in Asia. It has more than 10 million members and over 700 partners worldwide, including 27 airlines, more than 150 hotel brands, plus restaurants and retail shops.
- There was a 10% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in 2017.
- Marco Polo Club members are also members of Asia Miles.

Antitrust proceedings

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 set out on page 109.

The Cathay Pacific Group reported an attributable loss of HK$1,259 million in 2017 compared with a loss of HK$575 million in 2016.

Fundamental structural changes within the airline industry continued to create a challenging operating environment for our airline businesses in 2017. The factors which affected our performance were largely the same as in 2016. Overcapacity in passenger markets led to intense competition with other airlines and continued pressure on yields on many of our key routes. Fuel prices were higher, but fuel hedging losses reduced. As the year progressed we began to see positive results from our transformation programme and our business also benefited from a strong cargo business, a weaker US dollar, and improved premium class passenger demand. Airline losses in the second half of 2017 were lower than those in each of the two preceding half years.

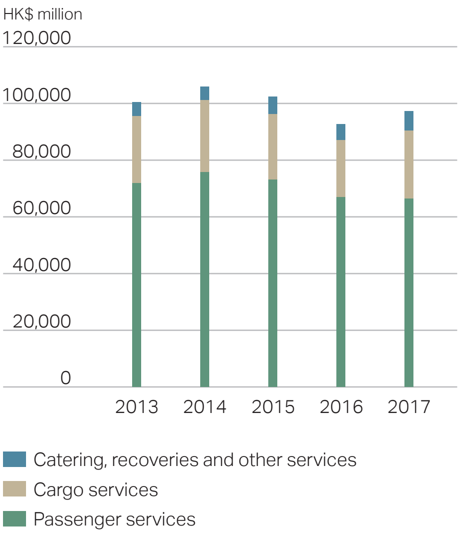
The contribution from the Group's subsidiary and associated companies was satisfactory.

Revenue

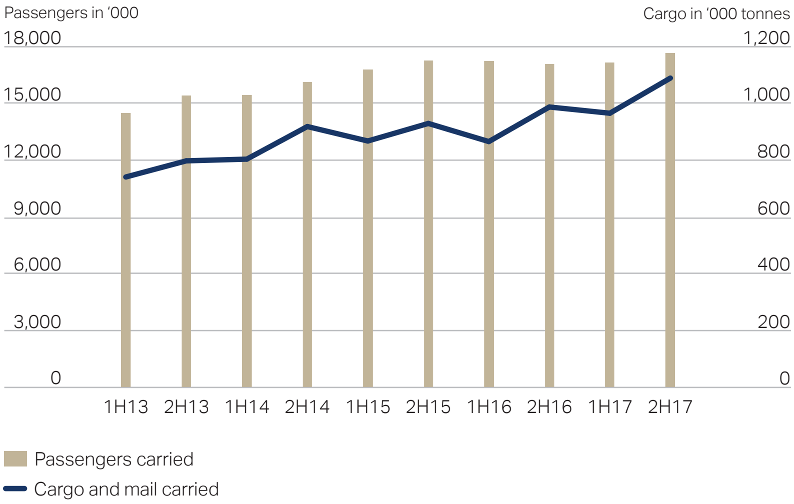
	Group		Cathay Pacific and Cathay Dragon	
	2017 HK$M	2016 HK$M	**2017 HK$M**	2016 HK$M
Passenger services	**66,408**	66,926	**66,408**	66,926
Cargo services	**23,903**	20,063	**20,553**	17,024
Catering, recoveries and other services	**6,973**	5,762	**6,050**	5,067
Total revenue	**97,284**	92,751	**93,011**	89,017

- Group revenue increased by 4.9% in 2017 compared with 2016.

Revenue



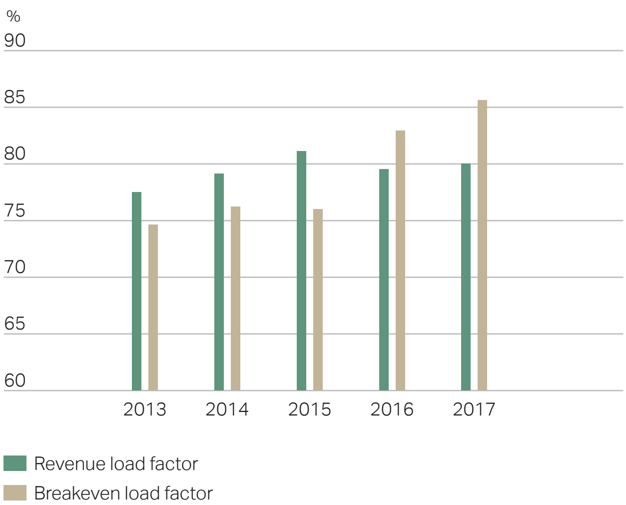
Cathay Pacific and Cathay Dragon: passengers and cargo carried



Cathay Pacific and Cathay Dragon

- Passenger revenue decreased by 0.8% to HK$66,408 million. The number of revenue passengers carried increased by 1.4% to 34.8 million. Revenue passenger kilometres increased by 2.6%.
- The passenger load factor decreased by 0.1 percentage point to 84.4%. Available seat kilometres increased by 2.8%.
- Passenger yield decreased by 3.3% to HK¢52.3.
- First and business class revenues increased by 3.0% and the load factor increased from 73.2% to 74.9%.
- Premium economy and economy class revenues decreased by 2.6% and the load factor decreased from 86.5% to 86.0%.
- Cargo revenue increased by 20.7% to HK$20,553 million. There was a 3.6% increase in capacity.
- The cargo load factor increased by 3.4 percentage points. Cargo yield increased by 11.3% to HK$1.77.
- The revenue load factor increased by 0.5 percentage points to 80.0%. The breakeven load factor was 85.6%.

Cathay Pacific and Cathay Dragon: revenue and breakeven load factor



- The annualised effect on revenue of changes in yield and load factor is set out below:

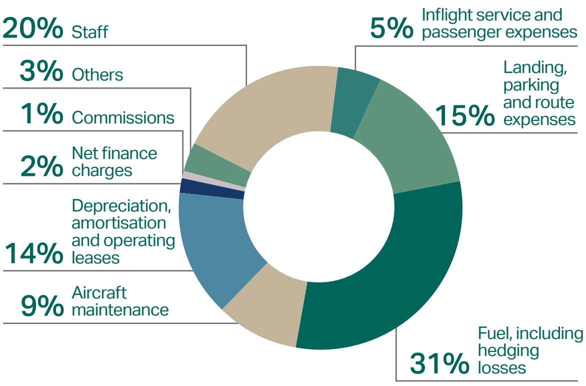
	HK$M
+ 1 percentage point in passenger load factor	785
+ 1 percentage point in cargo and mail load factor	303
+ HK¢1 in passenger yield	1,267
+ HK¢1 in cargo and mail yield	116

Operating expenses

	Group			Cathay Pacific and Cathay Dragon		
	2017 HK$M	2016 HK$M	**Change**	**2017 HK$M**	2016 HK$M	**Change**
Staff	**19,962**	19,770	**+1.0%**	**17,708**	17,607	**+0.6%**
Inflight service and passenger expenses	**4,996**	4,734	**+5.5%**	**4,996**	4,734	**+5.5%**
Landing, parking and route expenses	**15,225**	14,985	**+1.6%**	**14,830**	14,704	**+0.9%**
Fuel, including hedging losses	**31,112**	27,953	**+11.3%**	**30,619**	27,551	**+11.1%**
Aircraft maintenance	**9,607**	8,856	**+8.5%**	**9,221**	8,453	**+9.1%**
Aircraft depreciation and operating leases	**11,845**	10,551	**+12.3%**	**11,596**	10,406	**+11.4%**
Other depreciation, amortisation and operating leases	**2,795**	2,457	**+13.8%**	**1,986**	1,841	**+7.9%**
Commissions	**681**	700	**-2.7%**	**681**	700	**-2.7%**
Others	**3,340**	3,270	**+2.1%**	**4,877**	4,941	**-1.3%**
Operating expenses	**99,563**	93,276	**+6.7%**	**96,514**	90,937	**+6.1%**
Net finance charges	**1,761**	1,301	**+35.4%**	**1,527**	1,125	**+35.7%**
Total operating expenses	**101,324**	94,577	**+7.1%**	**98,041**	92,062	**+6.5%**

- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon increased from HK$3.02 to HK$3.12.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon increased from HK$2.12 to HK$2.14.
- The underlying cost per ATK (without fuel and before exceptional items) of Cathay Pacific and Cathay Dragon remained stable at HK$2.12. Exceptional items affecting expenses in 2017 include the European Commission airfreight fine of HK$498 million, redundancy costs of HK$224 million, and an impairment of CO_2 emissions credits of HK$119 million.

Group total operating expenses



Group fuel price and consumption

Cathay Pacific and Cathay Dragon operating results analysis

	1st half of 2017 HK$M	**2nd half of 2017 HK$M**	**Full year of 2017 HK$M**	1st half of 2016 HK$M	2nd half of 2016 HK$M	Full year of 2016 HK$M
Airlines' loss before exceptional items	(3,033)	**(1,156)**	**(4,189)**	(618)	(2,427)	(3,045)
Exceptional items	108	**(119)**	**(11)**	–	–	–
Taxation	160	**(263)**	**(103)**	(165)	(153)	(318)
Airlines' loss after taxation	(2,765)	**(1,538)**	**(4,303)**	(783)	(2,580)	(3,363)
Share of profits from subsidiaries and associates	714	**2,330**	**3,044**	1,136	1,652	2,788
(Loss)/profit attributable to the shareholders of Cathay Pacific	(2,051)	**792**	**(1,259)**	353	(928)	(575)

Exceptional items include the European Commission airfreight fine, redundancy costs and an impairment of CO_2 emissions credits, partly offset by gains on disposal of TravelSky Technology Limited and on the deemed partial disposal of Air China shares.

The changes in the airlines' loss (including exceptional items) before tax can be analysed as follows:

	HK$M	
2016 airlines' loss (including exceptional items) before tax	**(3,045)**	
Increase of revenue	3,994	– Passenger revenue decreased by 0.8% due to a 3.3% decrease in yield, partially offset by a 1.4% increase in passengers carried. – Cargo revenue increased by 20.7% due to a 11.3% increase in yield, a 3.4% points increase in load factor and a 10.9% increase in cargo and mail tonnage carried.
(Increase)/decrease of costs:		
– Fuel, including hedging losses	(3,068)	– Fuel costs increased due to a 23.0% increase in the average into-plane fuel price and a 2.9% increase in consumption. This was partially offset by a 24.6% decrease in fuel hedging losses.
– Aircraft maintenance	(768)	– Increased mainly due to increases in operational capacity and a provision for leased aircraft return costs.
– Depreciation, amortisation and operating leases	(1,335)	– Increased mainly due to the acquisition of new aircraft.
– Staff	(101)	– Increased mainly due to increase in pilot and cabin crew staff costs, one-off redundancy costs partially offset by a reduction in other staff costs due to head office restructuring.
– Non-recurring items and all other operating expenses, including inflight service, landing and parking, commissions, net finance charges and others	123	– Decreased mainly due to gain on disposal of TravelSky Technology Limited, the gain on the deemed partial disposal of Air China shares, savings in other expenses, partly offset by the European Commission airfreight fine and higher net finance charges due to financing of new aircraft.
2017 airlines' loss (including exceptional items) before tax	**(4,200)**	

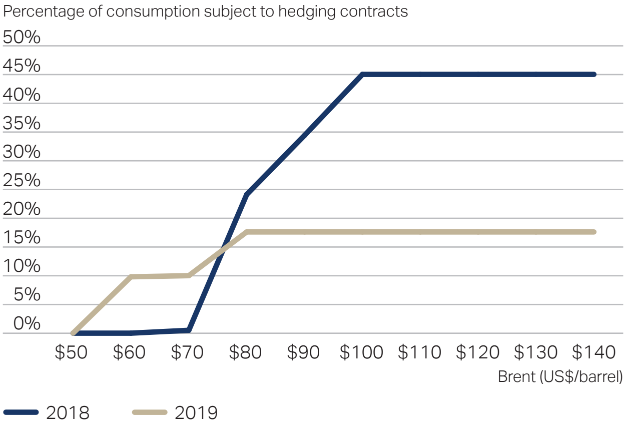
Fuel expenditure and hedging

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

	2017 HK$M	2016 HK$M
Gross fuel cost	**24,735**	19,497
Fuel hedging losses	**6,377**	8,456
Fuel cost	**31,112**	27,953

- Fuel consumption in 2017 was 45.1 million barrels (2016: 43.9 million barrels), an increase of 2.7% against an increase in capacity of 3.2%.
- The Group's fuel hedging exposure at 31st December 2017 is set out in the chart below.

Fuel hedging exposure



- 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 above 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 hedging position in respect of 2018 and a portion of 2019 reflects certain assumptions made at the time of hedging, which 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 benefits from lower oil prices on the unhedged share of the fuel requirements but the size of this benefit is not as large as the benefit to airlines which either do not hedge or hedged less than the Group.

Taxation

- The tax charge decreased by HK$189 million to HK$308 million, principally due to an increase in deferred tax assets as a result of an increase in future tax credits.

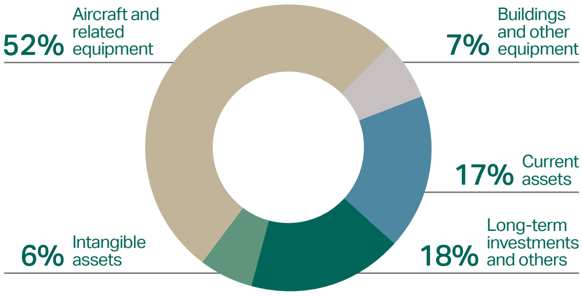
Dividends

- An interim dividend HK$197 million is proposed, representing a negative dividend cover of 6.4 times.
- Dividend per share is HK$0.05 for 2017 (2016: HK$0.05).

Assets

- Total assets at 31st December 2017 were HK$188,378 million.
- During the year, additions to property, plant and equipment were HK$15,920 million, comprising HK$14,910 million in respect of aircraft and related equipment, HK$573 million in respect of buildings and HK$437 million in respect of other equipment.

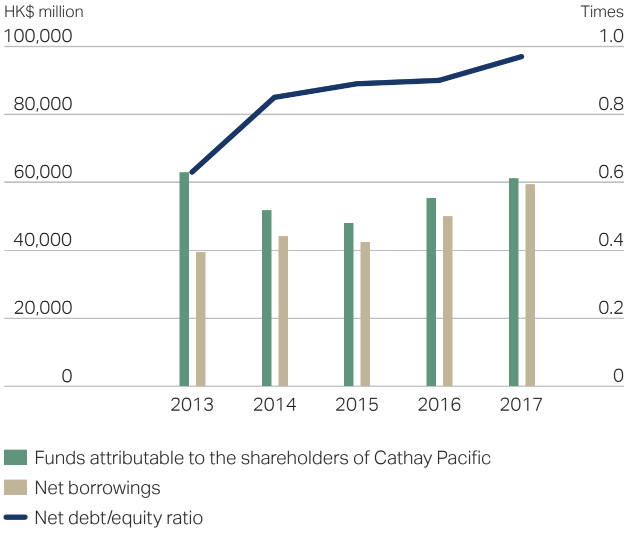
Total assets



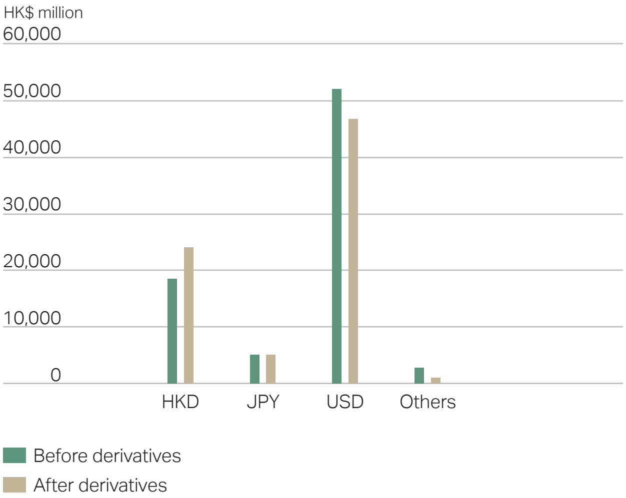
Borrowings and capital

- Borrowings increased by 11.7% to HK$78,394 million at the end of 2017 from HK$70,169 million at the end of 2016.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2029, with 46.6% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 70.2% of which are denominated in United States dollars, decreased by 5.9% to HK$19,094 million.
- Net borrowings (after taking liquid funds into account) increased by 18.9% to HK$59,300 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 10.4% to HK$61,101 million. This was due to the positive contribution for the year, mainly from operations (pre loss transfer from the cash flow hedge reserve), subsidiaries and associates. Exchange gains on translation of foreign operations were partly offset by cash flow hedge losses recognised during the year.
- The net debt/equity ratio increased from 0.90 times to 0.97 times.

Net debt and equity

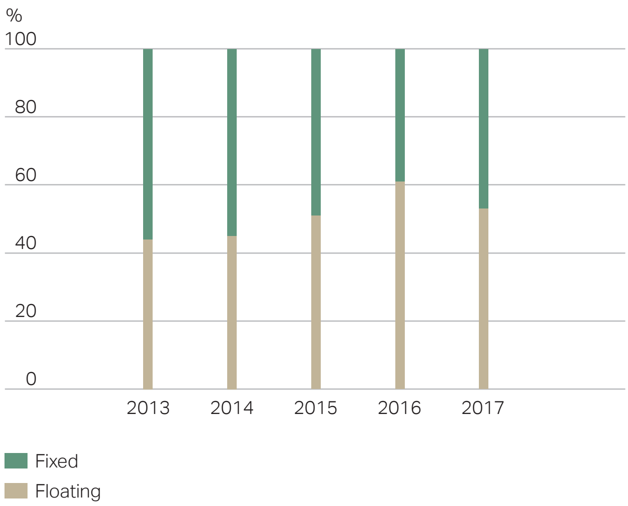


Borrowings before and after derivatives



Others include EUR and SGD.

Interest rate profile: borrowings (after derivatives)



Sustainable development

We apply sustainable development principles when doing business. We take environmental and social considerations into account when making business decisions. It is our policy to comply with environmental and social regulations and to educate our employees, engage with others and set targets in relation to environmental and social matters. We encourage our staff to mitigate or reduce the environmental and social impact of the decisions which they make.

We operate an environmental management system which is based on ISO14001 certification. The system is audited once a year externally and twice a year internally. Opportunities for improvement are identified during these audits.

We engage with the communities in which we operate and involve our employees in doing so.

Our people are one of our greatest assets. We are proud of the high-quality service which they give and are committed to providing them with the best possible working and career environment. This enables us to attract, develop and retain the best people.

Performance statistics

		2017	2016	Change
Environment				
GHG emissions	*Million tonnes of CO_2e*	**17.7**	17.2	**+2.9%**
GHG emissions per ATK	*Grammes of CO_2e*	**564**	565	**-0.2%**
Electricity consumption	*MWh*	**40,923**	42,001	**-2.6%**
Paper consumption (office)	*Tonnes*	**181**	196	**-7.7%**
Paper recycled (office and inflight)	*Tonnes*	**1,804**	1,931	**-6.6%**
Metal recycled (office and inflight)	*Kg*	**39,634**	42,326	**-6.4%**
Plastic recycled (office and inflight)	*Kg*	**37,124**	44,800	**-17.1%**
People				
Total workforce	*Number*	**26,029**	26,674	**-2.4%**
By location				
Hong Kong	*%*	**73.8**	72.9	**+0.9%pt**
Outport	*%*	**26.2**	27.1	**-0.9%pt**
By employment type				
Flight crew	*%*	**15.1**	14.6	**+0.5%pt**
Cabin crew	*%*	**47.3**	45.8	**+1.5%pt**
Ground staff	*%*	**37.6**	39.6	**-2.0%pt**
By gender				
Female	*%*	**61.3**	61.3	**–**
Male	*%*	**38.7**	38.7	**–**

Data for Cathay Pacific and Cathay Dragon is presented. More information will be provided in Cathay Pacific's 2017 sustainable development report at www.cathaypacific.com/sdreport.

Awards and Recognitions in 2017

- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index. We responded to the Carbon Disclosure Project climate change questionnaire.
- In May 2017, Cathay Pacific received a gold award in the transport and logistics sector at the Hong Kong Awards for Environmental Excellence.

2017 Highlights

Environment

- 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 2017 emissions data from intra-EU flights were reported on by an external auditor in January 2018 and our emissions report was submitted to the UK Environment Agency in February 2018.
- All our Airbus A350-900 aircraft during 2017 were flown on their delivery flights from Toulouse using fuel containing 10% biofuel.
- Cathay Pacific Catering Services (H.K.) Limited has been working with local non-profit organisations, Feeding Hong Kong and Food Angel, which provide surplus food to Hong Kong charities for distribution to people in need. Feeding Hong Kong collects those unopened food items from inbound Cathay Pacific flights, while Food Angel collects the unused and surplus food from the CPCS kitchens. More than 260 tonnes of surplus food were donated during 2017.
- In March 2017, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards outside Cathay City.
- Our retired Airbus A340 aircraft are being dealt with under PAMELA (Airbus' Process for Advanced Management of End-of-Life Aircraft). This enables old aircraft to be dismantled (and disposed of or recycled) in a sustainable manner.
- We share environmental best practice and experience with Air China.
- In November 2017, Cathay Pacific was awarded the Hong Kong Management Association Hong Kong Sustainability Award 2016/17 – Certificate of Excellence.
- We screened the documentary "A Plastic Ocean" at a staff movie night to raise internal awareness on single-use plastic.
- Our sustainable development report for 2017 will be published in July 2018. It is available at www.cathaypacific.com/sdreport.

Contribution to the community

- In May 2017, Hong Kong SAR Financial Secretary Paul Chan Mo-po 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 230 residents from less-advantaged families in Hong Kong. Most of the participants had never flown before.
- We held a 24 hour Hackathon in October 2017. It demonstrated our efforts to foster innovation and to do new things to improve services to passengers and operating efficiency.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Our passengers contributed HK$13.2 million in 2016 to help improve the lives of vulnerable children worldwide. Since its introduction in 1991, more than HK$176 million has been raised through the programme.

- A percentage of the "Change for Good" donations are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases. Since its formation, the bank has raised more than HK$16.8 million, benefiting around 540 children.
- In February 2017, 10 Cathay Pacific staff went to India and in June 2017, 10 staff visited Myanmar, to see how "Change for Good" donations were being applied.
- The Cathay Pacific Volunteers, made up of around 1,600 Cathay Pacific staff, help the local community in Hong Kong. Their "English on Air" programme has helped more than 2,400 students to improve their conversational English skills. In 2017, Cathay Pacific Volunteers contributed more than 620 hours of voluntary service to support the local community.
- We organised tours of our headquarters at Hong Kong International Airport for approaching 13,840 visitors in 2017.
- In April 2017, Cathay Dragon organised an aviation career workshop for 170 young people.
- The Cathay Dragon aviation certificate programme is organised with the Hong Kong Air Cadet Corps and the Scout Association of Hong Kong. Participants gain first-hand knowledge of the Hong Kong aviation industry and are mentored by Cathay Dragon pilots. In 2017, Cathay Dragon pilots mentored 28 participants over nine months. To date, over 270 participants have graduated from the programme. About 40% of the graduates have started aviation-related careers.

Commitment to staff

- At 31st December 2017, the Cathay Pacific Group employed more than 32,700 people worldwide. Around 25,600 of these people are based in Hong Kong. Cathay Pacific employs around 22,700 people worldwide. Cathay Dragon employs more than 3,300 people.
- Cathay Pacific recruited around 870 staff in 2017, including nearly 520 cabin crew and more than 150 pilots. Cathay Dragon recruited 160 cabin crew and more than 50 pilots in 2017.
- In 2017, 60 cadets graduated from the Cathay Pacific cadet pilot programme and 12 cadets graduated from the Cathay Dragon cadet pilot programme.
- In May 2017, as part of our three year transformation programme, we reorganised our head office and appointed a new management team. All redundant employees are receiving a severance package including up to 12 months' salary and extended medical benefits.
- Cathay Pacific has started an internship programme for non-final year IT undergraduates.
- 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.

Productivity & Value Focused

By leaning our work processes and being more agile in our decision making, we are focusing in areas which our customers value most.


Upgrade your flight

Executive Directors

SLOSAR, John Robert#, aged 61, has been a Director of the Company since July 2007 and its Chairman since March 2014. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited, Air China Limited and PureCircle Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

HOGG, Rupert Bruce Grantham Trower#, aged 56, has been a Director of the Company since March 2014. He was appointed Director Cargo in September 2008, Director Sales and Marketing in August 2010, Chief Operating Officer in March 2014 and Chief Executive Officer in May 2017. He joined the Swire group in 1986 and has worked with the group in Hong Kong, Southeast Asia, Australia and the United Kingdom. He is also a Director of John Swire & Sons (H.K.) Limited and Chairman of Hong Kong Dragon Airlines Limited.

HUGHES, Gregory Thomas Forrest#, aged 56, has been a Director and Chief Operations and Service Delivery Officer of the Company since June 2017. He was previously a Director and Group Director Components & Engine Services of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1987 and has previously worked with the group in Hong Kong, Korea, Indonesia, Japan and Australia.

LOO, Kar Pui Paul, aged 49, has been a Director and Chief Customer and Commercial Officer of the Company since June 2017. He was appointed Director Corporate Development in August 2015 and his responsibilities were extended to include information technology in June 2016. He joined the Company in 1991 and has worked with the Company in Hong Kong, Mainland China, Japan, the Middle East, the Philippines and Taiwan.

MURRAY, Martin James#, aged 51, has been Chief Financial Officer (formerly Finance Director) of the Company since November 2011. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

Non-Executive Directors

CAI, Jianjiang, aged 54, has been a Director of the Company since November 2009 and Deputy Chairman since March 2014. He is Chairman of China National Aviation Holding Company Limited and Air China Limited.

CHU, Kwok Leung Ivan#, aged 56, has been a Director of the Company since March 2011. He served as Chief Operating Officer from March 2011 to March 2014 and Chief Executive from March 2014 to April 2017. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited and Chairman of John Swire & Sons (China) Limited. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Mainland China, Taiwan, Thailand and Australia.

LOW, Mei Shuen Michelle#, aged 57, has been a Director of the Company since October 2017. She is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. She joined the Swire group in 1987.

SONG, Zhiyong, aged 52, has been a Director of the Company since March 2014. He is Vice Chairman and President of Air China Limited.

SWIRE, Merlin Bingham#, aged 44, has been a Director of the Company since June 2010. He is also Deputy Chairman and Chief Executive and a shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

SWIRE, Samuel Compton#+, aged 38, has been a Director of the Company since January 2015. He is also a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited. He joined the Swire group in 2003 and has worked with the group in Hong Kong, Singapore, Mainland China, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

XIAO, Feng*, aged 49, has been a Director of the Company since January 2017. He is Chief Financial Officer of Air China Limited.

ZHAO, Xiaohang, aged 56, has been a Director of the Company since June 2011. He is Vice President of Air China Limited, Chairman of Dalian Airlines Company Limited and a Director of China National Aviation Corporation (Group) Limited and China National Aviation Company Limited.

Independent Non-Executive Directors

HARRISON, John Barrie*, aged 61, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited, Grosvenor Asia Pacific Limited and BW Group Limited and Vice Chairman of BW LPG Limited. He was Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific from 2003 to 2009 and was Deputy Chairman of KPMG International from 2008 until his retirement from KPMG in September 2010.

LEE, Irene Yun Lien+*, aged 64, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited, an Independent Non-Executive Director of CLP Holdings Limited, HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

TUNG, Lieh Cheung Andrew+, aged 53, has been a Director of the Company since May 2015. He is an Executive Director of Orient Overseas (International) Limited and Director and Chief Executive Officer of Orient Overseas Container Line Limited. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

WONG, Tung Shun Peter*, aged 66, has been a Director of the Company since May 2009. He is currently Deputy Chairman and Chief Executive of The Hongkong and Shanghai Banking Corporation Limited, a Group Managing Director and a member of the Group Management Board of HSBC Holdings plc, a Non-Executive Director of Hang Seng Bank Limited and Vice Chairman and Non-Executive Director of Bank of Communications Co., Ltd. He is also President of the Hong Kong Institute of Bankers and a member of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority.

Company Secretary

FU, Yat Hung David#, aged 54, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong. He is also a member of the Standing Committee on Company Law Reform and President of The Hong Kong Institute of Chartered Secretaries.

Employees of the John Swire & Sons Limited group
+ *Member of the Remuneration Committee*
* *Member of the Audit Committee*

We submit our report and the audited financial statements for the year ended 31st December 2017 which are on pages 62 to 109.

Principal activities

Cathay Pacific Airways Limited (the "Company" or "Cathay Pacific") is managed and controlled in Hong Kong. As well as operating scheduled airline services, the Company and its subsidiaries (collectively referred to as the "Group") are engaged in other related areas including airline catering, aircraft handling, aircraft engineering and cargo terminal operations. The airline operations are principally to and from Hong Kong, which is where most of the Group's other activities are also carried out.

Details of principal subsidiaries, their main areas of operation and particulars of their issued capital, and details of principal associates are listed on pages 103 and 104.

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries together with the Group's interests in joint ventures and associates. The financial performance of the Group for the year ended 31st December 2017 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 62 to 109. Details of the joint ventures and associates are provided under note 11 to the financial statements.

Dividends

The Directors have declared an interim dividend of HK$0.05 per share for the year ended 31st December 2017. The interim dividend will be in lieu of a final dividend. This represents a total distribution for the year of HK$197 million. The interim dividend will be paid on 3rd May 2018 to shareholders registered at the close of business on the record date, being Friday, 6th April 2018. Shares of the Company will be traded ex-dividend as from Tuesday, 3rd April 2018.

Closure of register of members

The register of members will be closed on Friday, 6th April 2018, during which day no transfer of shares will be effected. In order to qualify for entitlement to the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 4th April 2018.

To facilitate the processing of proxy voting for the annual general meeting to be held on 9th May 2018, the register of members will be closed from 4th May 2018 to 9th May 2018, 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, 3rd May 2018.

Business review and performance

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Letter, 2017 in Review, Review of Operations and Financial Review and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed 2017 in Review. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed 2017 in Review, Corporate Governance Report and Directors' Report.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 65 and in note 22 to the financial statements, respectively.

Accounting policies

The principal accounting policies are set out on pages 105 to 109.

Environmental, Social and Governance

The Company has complied or will comply with all the applicable provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year covered by the annual report.

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$9 million in direct payments and a further HK$9 million in the form of discounts on airline travel.

Property, plant and equipment

Movements of property, plant and equipment are shown in note 9 to the financial statements. Details of aircraft acquisitions are set out on page 13.

Bank and other borrowings

The net bank loans and other borrowings, including obligations under finance leases, of the Group are shown in note 13 to the financial statements.

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 2017, 3,933,844,572 shares were in issue (31st December 2016: 3,933,844,572 shares). There has been no movement in share capital during the year.

Capital commitments and contingencies

The details of capital commitments and contingent liabilities of the Group at 31st December 2017 are set out in note 28 to the financial statements.

Agreement for services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in the section on continuing connected transactions.

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Michelle Low, Martin Murray, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement (as defined below). Merlin Swire and Samuel Swire are also so interested as shareholders of Swire. Martin Cubbon was so interested as a director and an employee of the Swire group until his resignation with effect from 1st October 2017.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2017 are set out below and also given in note 27 to the financial statements.

Significant contracts

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3.4% of the Group's operating expenses in 2017. HAECO is a subsidiary of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Major transaction

Cathay Pacific Aircraft Services Limited, a wholly owned subsidiary of the Company, entered into an agreement with Airbus S.A.S. on 13th September 2017 for the acquisition of 32 Airbus A321-200neo aircraft. This transaction constituted a major transaction under the Listing Rules in respect of which an announcement dated 13th September 2017 was published and a circular dated 24th October 2017 was sent to shareholders.

Connected transactions

In accordance with existing contractual arrangements under the joint venture agreement between the Company, DHL International GmbH (formerly DHL International Limited) (itself or, as the context requires, with its subsidiaries "DHL") and their respective subsidiaries dated 9th October 2002 (as subsequently amended and supplemented) in relation to AHK Air Hong Kong Limited ("AHK") (the "AHK Joint Venture Agreement") and the block space agreement between AHK and DHL dated 17th October 2002 (as subsequently amended) (the "Old Block Space Agreement"), AHK is indirectly owned as to 60% by the Company and as to 40% by DHL, with AHK's affairs being governed by the Joint Venture Agreement, and AHK sells space to DHL on an agreed network of overnight freight routes. The Joint Venture Agreement and the Old Block Space Agreement will expire on 31st December 2018 in accordance with their respective terms.

On 7th July 2017, the Company and DHL entered into a non-binding memorandum of understanding in relation to AHK, under which it was contemplated that:

(a) AHK would sell eight Airbus A300-600F freighter aircraft and associated equipment ("Freighter Assets") to DHL for a cash consideration equal to the net book value of the Freighter Assets, which was estimated to total HK$2,199 million (subject to adjustment) ("Freighter Sale Transaction"), and would lease back the Freighter Assets from DHL (together with the Freighter Sale Transaction, the "Sale and Leaseback Transaction");

(b) the Company would purchase from Deutsche Post International B.V., a wholly owned subsidiary of DHL, its 40% equity interest in AHK (represented by 36,268,000 class B ordinary shares in AHK) for a consideration of HK$36,268,000 (being equal to the aggregate nominal value of the shares before the abolition of nominal value on the coming into effect of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 3rd March 2014) plus the retained earnings (if any) attributable to the shares ("Share Transaction"); and

(c) AHK and DHL would enter into a block space agreement under which AHK would sell space to DHL on an agreed network of overnight freight routes for an initial term of 15 years commencing on 1st January 2019.

AHK and DHL entered into the Sale and Leaseback Transaction on 13th November 2017, which was completed on 15th December 2017 in respect of five Airbus A300-600F freighter aircraft and is expected to be completed on or before 31st December 2018 in respect of the remaining three Airbus A300-600F freighter aircraft (and associated equipment).

The Company and DHL entered into the Share Transaction on 14th November 2017. Upon completion of the Share Transaction on or before 31st December 2018, DHL will cease to have any interest in AHK and AHK will become a wholly owned subsidiary of the Company.

As DHL is a substantial shareholder of AHK and AHK is a subsidiary of the Company, DHL is a connected person of the Company at the subsidiary level under the Listing Rules. The Freighter Sale Transaction and the Share Transaction therefore constituted connected transactions for the Company under the Listing Rules, in respect of which announcements respectively dated 13th November 2017 and 14th November 2017 were published.

Continuing connected transactions

During the year ended 31st December 2017, the Group had the following continuing connected transactions, details of which are set out below:

(a) Pursuant to an agreement ("JSSHK Services Agreement") dated 1st December 2004, as amended and restated on 18th September 2008, with JSSHK, JSSHK provides services to the Company and its subsidiaries. The services comprise advice and expertise of the directors and senior officers of the Swire group including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time, and procuring for the Company and its subsidiary, joint venture and associated companies the use of relevant trademarks owned by the Swire group. No fee is payable in consideration of such procuration obligation or such use.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Group's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Group also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The current term of the JSSHK Services Agreement is from 1st January 2017 to 31st December 2019 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Swire is the holding company of Swire Pacific which owns approximately 45% of the number of issued shares of the Company and JSSHK, a wholly owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the JSSHK Services Agreement are continuing connected transactions in respect of which announcements dated 1st December 2004, 1st October 2007, 1st October 2010, 14th November 2013 and 19th August 2016 were published.

For the year ended 31st December 2017, no service fee was payable by the Group to JSSHK under the JSSHK Services Agreement and expenses of HK$169 million were reimbursed at cost.

(b) Pursuant to a framework agreement dated 13th November 2013 ("HAECO Framework Agreement") with HAECO and HAECO ITM Limited ("HXITM"), services (being maintenance and related services in respect of aircraft, aircraft engines and aircraft parts and components and including inventory technical management services and the secondment of personnel) are provided by HAECO and its subsidiaries ("HAECO group") to the Group and vice versa and by HXITM to the HAECO group and vice versa. Payment is made in cash within 30 days of receipt of invoices. The term of the HAECO Framework Agreement is for 10 years ending on 31st December 2022.

    HAECO and HXITM are connected persons of the Company by virtue of them being subsidiaries of Swire Pacific, one of the Company's substantial shareholders. The transactions under the HAECO Framework Agreement are continuing connected transactions in respect of which an announcement dated 13th November 2013 was published, a circular dated 3rd December 2013 was sent to shareholders and an extraordinary general meeting of the Company was held on 31st December 2013.

    For the year ended 31st December 2017 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK$3,367 million; and the amounts payable by the HAECO group to the Group totalled HK$27 million.

(c) The Company entered into a framework agreement dated 26th June 2008 ("Air China Framework Agreement") with Air China Limited ("Air China") in respect of transactions between the Group on the one hand and Air China and its subsidiaries ("Air China group") on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement.

    The current term of the Air China Framework Agreement is for three years ending on 31st December 2019 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

    Air China, by virtue of its 29.99% shareholding in Cathay Pacific, is a substantial shareholder and therefore a connected person of Cathay Pacific under the Listing Rules. The transactions under the Air China Framework Agreement are continuing connected transactions in respect of which announcements dated 26th June 2008, 10th September 2010, 26th September 2013 and 30th August 2016 were published.

    For the year ended 31st December 2017 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK$260 million; and the amounts payable by the Air China group to the Group totalled HK$349 million.

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the Group:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company were engaged to report on the Group's continuing connected transactions in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Chapter 14A of the Listing Rules, which states that:

(a) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board of the Company;

(b) nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve provision of goods or services by the Group;

(c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the relevant annual caps.

A copy of the Auditors' letter has been provided by the Company to the Stock Exchange.

Major customers and suppliers

8% of sales and 30% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 2% of sales were made to the Group's largest customer and 9% of purchases were made from the Group's largest supplier.

No Director, any of their close associates or any shareholder who, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company has an interest in the Group's five largest suppliers.

Directors

Gregory Hughes and Paul Loo were appointed as Directors with effect from 1st June 2017. Michelle Low was appointed as a Director with effect from 1st October 2017. All the other present Directors of the Company whose names are listed in the section of this annual report headed Directors and Officers served throughout the year. Algernon Yau and Martin Cubbon resigned as Directors with effect from 1st June 2017 and 1st October 2017 respectively.

The Company has received from all of its Independent Non-Executive Directors confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

The Company has been granted by the Stock Exchange a waiver from strict compliance with Rule 3.10A of the Listing Rules, which requires that an issuer must appoint Independent Non-Executive Directors representing at least one-third of the Board.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, Martin Murray, Samuel Swire and Zhao Xiaohang retire this year and, being eligible, offer themselves for re-election. Gregory Hughes, Paul Loo and Michelle Low, having been appointed as Directors of the Company under Article 91 since the last annual general meeting, also retire and, being eligible, offer themselves for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK$3.1 million. They received no other emoluments from the Group.

Directors' interests

At 31st December 2017, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of Cathay Pacific Airways Limited and its associated corporation (within the meaning of Part XV of the SFO), Air China Limited:

	Capacity	No. of shares	Percentage of voting shares (%)
Cathay Pacific Airways Limited			
Michelle Low	Personal	1,000	0.00003
Air China Limited			
Michelle Low	Personal	40,000	0.00028

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

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

Directors' interests in competing business

Pursuant to Rule 8.10 of the Listing Rules, John Slosar, Cai Jianjiang and Song Zhiyong disclosed that they were directors of Air China during the year. Air China competes or is likely to compete, either directly or indirectly, with the businesses of the Company as it operates airline services to certain destinations which are also served by the Company.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2017 or during the period from 1st January 2018 to the date of this Report are available on the Company's website www.cathaypacific.com.

Permitted Indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2017 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company Limited	2,949,997,987	74.99	Attributable interest (b)
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest (a)
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest (c)
5. Qatar Airways Q.C.S.C.	391,166,000	9.94	Beneficial interest (d)

Note: At 31st December 2017:

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

(i) 1,770,238,000 shares directly held by Swire Pacific;

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

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

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 55.06% of the equity of Swire Pacific and controlling 63.88% of the voting rights attached to shares in Swire Pacific.

(d) Qatar Airways Q.C.S.C. held a total of 391,166,000 shares of the Company as beneficial owner.

Public float

From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 25% of the Company's total number of issued shares are held by the public.

Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as Auditors to the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
John Slosar
Chairman
Hong Kong, 14th March 2018

High Performance Culture

Our exceptionally well-trained and service-orientated people are equipped with the knowledge and skills to enrich the travel experience of customers at every stage of their journey with us.

Governance Culture

Cathay Pacific is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, Cathay Pacific believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained.

Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only.

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. Cathay Pacific has adopted its own corporate governance code which is available on its website www.cathaypacific.com. Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices.

The Company complied with all the code provisions set out in 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 Board of Directors

Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy

- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

To assist it in fulfilling its duties, the Board has established the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two and the Board Safety Review Committee with the participation of Independent Non-Executive Directors.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

John Slosar, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed.

Rupert Hogg, the Chief Executive Officer, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, four other Executive Directors and twelve Non-Executive Directors. Their biographical details are set out in the section of this annual report headed Directors and Officers and are posted on the Company's website.

John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Michelle Low and Martin Murray are directors and/or employees of the Swire group. Martin Cubbon was a director and an employee of the Swire group. Merlin Swire and Samuel Swire are shareholders, directors and employees of Swire.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the twelve Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules.

The Independent Non-Executive Directors:

- provide open and objective challenge to management and other Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management.

The Company has been granted by the Stock Exchange a waiver from strict compliance with Rule 3.10A of the Listing Rules, which requires that an issuer must appoint Independent Non-Executive Directors representing at least one-third of the Board.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the section of this annual report headed Directors' Report.

Board Diversity

The Board has a board diversity policy, which is available on the Company's website.

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information.

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies in the section of this annual report headed Directors and Officers.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2017 Board meetings were determined in 2016 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met five times in 2017. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 48. Average attendance at Board meetings was 84%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review of a report by the Chief Executive Officer on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

	Meetings Attended/Held						Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	Finance Committee	Board Safety Review Committee	2017 Annual General Meeting	Type of Training (Note)
Executive Directors							
John Slosar – Chairman	5/5					√	a
Rupert Hogg	5/5			11/12	2/2	√	a
Gregory Hughes (appointed on 1st June 2017)	2/2			7/7	1/1	N/A	a
Paul Loo (appointed on 1st June 2017)	2/2			6/7	1/1	N/A	a
Martin Murray	5/5			12/12		√	a
Algernon Yau (resigned on 31st May 2017)	3/3				2/2	√	a
Non-Executive Directors							
Cai Jianjiang	2/5				0/2	X	a
Ivan Chu (re-designated on 1st May 2017)	5/5			4/4	2/2	√	a
Martin Cubbon (resigned on 30th September 2017)	4/4	2/2		5/9	1/1	√	a
Michelle Low (appointed on 1st October 2017)	1/1	1/1		2/3	1/1	N/A	a
Song Zhiyong	2/5				0/2	X	a
Merlin Swire	5/5				2/2	√	a
Samuel Swire	4/5		2/2		2/2	√	a
Xiao Feng	4/5	1/3		6/12	0/2	X	a
Zhao Xiaohang	3/5			5/12	0/2	X	a
Independent Non-Executive Directors							
John Harrison	5/5	3/3			2/2	√	a
Irene Lee	5/5	3/3	2/2		2/2	√	a
Andrew Tung	4/5		2/2		2/2	√	a
Peter Wong	3/5	1/3			0/2	X	a
Average attendance	84%	73%	100%	74%	71%	69%	

Note:

a: *All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.*

Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive Officer. The Chief Executive Officer has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of statements of profit or loss, financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers.

Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and Officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests at 31st December 2017 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the section of this annual report headed Directors' Report.

Board Safety Review Committee

The Board Safety Review Committee reviews and reports to the Board on safety issues. It met twice during the year and comprises its Chairman (Dr. David King) and all the Non-Executive Directors and Independent Non-Executive Directors of the Company. Four Executive Directors also attend as observers.

Executive Committee

The Executive Committee comprises the Chief Executive Officer (Rupert Hogg) (Committee Chairman), three other Executive Directors (Gregory Hughes, Paul Loo and Martin Murray) and five Non-Executive Directors (Cai Jianjiang, Michelle Low, Song Zhiyong, Xiao Feng and Zhao Xiaohang). It is responsible to the Board for overseeing and setting the strategic direction of the Company.

Management Committee

The Management Committee meets monthly and is responsible to the Board for overseeing the day-to-day operation of the Company. It comprises the Chief Executive Officer (Rupert Hogg) (Committee Chairman), Chief Operations and Service Delivery Officer (Gregory Hughes), Chief Customer and Commercial Officer (Paul Loo), Chief Financial Officer (Martin Murray), Director Engineering (Neil Glenn), Director Customer (Simon Large), Director Flight Operations (Anna Thompson), Director People (Tom Owen), Director Service Delivery (Algernon Yau) and Director Commercial and Cargo (Ronald Lam).

Finance Committee

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policies. It is chaired by the Chief Executive Officer and comprises three other Executive Directors (Gregory Hughes, Paul Loo and Martin Murray), three Non-Executive Directors (Michelle Low, Xiao Feng and Zhao Xiaohang), the Head of Financial Services (Alexander Kinloch), the Manager Treasury (Susan Ng) and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

Remuneration Committee

Full details of the remuneration of the Directors are provided in note 25 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors (Irene Lee, Samuel Swire and Andrew Tung). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. All the members served for the whole of 2017.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and JSSHK, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package. This typically comprises salary, housing, retirement benefits, leave passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. The provision of housing facilitates relocation either within Hong Kong or elsewhere in accordance with the needs of the business and as part of the training process whereby managers gain practical experience in various businesses within the Swire group, and payment of bonuses on a group-wide basis enables postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of Swire Pacific overall, those profits are influenced to a significant extent by the results of the Company.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of the aviation business, this has contributed considerably to the maintenance of a stable, motivated and high-calibre management team in the Company. Furthermore, given its substantial equity interest in the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

A number of Directors and senior staff with specialist skills are employed directly by the Company on terms similar to those applicable to the staff referred to above.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors at its meeting in October 2017. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 25 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

The following fee levels have been approved by the Board:

	2017 HK$	2018 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	260,000	268,000
Fee for Audit Committee Member	180,000	186,000
Fee for Remuneration Committee Chairman	80,000	83,000
Fee for Remuneration Committee Member	58,000	60,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate.

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 52 and 53.

The foundation of strong risk management and internal control systems is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

Management structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of risk management and internal controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

Internal audit: The Internal Audit Department performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on page 54.

Audit Committee

The Audit Committee, consisting of five Non-Executive Directors (Irene Lee, Michelle Low, John Harrison, Peter Wong and Xiao Feng), assists the Board in discharging its responsibilities for corporate governance and financial reporting. Three of the Committee members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. Michelle Low succeeded Martin Cubbon as a member of the Audit Committee with effect from 1st October 2017. All the other members served for the whole of 2017.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the CG Code. They are available on the Company's website.

The Audit Committee met three times in 2017. Regular attendees at the meetings are the Chief Financial Officer, the Head of Internal Audit and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2017 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2016 annual and 2017 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management policy and processes
- the approval of the 2018 annual Internal Audit programme and review of progress on the 2017 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 54
- the Company's compliance with the CG Code
- the Company's fuel hedging policy and foreign currency exchange risk policy.

In 2018, the Committee has reviewed, and recommended to the Board for approval, the 2017 financial statements.

Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness of Internal Audit and the assurances provided by the Chief Financial Officer
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and internal control throughout the year and up to the date of this annual report.

Expenditure Control Committee

The Expenditure Control Committee meets monthly to evaluate and approve non-routine expenditure. It is chaired by one Executive Director (Paul Loo) and comprises two other Executive Directors (Martin Murray and Gregory Hughes) and the Director People (Tom Owen).

Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

Internal Audit Department

The Internal Audit Department assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The Head of Internal Audit has direct access to the Audit Committee. Audit reports are sent to the Chief Executive Officer, the Chief Financial Officer, external auditors and the relevant management of audited departments. A summary of major audit findings and recommendations aimed at resolving material internal control defects is reported quarterly to the Board and reviewed by the Audit Committee. As a key criterion of assessing the adequacy and effectiveness of the Group's risk management and internal control systems, the Board and the Audit Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

The annual Internal Audit work plan and resources are reviewed and agreed with the Audit Committee.

Detailed control guidelines have been set and made available to all employees of the Company about the handling and dissemination of corporate data which is price sensitive.

Systems and procedures are in place to identify, control and report on major risks, including business, safety, legal, financial, environmental and reputational risks. Exposures to these risks are monitored by the Board with the assistance of various committees and senior management.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity are not, and are not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

In 2017 the total remuneration paid to the external auditors was HK$21 million, being HK$15 million for audit, HK$5 million for tax advice and HK$1 million for other professional services.

Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

Joint Airline Safety Review Committee

The Joint Airline Safety Review Committee meets monthly to review the Company's exposure to operational risk. It reviews the work of the eight Safety Action Groups, relating to Flight Operations, Engineering, Cabin, Operational Ramp, Security, Fatigue, Flight Data and Occupational Health & Safety. It is chaired by the General Manager Group Safety and Operational Risk Management and comprises directors, general managers and senior management of all operational departments. Dr. David King, Chairman of the Board Safety Review Committee also attends Joint Airline Safety Review Committee meetings four times per year.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The methods used to communicate with shareholders include the following:

- The Chief Financial Officer makes himself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, the Chief Financial Officer attended regular meetings with analysts and investors in Hong Kong, analyst briefings, investor group briefings, overseas roadshows and investor conferences during the year.

- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the Annual General Meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at ir@cathaypacific.com. The relevant contact details are set out in the section of this annual report headed Corporate and Shareholder Information.

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 17th May 2017. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 48.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2016
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

Minutes of the meeting together with voting results are available on the Company's website.

Shareholder engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

Other information for shareholders

Key shareholder dates for 2018 are set out in the section of this annual report headed Corporate and Shareholder Information.

No amendment has been made to the Company's Articles of Association during the year.

To the members of
Cathay Pacific Airways Limited
(Incorporated in Hong Kong with limited liability)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Cathay Pacific Airways Limited and its subsidiaries (together "the Group") set out on pages 62 to 109, which comprise the consolidated statement of financial position as at 31st December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Refer to accounting policy 16 and note 1 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
Passenger and cargo sales are recognised as revenue when the related transportation service is provided. The value of the sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as unearned transportation revenue in the consolidated statement of financial position. The fair value of programme awards under the Group's customer loyalty programme, Asia Miles, is also deferred and included in unearned transportation revenue. This deferred revenue arises as members of the programme accumulate Asia Miles by travelling on the Group's flights or when the Group sells Asia Miles to participating partners in the programme. The deferred revenue is recognised as income when the related goods or services are provided subsequent to the redemption of the Asia Miles. Management estimates the unit fair value of Asia Miles. The Group maintains sophisticated information technology ("IT") systems in order to track the point of service provision for each sale and also to track the issuance and subsequent redemption and utilisation of Asia Miles. We identified revenue recognition as a key audit matter because revenue is one of the Group's key performance indicators and it involves complicated IT systems and an estimation of fair value, all of which give rise to an inherent risk that revenue could be recorded in the incorrect period or could be subject to manipulation to meet targets or expectations.	Our audit procedures to assess revenue recognition included the following: • assessing the design, implementation and operating effectiveness of management's general IT controls and key application controls over the Group's IT systems which govern revenue recognition, including access controls, controls over program changes, interfaces between different systems and key manual internal controls over revenue recognition; • performing analytical procedures on passenger and cargo revenue by developing an expectation using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue; • inspecting underlying documentation for journal entries which met specified risk-based criteria; • assessing management's estimate of the unit fair value of Asia Miles, with reference to the prices for third party Asia Miles sales and assessing whether or not there was an indication of management bias; • inspecting the key terms and conditions of contracts with major partners of the Asia Miles program to assess if there were any terms and conditions that may have affected the accounting treatment of the related Asia Miles.

Hedge accounting

Refer to accounting policy 10 and notes 12, 14, 17, 20 and 29 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group enters into derivative financial instrument contracts in order to manage its exposure to fuel price risk, foreign currency risk and interest rate risk, which arise during the normal course of its business. These contracts gave rise to derivative financial assets of HK$1,813 million and derivative financial liabilities of HK$3,589 million as at 31st December 2017. Hedge accounting under HKFRSs is applied for a majority of these arrangements. We identified hedge accounting (including the valuation of hedging instruments) as a key audit matter because hedge accounting can be complex and the Group has entered into a large number of hedging contracts, necessitating a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date and because the valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and is subject to an inherent risk of error.	Our audit procedures to assess hedge accounting included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and the related hedge accounting; • requesting written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date on a sample basis; • inspecting management's hedge documentation and contracts, on a sample basis, for the purposes of considering whether the related accounting treatment was in accordance with the requirements of the prevailing accounting standards; • re-performing calculations of hedge effectiveness on a sample basis; • engaging our financial instruments valuation specialists to re-perform year end valuations of derivative financial instruments on a sample basis and compare these valuations with those recorded by the Group.

Assessment of provisions for taxation, litigation and claims

Refer to accounting policy 20 and notes 5, 20 and 28 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operates in various jurisdictions and, during the normal course of its business, has received queries from and has disputes with various taxation authorities. The Group is also the subject of legal actions in respect of antitrust proceedings in certain jurisdictions as outlined in note 28(e) to the consolidated financial statements. Provisions for taxation, litigation and claims represented management's best estimates of the amounts likely to be required to settle these matters. The amount recorded at 31st December 2017 totalled HK$2,068 million, of which HK$1,372 million was recorded as taxation in the consolidated statement of financial position, and the remaining HK$696 million was included within the balance of other payables in note 20 to the consolidated financial statements. We identified the assessment of provisions for taxation, litigation and claims as a key audit matter because the estimates on which these provisions are based involve a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions and because determining the level of provisions may be subject to a degree of management bias.	Our audit procedures to assess the provisions for taxation, litigation and claims included the following: • engaging our internal tax specialists in Hong Kong and the relevant overseas jurisdictions to assess the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks; • discussing the status and potential exposures in respect of significant litigation and claims with the Group's internal legal counsel and obtaining letters regarding the progress of litigation and claims from the Group's external legal counsel, including their views on the likely outcome of each litigation or claim and the magnitude of potential exposure; • challenging the assumptions and critical judgements made by management which impacted their estimations of the provisions required, considering judgements previously made by the taxation authorities in the relevant jurisdictions and any relevant opinions given by third party advisors and assessing whether there was an indication of management bias; • performing a retrospective review of provisions for taxation, litigation and claims to evaluate whether the judgement and decisions made by management in estimating provisions in the prior year indicated possible management bias.

Assessing the carrying value of aircraft and related equipment

Refer to accounting policy 5 and note 9 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's aircraft and related equipment as at 31st December 2017 was HK$98,831 million and the related depreciation charge for the year ended 31st December 2017 was HK$7,719 million. Estimated useful lives, residual values and the carrying value of aircraft and related equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charges or the depreciation charge for the year. We identified the assessment of the carrying value of aircraft and related equipment as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above, which may affect the carrying value of the Group's aircraft and related equipment, the depreciation charge and any impairment charges for the current and future years.	Our audit procedures to assess the carrying value of aircraft and related equipment included the following: • assessing the estimated useful lives and residual values of aircraft and related equipment with reference to the Group's historical experience and future operating plans including future acquisitions and retirement of aircraft, policies adopted by other comparable airlines and our knowledge of the airline industry; • challenging any changes to the estimated useful lives and residual values of aircraft by considering external information such as third party quotations, recent sales data for similar aircraft or actual sales agreements the Group entered into which might lead to an adjustment to the remaining useful lives or residual values; • discussing indicators of possible impairment of aircraft and related equipment with management of the Group and, where such indicators were identified, assessing whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements used by management in their impairment assessments by considering aircraft valuation reports published by third party specialists and comparing management's past estimates and plans to the current year's estimates and plans taking into account recent developments in the airline industry and market conditions.

Assessing aircraft maintenance provisions

Refer to accounting policy 6 and notes 14 and 20 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operated 62 aircraft held under external operating leases as at 31st December 2017. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, cost of maintenance and the lifespan of the life-limited parts. Maintenance provisions for aircraft maintenance costs totalled HK$3,217 million as at 31st December 2017 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position. We have identified assessing aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.	Our audit procedures to assess aircraft maintenance provisions included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over accounting for maintenance provisions for aircraft held under operating leases; • evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by reviewing the terms of the operating leases and comparing assumptions to contract terms and the Group's maintenance cost experience; • obtaining information about the utilisation pattern and expected useful lives of life-limited parts of the aircraft from personnel responsible for aircraft engineering, and considering the consistency of the provisions with the engineering department's assessment of the condition of aircraft; • performing a retrospective review of aircraft maintenance provisions to evaluate whether the judgement and decisions made by management in estimating the provisions in the prior year indicated possible management bias.

Information other than the consolidated financial statements and auditor's report thereon

The Directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Sze Kit Roy.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
14th March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2017

	Note	2017 HK$M	2016 HK$M	2017 US$M	2016 US$M
Revenue					
Passenger services		**66,408**	66,926	**8,514**	8,580
Cargo services		**23,903**	20,063	**3,064**	2,572
Catering, recoveries and other services		**6,973**	5,762	**894**	739
Total revenue		**97,284**	92,751	**12,472**	11,891
Expenses					
Staff		**(19,962)**	(19,770)	**(2,559)**	(2,534)
Inflight service and passenger expenses		**(4,996)**	(4,734)	**(640)**	(607)
Landing, parking and route expenses		**(15,225)**	(14,985)	**(1,952)**	(1,921)
Fuel, including hedging losses		**(31,112)**	(27,953)	**(3,989)**	(3,584)
Aircraft maintenance		**(9,607)**	(8,856)	**(1,232)**	(1,135)
Aircraft depreciation and operating leases		**(11,845)**	(10,551)	**(1,519)**	(1,353)
Other depreciation, amortisation and operating leases		**(2,795)**	(2,457)	**(358)**	(315)
Commissions		**(681)**	(700)	**(87)**	(90)
Others		**(3,340)**	(3,270)	**(428)**	(419)
Operating expenses		**(99,563)**	(93,276)	**(12,764)**	(11,958)
Operating loss before non-recurring items		**(2,279)**	(525)	**(292)**	(67)
Gain on disposal of a long-term investment		**586**	–	**75**	–
Gain on deemed partial disposal of an associate	2	**244**	–	**31**	–
Operating loss	3	**(1,449)**	(525)	**(186)**	(67)
Finance charges		**(2,223)**	(1,561)	**(285)**	(200)
Finance income		**462**	260	**59**	33
Net finance charges		**(1,761)**	(1,301)	**(226)**	(167)
Share of profits of associates		**2,630**	2,049	**337**	263
(Loss)/profit before taxation		**(580)**	223	**(75)**	29
Taxation	5	**(308)**	(497)	**(39)**	(64)
Loss for the year		**(888)**	(274)	**(114)**	(35)
Non-controlling interests		**(371)**	(301)	**(47)**	(39)
Loss attributable to the shareholders of Cathay Pacific		**(1,259)**	(575)	**(161)**	(74)
Loss for the year		**(888)**	(274)	**(114)**	(35)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**702**	606	**90**	78
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**4,352**	9,690	**558**	1,242
Revaluation of available-for-sale financial assets		**(403)**	178	**(51)**	23
Share of other comprehensive income of associates		**470**	334	**60**	43
Exchange differences on translation of foreign operations		**1,874**	(1,536)	**240**	(197)
Other comprehensive income for the year, net of taxation	6	**6,995**	9,272	**897**	1,189
Total comprehensive income for the year		**6,107**	8,998	**783**	1,154
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**5,736**	8,697	**736**	1,115
Non-controlling interests		**371**	301	**47**	39
		6,107	8,998	**783**	1,154
Loss per share (basic and diluted)	7	**(32.0)¢**	(14.6)¢	**(4.1)¢**	(1.9)¢

The financial statements are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at US$1:HK$7.8.

The notes on pages 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2017

	Note	2017 HK$M	2016 HK$M	2017 US$M	2016 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*9*	**111,182**	106,456	**14,254**	13,648
Intangible assets	*10*	**11,221**	10,934	**1,438**	1,402
Investments in associates	*11*	**28,144**	23,298	**3,608**	2,987
Other long-term receivables and investments	*12*	**4,068**	4,604	**522**	590
Deferred tax assets	*16*	**928**	737	**119**	94
		155,543	146,029	**19,941**	18,721
Long-term liabilities	*13*	**(69,506)**	(58,906)	**(8,911)**	(7,552)
Other long-term payables	*14*	**(3,502)**	(7,517)	**(449)**	(964)
Deferred tax liabilities	*16*	**(12,820)**	(11,380)	**(1,644)**	(1,458)
		(85,828)	(77,803)	**(11,004)**	(9,974)
Net non-current assets		**69,715**	68,226	**8,937**	8,747
Current assets and liabilities					
Stock		**1,515**	1,514	**194**	194
Trade, other receivables and other assets	*17*	**11,361**	9,557	**1,457**	1,225
Assets held for sale	*18*	**865**	31	**111**	4
Liquid funds	*19*	**19,094**	20,290	**2,448**	2,602
		32,835	31,392	**4,210**	4,025
Current portion of long-term liabilities	*13*	**(8,888)**	(11,263)	**(1,139)**	(1,444)
Trade and other payables	*20*	**(17,057)**	(19,104)	**(2,187)**	(2,449)
Unearned transportation revenue		**(13,961)**	(12,926)	**(1,790)**	(1,657)
Taxation		**(1,372)**	(707)	**(176)**	(91)
Dividend payable to non-controlling interests		**–**	(92)	**–**	(12)
		(41,278)	(44,092)	**(5,292)**	(5,653)
Net current liabilities		**(8,443)**	(12,700)	**(1,082)**	(1,628)
Total assets less current liabilities		**147,100**	133,329	**18,859**	17,093
Net assets		**61,272**	55,526	**7,855**	7,119
CAPITAL AND RESERVES					
Share capital	*21*	**17,106**	17,106	**2,193**	2,193
Other reserves	*22*	**43,995**	38,259	**5,640**	4,905
Funds attributable to the shareholders of Cathay Pacific		**61,101**	55,365	**7,833**	7,098
Non-controlling interests		**171**	161	**22**	21
Total equity		**61,272**	55,526	**7,855**	7,119

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The notes on pages 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

John Slosar
Director

Irene Lee
Director

Hong Kong, 14th March 2018

Consolidated Statement of Cash Flows

for the year ended 31st December 2017

	Note	**2017 HK$M**	2016 HK$M	**2017 US$M**	2016 US$M
Operating activities					
Cash generated from operations	*23*	**6,415**	7,701	**822**	987
Interest received		**237**	189	**30**	24
Interest paid		**(1,546)**	(1,032)	**(198)**	(132)
Tax paid		**(783)**	(750)	**(100)**	(96)
Net cash inflow from operating activities		**4,323**	6,108	**554**	783
Investing activities					
Net (increase)/decrease in liquid funds other than cash and cash equivalents		**(1,557)**	3,013	**(200)**	386
Proceeds from sales of property, plant and equipment		**1,371**	23	**176**	3
Proceeds from sales of assets held for sale		**8**	1,769	**1**	227
Proceeds from disposal of a long-term investment		**635**	62	**81**	8
Net decrease/(increase) in other long-term receivables and investments		**460**	(105)	**59**	(14)
Payments for property, plant and equipment and intangible assets		**(16,926)**	(14,886)	**(2,170)**	(1,908)
Dividends received from associates		**371**	422	**48**	54
Proceeds from disposal of an associate		**2**	–	**–**	–
Net repayments of loans to associates		**–**	7	**–**	1
Net cash outflow from investing activities		**(15,636)**	(9,695)	**(2,005)**	(1,243)
Financing activities					
New financing	*13*	**19,277**	20,146	**2,471**	2,582
Net cash benefit from financing arrangements	*16*	**1,619**	894	**208**	115
Loan and finance lease repayments	*13*	**(12,152)**	(13,346)	**(1,558)**	(1,711)
Security deposits placed		**–**	(23)	**–**	(3)
Dividends paid – to the shareholders of Cathay Pacific		**–**	(1,259)	**–**	(161)
– to non-controlling interests		**(453)**	(188)	**(58)**	(24)
Net cash inflow from financing activities		**8,291**	6,224	**1,063**	798
(Decrease)/increase in cash and cash equivalents		**(3,022)**	2,637	**(388)**	338
Cash and cash equivalents at 1st January		**9,778**	7,207	**1,254**	924
Effect of exchange differences		**158**	(66)	**20**	(8)
Cash and cash equivalents at 31st December	*24*	**6,914**	9,778	**886**	1,254

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Consolidated Statement of Changes in Equity

for the year ended 31st December 2017

	Attributable to the shareholders of Cathay Pacific							
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2017	**17,106**	**44,672**	**908**	**(5,855)**	**(1,466)**	**55,365**	**161**	**55,526**
(Loss)/profit for the year	**–**	**(1,259)**	**–**	**–**	**–**	**(1,259)**	**371**	**(888)**
Other comprehensive income	**–**	**702**	**(403)**	**4,352**	**2,344**	**6,995**	**–**	**6,995**
Total comprehensive income for the year	**–**	**(557)**	**(403)**	**4,352**	**2,344**	**5,736**	**371**	**6,107**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**(361)**	**(361)**
	–	**(557)**	**(403)**	**4,352**	**2,344**	**5,736**	**10**	**5,746**
At 31st December 2017	**17,106**	**44,115**	**505**	**(1,503)**	**878**	**61,101**	**171**	**61,272**
At 1st January 2016	17,106	45,900	730	(15,545)	(264)	47,927	140	48,067
(Loss)/profit for the year	–	(575)	–	–	–	(575)	301	(274)
Other comprehensive income	–	606	178	9,690	(1,202)	9,272	–	9,272
Total comprehensive income for the year	–	31	178	9,690	(1,202)	8,697	301	8,998
2015 second interim dividend	–	(1,062)	–	–	–	(1,062)	–	(1,062)
2016 first interim dividend	–	(197)	–	–	–	(197)	–	(197)
Dividends paid/payable to non-controlling interests	–	–	–	–	–	–	(280)	(280)
	–	(1,228)	178	9,690	(1,202)	7,438	21	7,459
At 31st December 2016	17,106	44,672	908	(5,855)	(1,466)	55,365	161	55,526

The notes on pages 66 to 104 and the principal accounting policies on pages 105 to 109 form part of these financial statements.

1. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2017 HK$M	2016 HK$M	**2017 HK$M**	2016 HK$M	**2017 HK$M**	2016 HK$M	**2017 HK$M**	2016 HK$M
Profit or loss								
Sales to external customers	**95,939**	91,478	**1,345**	1,273			**97,284**	92,751
Inter-segment sales	**9**	9	**3,703**	3,598			**3,712**	3,607
Segment revenue	**95,948**	91,487	**5,048**	4,871			**100,996**	96,358
Segment (loss)/profit	**(1,507)**	(986)	**58**	461			**(1,449)**	(525)
Net finance charges	**(1,571)**	(1,160)	**(190)**	(141)			**(1,761)**	(1,301)
	(3,078)	(2,146)	**(132)**	320			**(3,210)**	(1,826)
Share of profits of associates					**2,630**	2,049	**2,630**	2,049
(Loss)/profit before taxation							**(580)**	223
Taxation	**(296)**	(464)	**(12)**	(33)			**(308)**	(497)
Loss for the year							**(888)**	(274)
Other segment information								
Depreciation and amortisation	**8,722**	8,101	**632**	449			**9,354**	8,550
Purchase of property, plant and equipment and intangible assets	**16,094**	13,805	**762**	1,330			**16,856**	15,135

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 (inclusive of Cathay Pacific, Cathay Dragon and Air Hong Kong). 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.

1. Segment information *(continued)*

(b) Geographical information

	2017 HK$M	2016 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**49,946**	46,957
– Japan, Korea and Taiwan	**9,748**	8,766
India, Middle East and Sri Lanka	**3,762**	3,693
Southwest Pacific and South Africa	**5,857**	5,607
Southeast Asia	**7,595**	7,669
Europe	**8,450**	8,031
North America	**11,926**	12,028
	97,284	92,751

Analysis of net assets by geographical segment:

The major revenue earning asset is the aircraft fleet, which is registered in Hong Kong and is employed across the Group's worldwide route network. Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information are not disclosed.

2. 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.

3. Operating loss

	2017 HK$M	2016 HK$M
Operating loss has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**2,015**	2,003
– owned	**6,809**	6,032
Amortisation of intangible assets	**530**	515
Operating lease rentals		
– land and buildings	**1,090**	1,022
– aircraft and related equipment	**4,126**	3,372
– others	**70**	64
Provision for impairment of assets held for sale	**1**	24
Gain on disposal of assets held for sale	**–**	(232)
Loss on disposal of property, plant and equipment, net	**175**	272
Impairment of intangible assets	**119**	–
Loss on disposal of intangible assets	**–**	42
Gain on disposal of a long-term investment	**(586)**	(3)
Cost of stock expensed	**2,293**	2,181
Exchange differences, net	**57**	306
Auditors' remuneration	**15**	15
Net (gains)/losses on financial assets and liabilities classified as held for trading	**(215)**	36
Dividend income from unlisted investments	**(29)**	(17)
Dividend income from listed investments	**–**	(6)

4. Net finance charges

	2017 HK$M	2016 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**539**	475
– interest income on related security deposits, notes and zero coupon bonds	**–**	(2)
	539	473
– bank loans and overdrafts		
– wholly repayable within five years	**372**	235
– not wholly repayable within five years	**697**	439
– other loans		
– wholly repayable within five years	**133**	101
– not wholly repayable within five years	**–**	16
– other long-term receivables	**(5)**	(19)
	1,736	1,245
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(79)**	(83)
– bank deposits and others	**(180)**	(155)
	(259)	(238)
Fair value change:		
– loss/(gain) on obligations under finance leases designated as at fair value through profit or loss	**216**	(18)
– loss on financial derivatives	**68**	312
	284	294
	1,761	1,301

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 is net gain from derivatives that are classified as held for trading of HK$200 million (2016: net losses of HK$36 million).

5. Taxation

	2017 HK$M	2016 HK$M
Current tax expenses		
– Hong Kong profits tax	**419**	165
– overseas tax	**201**	195
– under-provisions for prior years	**114**	272
Deferred tax credit		
– origination and reversal of temporary differences (note 16)	**(426)**	(135)
	308	497

Hong Kong profits tax is calculated at 16.5% (2016: 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).

5. Taxation *(continued)*

A reconciliation between tax charge and accounting (loss)/profit at applicable tax rates is as follows:

	2017 HK$M	2016 HK$M
Consolidated (loss)/profit before taxation	**(580)**	223
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2016: 16.5%)	**96**	(37)
Expenses not deductible for tax purposes	**(318)**	(198)
Tax under-provisions arising from prior years	**(114)**	(272)
Effect of different tax rates in other countries	**(25)**	699
Tax losses not recognised	**(73)**	(780)
Income not subject to tax	**126**	91
Tax charge	**(308)**	(497)

Further information on deferred taxation is shown in note 16 to the financial statements.

6. Other comprehensive income

	2017 HK$M	2016 HK$M
Defined benefit plans		
– remeasurements gain recognised during the year	**796**	687
– deferred taxation (note 16)	**(94)**	(81)
Cash flow hedges		
– (loss)/gain recognised during the year	**(1,200)**	3,571
– loss transferred to profit or loss (note 22)	**6,160**	7,404
– deferred taxation (note 16)	**(608)**	(1,285)
Revaluation of available-for-sale financial assets		
– gain recognised during the year	**172**	178
– reclassified to profit or loss upon disposal	**(575)**	–
Share of other comprehensive income of associates		
– recognised during the year	**363**	334
– reclassified to profit or loss upon deemed partial disposal	**107**	–
Exchange differences on translation of foreign operations		
– gain/(loss) recognised during the year	**1,898**	(1,536)
– reclassified to profit or loss upon deemed partial disposal of an associate	**(24)**	–
Other comprehensive income for the year	**6,995**	9,272

7. Loss per share (basic and diluted)

Loss per share is calculated by dividing the loss attributable to the shareholders of Cathay Pacific of HK$1,259 million (2016: a loss of HK$575 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2016: 3,934 million) shares. Diluted loss per share is the same as basic loss per share as there were no dilutive potential shares in issue throughout the year.

8. Dividends

	2017 HK$M	2016 HK$M
No interim dividend paid for the period ended 30th June 2017 (2016: first interim dividend of HK$0.05 per share)	**–**	197
Interim dividend proposed on 14th March 2018 of HK$0.05 per share (2016: nil)	**197**	–
	197	197

9. Property, plant and equipment

	Aircraft and related equipment		Other equipment		Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Leased HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Group							
Cost							
At 1st January 2017	**100,598**	**45,153**	**4,777**	**–**	**12,502**	**2,431**	**165,461**
Exchange difference	**–**	**–**	**1**	**–**	**–**	**–**	**1**
Additions	**13,995**	**915**	**437**	**–**	**443**	**130**	**15,920**
Disposals	**(5,195)**	**–**	**(89)**	**–**	**–**	**–**	**(5,284)**
Reclassification to assets held for sale	**(994)**	**(460)**	**(32)**	**–**	**–**	**–**	**(1,486)**
Transfers	**1,897**	**(1,897)**	**330**	**–**	**2,196**	**(2,526)**	**–**
At 31st December 2017	**110,301**	**43,711**	**5,424**	**–**	**15,141**	**35**	**174,612**
At 1st January 2016	93,177	45,998	4,125	478	12,123	1,456	157,357
Additions	9,446	2,681	588	–	499	1,036	14,250
Disposals	(2,567)	–	(414)	–	(181)	–	(3,162)
Reclassification to assets held for sale	(2,984)	–	–	–	–	–	(2,984)
Transfers	3,526	(3,526)	478	(478)	61	(61)	–
At 31st December 2016	100,598	45,153	4,777	–	12,502	2,431	165,461
Accumulated depreciation and impairment							
At 1st January 2017	**40,575**	**11,189**	**2,881**	**–**	**4,360**	**–**	**59,005**
Charge for the year	**5,704**	**2,015**	**381**	**–**	**724**	**–**	**8,824**
Disposals	**(3,693)**	**–**	**(85)**	**–**	**–**	**–**	**(3,778)**
Reclassification to assets held for sale	**(437)**	**(172)**	**(12)**	**–**	**–**	**–**	**(621)**
Transfers	**795**	**(795)**	**–**	**–**	**–**	**–**	**–**
At 31st December 2017	**42,944**	**12,237**	**3,165**	**–**	**5,084**	**–**	**63,430**
At 1st January 2016	38,124	11,752	2,523	420	3,986	–	56,805
Charge for the year	5,176	2,003	319	–	537	–	8,035
Disposals	(2,338)	–	(381)	–	(163)	–	(2,882)
Reclassification to assets held for sale	(2,953)	–	–	–	–	–	(2,953)
Transfers	2,566	(2,566)	420	(420)	–	–	–
At 31st December 2016	40,575	11,189	2,881	–	4,360	–	59,005
Net book value							
At 31st December 2017	**67,357**	**31,474**	**2,259**	**–**	**10,057**	**35**	**111,182**
At 31st December 2016	60,023	33,964	1,896	–	8,142	2,431	106,456

9. Property, plant and equipment *(continued)*

(a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 10 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

(b) Operating leased assets

Certain aircraft, buildings and other equipment are under operating leases.

Under the operating lease arrangements for aircraft, the lease rentals are partially fixed and partially floating and subleasing is not allowed. At 31st December 2017, 13 Airbus A330-300s (2016: 13), one Boeing 747-400BCF (2016: one), 23 Boeing 777-300ERs (2016: 23), 10 Airbus A320-200s (2016: 10), six Airbus A321-200s (2016: six), two Airbus A350-900s (2016: two) and seven Airbus A300-600Fs (2016: two) held under operating leases, most with purchase options, were not capitalised. The estimated capitalised value of these leases being the present value of the aggregate future lease payments is HK$16,494 million (2016: HK$18,665 million).

Operating leases for buildings and other equipment are normally set with fixed rental payments with options to renew the leases upon expiry at new terms.

The future minimum lease payments payable under operating leases committed at 31st December 2017 for each of the following periods are as follows:

	2017 HK$M	2016 HK$M
Aircraft and related equipment:		
– within one year	**3,441**	3,639
– after one year but within two years	**3,170**	3,242
– after two years but within five years	**7,013**	7,939
– after five years	**4,403**	5,655
	18,027	20,475
Buildings and other equipment:		
– within one year	**806**	795
– after one year but within two years	**534**	640
– after two years but within five years	**448**	644
– after five years	**490**	465
	2,278	2,544
	20,305	23,019

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK$3,147 million (2016: HK$3,560 million) for the Group. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided in note 13 to the financial statements.

9. Property, plant and equipment *(continued)*

(e) No impairment loss was recognised for the year ended 31st December 2017 (2016: nil). During the year, a number of assets have been transferred to assets held for sale. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

10. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2017	**7,666**	**5,304**	**253**	**13,223**
Additions	**–**	**936**	**–**	**936**
Disposals	**–**	**(13)**	**–**	**(13)**
At 31st December 2017	**7,666**	**6,227**	**253**	**14,146**
At 1st January 2016	7,666	4,498	253	12,417
Additions	–	885	–	885
Disposals	–	(79)	–	(79)
At 31st December 2016	7,666	5,304	253	13,223
Accumulated amortisation				
At 1st January 2017	**–**	**2,280**	**9**	**2,289**
Charge for the year	**–**	**526**	**4**	**530**
Disposals	**–**	**(13)**	**–**	**(13)**
Impairment	**–**	**–**	**119**	**119**
At 31st December 2017	**–**	**2,793**	**132**	**2,925**
At 1st January 2016	–	1,806	5	1,811
Charge for the year	–	511	4	515
Disposals	–	(37)	–	(37)
At 31st December 2016	–	2,280	9	2,289
Net book value				
At 31st December 2017	**7,666**	**3,434**	**121**	**11,221**
At 31st December 2016	7,666	3,024	244	10,934

An impairment loss amounting to HK$119 million was recognised on CO_2 emissions credits by writing down the carrying value to the estimated recoverable amount which is the higher of the value in use and the fair value less cost of disposal. The recoverable amount was determined based on the fair value less costs of disposal with reference to the market price at 31st December 2017. The fair value on which the recoverable amount is based is catergorised as a Level 1 measurement.

The carrying amount of goodwill allocated to the airline operations is HK$7,627 million (2016: HK$7,627 million). In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their total recoverable amounts to their total carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on three-year financial budgets, with reference to past performance and expectations for market development, approved by management. Cash flows beyond the three-year period are extrapolated with an estimated general annual growth rate of 1.0% to 3.0% (2016: 1.0% to 3.0%) which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rates used of approximately 7.9% (2016: 7.9%) are pre-tax and reflect the specific risks related to the relevant segments. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

11. Investments in associates

	2017 HK$M	2016 HK$M
Share of net assets		
– listed in Hong Kong	**20,151**	16,141
– unlisted	**2,999**	2,139
Goodwill	**3,519**	3,629
	26,669	21,909
Loans due from associates	**1,475**	1,389
	28,144	23,298

At 31st December 2017, the market value of the Hong Kong listed shares is HK$24,968 million (2016: HK$13,037 million).

At 31st December 2017, included in the loans due from associates is a loan of HK$1,177 million (2016: HK$1,094 million) which is unsecured and interest-free (2016: interest-free) and repayable before 23rd March 2019. Terms are subject to review annually.

Air China is considered material to the Group and the share of assets and liabilities and results is summarised as below:

	2017 HK$M	2016 HK$M
Gross amounts of the associate's		
– current assets	**34,824**	23,869
– non-current assets	**252,235**	231,516
– current liabilities	**(81,206)**	(75,267)
– non-current liabilities	**(92,613)**	(97,149)
Revenue	**147,380**	119,795
Profit from continuing operations	**11,126**	9,402
Other comprehensive income	**1,247**	(689)
Total comprehensive income	**12,373**	8,713
Dividend received from the associate	**321**	334
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**113,240**	82,969
– Group's share of net assets of the associate at effective interest (2017: 18.13%; 2016: 20.13%)	**20,530**	16,702
– effect of cross shareholding and others	**(379)**	(561)
– goodwill	**3,519**	3,629
	23,670	19,770

Air China is a strategic partner for the Group and the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China.

The Group's 2017 results include Air China's results for the 12 months ended 30th September 2017 and any significant events or transactions for the period from 1st October 2017 to 31st December 2017. Air China's most recently available accounts were drawn up to 30th September 2017 (2016: 30th September 2016).

11. Investments in associates *(continued)*

Aggregate information of associates that are not individually material

	2017 HK$M	2016 HK$M
Aggregate carrying amount of individually immaterial associates	**4,474**	3,528
Aggregate amounts of the Group's share of those associates		
– profit from continuing operations	**728**	105
– other comprehensive income	**268**	(196)
– total comprehensive income	**996**	(91)

Principal associates are listed on page 104.

12. Other long-term receivables and investments

	2017 HK$M	2016 HK$M
Equity investments at fair value		
– listed in Hong Kong	**–**	553
– unlisted	**722**	631
Leasehold land rental prepayments	**1,215**	1,258
Loans and other receivables	**246**	843
Derivative financial assets – long-term portion	**1,781**	1,319
Retirement benefit assets (note 15)	**104**	–
	4,068	4,604

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,258 million (2016: HK$1,301 million). The balance is included in above, except for HK$43 million (2016: HK$43 million) which is included in trade, other receivables and other assets.

At 31st December 2017, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,455 million (2016: HK$1,160 million). The balance is included in above, except for HK$12 million (2016: HK$5 million) which is included in trade, other receivables and other assets.

13. Long-term liabilities

	Note	2017 Current HK$M	2017 Non-current HK$M	2016 Current HK$M	2016 Non-current HK$M
Long-term loans	*(a)*	**4,823**	**49,071**	7,217	36,125
Obligations under finance leases	*(b)*	**4,065**	**20,435**	4,046	22,781
		8,888	**69,506**	11,263	58,906

(a) Long-term loans

	2017 HK$M	2016 HK$M
Bank loans		
– secured	**32,195**	25,227
– unsecured	**17,697**	13,094
Other loans		
– unsecured	**4,002**	5,021
	53,894	43,342
Amount due within one year included under current liabilities	**(4,823)**	(7,217)
	49,071	36,125
Repayable as follows:		
Bank loans		
– within one year	**4,131**	5,378
– after one year but within two years	**7,938**	3,116
– after two years but within five years	**25,613**	19,831
– after five years	**12,210**	9,996
	49,892	38,321
Other loans		
– within one year	**692**	1,839
– after one year but within two years	**1,498**	866
– after two years but within five years	**1,812**	1,802
– after five years	**–**	514
	4,002	5,021
Amount due within one year included under current liabilities	**(4,823)**	(7,217)
	49,071	36,125

At 31st December 2017, aircraft and related equipment of HK$46,961 million (2016: HK$36,823 million) are pledged as security for the secured bank loans.

Borrowings other than bank loans are repayable on various dates up to 2022 while bank loans are repayable up to 2029.

Long-term loans of the Group not wholly repayable within five years amounted to HK$30,846 million (2016: HK$24,211 million).

At 31st December 2017, the Group had long-term loans totalling HK$40,482 million (2016: HK$35,765 million) which were defeased by funds and other investments. Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

13. Long-term liabilities *(continued)*

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2018 to 2027. The reconciliation of future lease payments and their carrying value under these finance leases is as follows:

	2017 HK$M	2016 HK$M
Future payments	**27,065**	29,668
Interest charges relating to future periods	**(2,565)**	(2,841)
Present value of future payments	**24,500**	26,827
Amounts due within one year included under current liabilities	**(4,065)**	(4,046)
	20,435	22,781

The present value of future payments is repayable as follows:

	2017 HK$M	2016 HK$M
Within one year	**4,065**	4,046
After one year but within two years	**3,781**	3,922
After two years but within five years	**9,081**	9,143
After five years	**7,573**	9,716
	24,500	26,827

The future lease payment profile is disclosed in note 29 to the financial statements.

At 31st December 2017, the Group had financial liabilities designated as at fair value through profit or loss of HK$2,001 million (2016: HK$2,227 million).

(c) Reconciliation of long-term liabilities

	Long-term loans HK$M	Obligations under finance leases HK$M	Total HK$M
At 1st January 2017	**43,342**	**26,827**	**70,169**
Changes from financing cash flows			
– new financing	**18,098**	**1,179**	**19,277**
– loan and finance lease repayments	**(8,059)**	**(4,093)**	**(12,152)**
Non-cash changes			
– exchange loss	**226**	**148**	**374**
– changes in fair values	**–**	**202**	**202**
– other changes	**287**	**237**	**524**
At 31st December 2017	**53,894**	**24,500**	**78,394**

14. Other long-term payables

	2017 HK$M	2016 HK$M
Deferred liabilities	**2,971**	2,805
Derivative financial liabilities – long-term portion	**531**	4,169
Retirement benefit liabilities (note 15)	**–**	543
	3,502	7,517

At 31st December 2017, the Group had a maintenance provision of HK$3,217 million (2016: HK$2,204 million) for returning the aircraft under operating leases to certain maintenance conditions.

	HK$M
Movements in maintenance provision comprise:	
At 1st January 2017	**2,204**
Additional provision made	**1,019**
Provision utilised	**(6)**
At 31st December 2017	**3,217**
Less: amount included in trade and other payables	**619**
	2,598

At 31st December 2017, total derivative financial liabilities of the Group which did not qualify for hedge accounting amounted to HK$11 million (2016: HK$32 million). The balance is included in above, except for HK$6 million (2016: HK$2 million) which is included in trade and other payables.

15. Retirement benefits

The Group operates various defined benefit and defined contribution retirement schemes for its employees in Hong Kong and in certain overseas locations. The assets of these schemes are held in separate trustee-administered funds. The retirement schemes in Hong Kong are registered under and comply with the Occupational Retirement Schemes Ordinance and the Mandatory Provident Fund Schemes Ordinance ("MPFSO"). Most of the employees engaged outside Hong Kong are covered by appropriate local arrangements.

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

A defined benefit scheme is a retirement plan that defines the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group has an obligation to provide participating employees with these benefits.

The Swire Group Retirement Benefit Scheme ("SGRBS") in Hong Kong, in which the Company, Cathay Pacific Catering Services (H.K.) Limited ("CPCS") and Vogue Laundry Service Limited ("Vogue") are participating employers, provides resignation and retirement benefits to its members, which include the Company's cabin attendants who joined before September 1996 and other locally engaged employees who joined before June 1997, upon their cessation of service. The Company, CPCS and Vogue meet the full cost of all benefits due by SGRBS to their employee members, who are not required to contribute to the scheme.

Staff employed by the Company in Hong Kong on expatriate terms before April 1993 were eligible to join another scheme, the Cathay Pacific Airways Limited Retirement Scheme ("CPALRS"). Both members and the Company contribute to CPALRS.

The majority of the Group's schemes are final salary guarantee lump sum defined benefit plans.

15. Retirement benefits *(continued)*

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an on-going basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued annually by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance.

For the year ended 31st December 2017, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated at 31st December 2017 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes. For the year ended 31st December 2016, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated at 31st December 2016 by Cannon Trustees Limited.

Through its defined benefit retirement schemes the Group is exposed to a number of risks, the most significant of which is market risk.

Market risk embodies the potential for losses and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of the investments by the investment managers appointed. Investment managers are governed by agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark and the predicated tracking error around this benchmark. An investment committee monitors the overall market risk position on a quarterly basis.

The Group's obligations are 101.3% (2016: 93.5%) covered by the plan assets held by the trustees at 31st December 2017.

	2017 HK$M	2016 HK$M
Net expenses recognised in the Group's profit or loss:		
Current service cost	**326**	315
Net interest (income)/cost	**(1)**	42
Total included in staff costs	**325**	357
Actual return on plan assets	**1,069**	341

	2017 HK$M	2016 HK$M
Net liabilities recognised in the statement of financial position:		
Present value of funded obligations	**7,937**	8,301
Fair value of plan assets	**(8,041)**	(7,758)
Retirement benefit (assets)/liabilities (notes 12 and 14)	**(104)**	543

15. Retirement benefits *(continued)*

	2017 HK$M	2016 HK$M
Movements in present value of funded obligations comprise:		
At 1st January	**8,301**	8,912
Remeasurements:		
– actuarial loss/(gains) arising from changes in financial assumptions	**345**	(218)
– experience gains	**(344)**	(345)
Movements for the year		
– current service cost	**326**	315
– interest expense	**271**	259
– employee contributions	**2**	3
– benefits paid	**(950)**	(613)
– transfer	**(14)**	(12)
At 31st December	**7,937**	8,301

The weighted average duration of the defined benefit obligations is five years (2016: seven years).

	2017 HK$M	2016 HK$M
Movements in fair value of plan assets comprise:		
At 1st January	**7,758**	7,879
Movements for the year		
– return on plan assets excluding interest income	**797**	124
– interest income	**272**	217
– employee contributions	**2**	3
– employer contributions	**176**	160
– benefits paid	**(950)**	(613)
– transfer	**(14)**	(12)
At 31st December	**8,041**	7,758

There were no plan amendments, curtailments and settlements during the year.

15. Retirement benefits *(continued)*

	2017 HK$M	**%**	2016 HK$M	%
Fair value of plan assets comprises:				
Equities				
– Asia Pacific	**1,009**	**13**	845	11
– Europe	**524**	**7**	471	6
– North America	**998**	**12**	980	12
– others	**1,026**	**13**	993	13
Bonds				
– Global	**2,079**	**26**	1,838	24
– Emerging markets	**108**	**1**	81	1
Absolute return funds	**1,562**	**19**	1,618	21
Cash	**735**	**9**	932	12
	8,041	**100**	7,758	100

At 31st December 2017, the prices of 96% of equities and 54% of bonds were quoted on active markets (31st December 2016: 96% and 45% respectively). The remainder of the prices were not quoted on active markets.

The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets are invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities, bonds and absolute return funds.

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers.

The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK$183 million to the schemes in 2018.

	2017		2016	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**2.84%**	**2.84%**	3.64%	3.64%
Expected rate of future salary increases	**5.00%**	**3.04%**	5.00%	3.04%

The sensitivity of the defined benefit obligations to changes in the actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2017 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase by 0.5%		Decrease by 0.5%	
	2017 HK$M	2016 HK$M	**2017 HK$M**	2016 HK$M
Discount rate	**218**	251	**(225)**	(260)
Expect rate of future salary increases	**(215)**	(249)	**211**	242

15. Retirement benefits *(continued)*

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

(b) Defined contribution retirement schemes

A defined contribution scheme is a retirement plan under which the Group pays fixed contribution into a separate entity. The Group has no legal or constructive obligations to pay further contributions.

Staff employed by the Company in Hong Kong on expatriate terms are eligible to join a defined contribution retirement scheme, the CPA Provident Fund 1993. All staff employed in Hong Kong are eligible to join the CPA Provident Fund.

Under the terms of these schemes, other than the Company's contribution, staff may elect to contribute from 0% to 10% of their monthly salary. During the year, there were no benefits forfeited in accordance with the schemes' rules (2016: nil) which have been applied towards the contributions payable by the Company.

A mandatory provident fund ("MPF") scheme was established under the MPFSO in December 2000. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$30,000). Staff may elect to contribute more than the minimum as a voluntary contribution.

Contributions to defined contribution retirement schemes charged to the Group's profit or loss were HK$1,216 million (2016: HK$1,202 million).

16. Deferred taxation

	2017 HK$M	2016 HK$M
Deferred tax assets:		
– provisions	**(76)**	(136)
– tax losses	**(2,919)**	(2,141)
– cash flow hedges	**(211)**	(819)
– retirement benefits	**7**	(70)
Deferred tax liabilities:		
– accelerated tax depreciation	**4,536**	4,366
– investments in associates	**1,021**	882
Provision in respect of certain lease arrangements	**9,534**	8,561
	11,892	10,643

The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position:

	2017 HK$M	2016 HK$M
Net deferred tax asset recognised in the statement of financial position	**(928)**	(737)
Net deferred tax liability recognised in the statement of financial position	**12,820**	11,380
	11,892	10,643

16. Deferred taxation *(continued)*

	2017 HK$M	2016 HK$M
Movements in deferred taxation comprise:		
At 1st January	**10,643**	8,781
Movements for the year		
– (credited)/charged to profit or loss		
– deferred tax credit (note 5)	**(426)**	(135)
– operating expenses	**68**	60
– charged to other comprehensive income		
– transferred to cash flow hedge reserve (note 6)	**608**	1,285
– transferred to retained profit (note 6)	**94**	81
– initial cash benefit from lease arrangements	**1,619**	894
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(714)**	(323)
At 31st December	**11,892**	10,643

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$13,683 million (2016: HK$13,197 million) to carry forward against future taxable income. These amounts are analysed as follows:

	Group	
	Unrecognised tax losses	
	2017 HK$M	2016 HK$M
No expiry date	**3,019**	2,841
Expiring beyond 2021	**10,664**	10,356
	13,683	13,197

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2018 to 2028 (2016: 2017 to 2027) as follows:

	2017 HK$M	2016 HK$M
After one year but within five years	**3,447**	2,705
After five years but within 10 years	**4,802**	5,147
After 10 years	**1,285**	709
	9,534	8,561

17. Trade, other receivables and other assets

	2017 HK$M	2016 HK$M
Trade debtors	**6,131**	5,595
Derivative financial assets – current portion	**32**	857
Other receivables and prepayments	**5,139**	3,042
Due from associates and other related companies	**59**	63
	11,361	9,557

17. Trade, other receivables and other assets *(continued)*

	2017 HK$M	2016 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by invoice date:		
Within one month	**4,880**	4,370
One to three months	**573**	705
More than three months	**678**	520
	6,131	5,595

	2017 HK$M	2016 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,643**	5,074
Within three months overdue	**303**	395
More than three months overdue	**185**	126
	6,131	5,595

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

	2017 HK$M	2016 HK$M
At 1st January	**49**	52
Amounts written back	**(4)**	(3)
At 31st December	**45**	49

18. Assets held for sale

	2017 HK$M	2016 HK$M
Assets held for sale	**865**	31

An impairment loss amounting to HK$1 million was recognised for the year ended 31st December 2017 (2016: HK$24 million). Impairment of assets held for sale is considered by writing down the carrying value to the fair value less costs to sell, by using the market comparison approach with reference to the estimated sales value at 31st December 2017 and 2016. The fair value on which the recoverable amount is based is categorised as a Level 2 measurement.

19. Liquid funds

	2017 HK$M	2016 HK$M
Short-term deposits and bank balances (note 24)	**6,914**	9,778
Short-term deposits maturing beyond three months when placed	**7,128**	5,556
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,815**	4,749
– bank deposits	**75**	33
Other liquid investments		
– debt securities listed outside Hong Kong	**4**	4
– bank deposits	**158**	170
	19,094	20,290

Included in other liquid investments are bank deposits of HK$158 million (2016: HK$170 million) and debt securities of HK$4 million (2016: HK$4 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

20. Trade and other payables

	2017 HK$M	2016 HK$M
Trade creditors	**5,112**	5,061
Derivative financial liabilities – current portion	**3,058**	5,680
Other payables	**8,553**	8,024
Due to associates	**258**	175
Due to other related companies	**76**	164
	17,057	19,104

At 31st December 2017, the Group had a provision of HK$696 million (2016: HK$1,126 million) for possible or actual taxation (other than income tax), litigation and claims. The provision is included in above.

	HK$M
Movements in provision comprise:	
At 1st January 2017	**1,126**
Provision written back	**(98)**
Provision utilised	**(332)**
At 31st December 2017	**696**

	2017 HK$M	2016 HK$M
Analysis of trade creditors by overdue date:		
Current	**5,002**	4,854
Within three months overdue	**82**	196
More than three months overdue	**28**	11
	5,112	5,061

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

21. Share capital

	2017		2016	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 1st January and at 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 year. At 31st December 2017, 3,933,844,572 shares were in issue (31st December 2016: 3,933,844,572 shares).

22. Reserves

	2017 HK$M	2016 HK$M
Retained profit	**44,115**	44,672
Investment revaluation reserve	**505**	908
Cash flow hedge reserve	**(1,503)**	(5,855)
Others	**878**	(1,466)
	43,995	38,259

	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M
Company					
At 1st January 2017	**36,184**	**404**	**(5,832)**	**(1)**	**30,755**
Loss for the year	**(1,848)**	**–**	**–**	**–**	**(1,848)**
Other comprehensive income	**668**	**101**	**4,345**	**–**	**5,114**
Total comprehensive income for the year	**(1,180)**	**101**	**4,345**	**–**	**3,266**
At 31st December 2017	**35,004**	**505**	**(1,487)**	**(1)**	**34,021**
At 1st January 2016	38,295	346	(15,566)	(1)	23,074
Loss for the year	(1,426)	–	–	–	(1,426)
Other comprehensive income	574	58	9,734	–	10,366
Total comprehensive income for the year	(852)	58	9,734	–	8,940
2015 second interim dividend	(1,062)	–	–	–	(1,062)
2016 first interim dividend	(197)	–	–	–	(197)
	(2,111)	58	9,734	–	7,681
At 31st December 2016	36,184	404	(5,832)	(1)	30,755

22. Reserves *(continued)*

Distributable reserves of the Company at 31st December 2017 amounted to HK$35,004 million (2016: HK$36,184 million), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622).

The investment revaluation reserve comprises changes in the fair value of long-term investments.

Other reserves of the Group comprise exchange gains arising from revaluation of foreign investments which amounted to HK$1,540 million (2016: negative reserve HK$334 million) and share of associate's other negative reserve of HK$662 million (2016: HK$1,132 million).

The cash flow hedge reserve relates to the effective portion of the cumulative net change in fair values of hedging instruments and exchange differences on borrowings and lease obligations which are arranged in foreign currencies such that repayments can be met by anticipated operating cash flows.

The loss transferred from the cash flow hedge reserve of the Group to profit or loss items was as follows:

	2017 HK$M	2016 HK$M
Revenue	**430**	1,294
Fuel	**(6,322)**	(8,423)
Net finance charge	**(268)**	(275)
Net loss transferred to the profit or loss (note 6)	**(6,160)**	(7,404)

The cash flow hedge reserve of the Group is expected to be charged/(credited) to operating profit or transferred to relevant assets as noted below when the hedged transactions affect profit or loss or the relevant assets are recognised.

	Total HK$M
2018	**2,534**
2019	**104**
2020	**(190)**
2021	**(250)**
2022	**(336)**
Beyond 2022	**(359)**
	1,503

The actual amount ultimately recognised in operating profit or transferred to relevant assets will depend upon the fair values of the hedging instruments at the time that the hedged transactions affect profit or loss or the relevant assets are recognised.

23. Reconciliation of operating loss to cash generated from operations

	2017 HK$M	2016 HK$M
Operating loss	**(1,449)**	(525)
Depreciation of property, plant and equipment	**8,824**	8,035
Amortisation of intangible assets	**530**	515
Provision for impairment of assets held for sale	**1**	24
Gain on disposal of assets held for sale	**–**	(232)
Loss on disposal of property, plant and equipment, net	**175**	272
Impairment of intangible assets	**119**	–
Loss on disposal of intangible assets	**–**	42
Gain on disposal of a long-term investment	**(586)**	(3)
Gain on disposal of associates	**(246)**	–
Loss transferred from the cash flow hedge reserve and other items not involving cash flows	**6,308**	7,427
Increase in stock	**(1)**	(148)
(Increase)/decrease in trade debtors, other receivables and other assets and derivative financial assets	**(2,270)**	408
Decrease in net amounts due to related companies and associates	**(1)**	(93)
Decrease in trade creditors, other payables, derivative financial liabilities and deferred liabilities	**(5,514)**	(11,595)
Increase/(decrease) in unearned transportation revenue	**1,035**	(86)
Non-operating movements in debtors and creditors	**(510)**	3,660
Cash generated from operations	**6,415**	7,701

24. Analysis of cash and cash equivalents

	2017 HK$M	2016 HK$M
Short-term deposits and bank balances (note 19)	**6,914**	9,778

25. Directors' and executive officers' remuneration

(a) Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation are:

	Cash			Non-cash					
	Basic salary/ Fees (note i) HK$'000	Bonus (note ii) HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2017 Total HK$'000**	2016 Total HK$'000
Executive Directors									
Slosar, John	877	–	14	258	–	–	714	**1,863**	845
Hogg, Rupert	3,185	–	573	937	–	–	4,482	**9,177**	12,014
Chu, Ivan (up to April 2017)	1,440	–	765	522	–	–	–	**2,727**	10,507
Barrington, James (up to September 2015)	–	–	–	–	–	–	–	**–**	2,155
Hughes, Gregory (from June 2017)	1,435	–	499	422	–	100	1,743	**4,199**	–
Loo, Paul (from June 2017)	1,330	–	570	218	–	–	–	**2,118**	–
Murray, Martin	2,618	–	680	771	–	100	3,197	**7,366**	10,732
Yau, Algernon (up to May 2017)	831	996	300	124	–	–	–	**2,251**	4,184
Non-Executive Directors									
Cai, Jianjiang	575	–	–	–	–	–	–	**575**	575
Chu, Ivan (from May 2017)	–	–	–	–	–	–	–	**–**	–
Cubbon, Martin (up to September 2017)	–	–	–	–	–	–	–	**–**	–
Fan, Cheng (up to December 2016)	–	–	–	–	–	–	–	**–**	755
Low, Michelle (from October 2017)	–	–	–	–	–	–	–	**–**	–
Shiu, Ian (up to December 2016)	–	–	–	–	–	–	–	**–**	–
Song, Zhiyong	575	–	–	–	–	–	–	**575**	575
Swire, Merlin	–	–	–	–	–	–	–	**–**	–
Swire, Samuel	–	–	–	–	–	–	–	**–**	–
Xiao, Feng (from January 2017)	755	–	–	–	–	–	–	**755**	–
Zhao, Xiaohang	575	–	–	–	–	–	–	**575**	575
Independent Non-Executive Directors									
Harrison, John	755	–	–	–	–	–	–	**755**	755
Lee, Irene	915	–	–	–	–	–	–	**915**	915
Tung, Andrew	633	–	–	–	–	–	–	**633**	633
Wong, Peter	755	–	–	–	–	–	–	**755**	755
2017 Total	**17,254**	**996**	**3,401**	**3,252**	**–**	**200**	**10,136**	**35,239**	
2016 Total	16,335	11,907	3,633	2,872	2,989	138	8,101		45,975

(i) Independent Non-Executive Directors receive fees as members of the Board and its committees. Executive Directors receive salaries. For Directors employed by the Swire group, the remuneration disclosed represents the amount charged to the Company.

(ii) Management bonus is related to services for 2016 and was paid in 2017. Other discretionary bonuses were paid in 2016 or 2017.

(iii) The total emoluments of Executive Directors are charged to the Group in accordance with the amount of time spent on its affairs.

25. Directors' and executive officers' remuneration *(continued)*

(b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2017 and 2016 are as follows:

	2017	2016
Number of individuals:		
Executive Directors	**2**	3
Executive Officers	**3**	2
	5	5

Details of their emoluments are as follows:

	Cash			Non-cash					
	Basic salary HK$'000	Bonus HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2017 Total HK$'000**	2016 Total HK$'000
2017 Total	**12,767**	**2,794**	**4,688**	**3,200**	**2,116**	**512**	**9,667**	**35,744**	
2016 Total	12,888	12,399	6,995	3,470	2,950	221	7,891		46,814

The bonuses disclosed above are related to services for the previous year.

The number of the above executive directors and executive officers whose emoluments fell within the following bands:

HK$'000	**2017**	2016
6,001 – 6,500	**1**	1
6,501 – 7,000	**2**	–
7,001 – 7,500	**1**	1
9,001 – 9,500	**1**	–
10,501 – 11,000	**–**	2
12,001 – 12,500	**–**	1
	5	5

26. Employee information – Cathay Pacific and Cathay Dragon

The table below sets out the number of individuals, including those who have retired or resigned during the year, in each employment category whose total remuneration for the year fell into the following ranges:

	2017			2016		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**12**	**13,584**	**10,470**	13	13,513	10,883
1,001 – 1,500	**–**	**832**	**370**	–	785	338
1,501 – 2,000	**1**	**716**	**149**	–	589	147
2,001 – 2,500	**2**	**532**	**71**	1	540	89
2,501 – 3,000	**1**	**599**	**26**	–	542	22
3,001 – 3,500	**–**	**360**	**12**	–	389	9
3,501 – 4,000	**–**	**215**	**3**	–	225	5
4,001 – 4,500	**1**	**79**	**3**	1	95	3
4,501 – 5,000	**–**	**13**	**1**	–	29	1
5,001 – 5,500	**–**	**1**	**1**	–	5	1
5,501 – 6,000	**–**	**–**	**1**	–	–	3
6,001 – 6,500	**–**	**–**	**1**	–	–	1
6,501 – 7,000	**–**	**–**	**2**	–	–	–
7,001 – 7,500	**1**	**–**	**–**	–	–	1
9,001 – 9,500	**1**	**–**	**–**	–	–	–
10,501 – 11,000	**–**	**–**	**–**	2	–	–
12,001 – 12,500	**–**	**–**	**–**	1	–	–
	19*	**16,931**	**11,110**	18*	16,712	11,503

** Note: the total number of directors as at 31st December 2017 was 17 (31st December 2016: 17).*

27. Related party transactions

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

	2017		2016	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**358**	**11**	280	24
Aircraft maintenance costs	**1,070**	**2,278**	989	2,297
Operating costs	**643**	**–**	732	–
Dividend income	**371**	**26**	422	1
Finance income	**7**	**–**	17	–
Property, plant and equipment purchase	**–**	**31**	–	6

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

(i) Under the HAECO Framework Agreement with HAECO and HXITM, the Group paid fees to, and received fees from, the HAECO group in respect of aircraft maintenance and related services. The amounts payable to the HAECO group for the year ended 31st December 2017 totalled HK$3,367 million (2016: HK$3,288 million). The amounts receivable from the HAECO group for the year ended 31st December 2017 totalled HK$27 million (2016: HK$34 million).

Transactions under the HAECO Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure and shareholders' approval requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the section of this annual report headed Directors' Report.

(ii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, the Air China group in respect of transactions between the Group on the one hand and the Air China group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement. The amounts payable to the Air China group for the year ended 31st December 2017 totalled HK$260 million (2016: HK$346 million). The amounts receivable from the Air China group for the year ended 31st December 2017 totalled HK$349 million (2016: HK$269 million).

Transactions under the Air China Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the section of this annual report headed Directors' Report.

27. Related party transactions *(continued)*

(b) The Company has an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Group paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before taxation, results of associates, non-controlling interests, and any profits or losses on disposal of property, plant and equipment are paid annually. For the year ended 31st December 2017, no (2016: nil) service fee was payable and expenses of HK$169 million (2016: HK$161 million) were reimbursed at cost.

As directors and/or employees of the Swire group, John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Michelle Low, Martin Murray, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement. Merlin Swire and Samuel Swire are also so interested as shareholders of Swire. Martin Cubbon was so interested as a director and an employee of the Swire group until his resignation with effect from 1st October 2017.

Transactions under the JSSHK Services Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. For a definition of terms, please refer to the section of this annual report headed Directors' Report.

(c) Amounts due from and due to associates and other related companies at 31st December 2017 are disclosed in notes 17 and 20 to the financial statements. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2017 are disclosed in note 28(b) to the financial statements.

(e) There were no material transactions with Directors except for those relating to shareholdings (as disclosed in the Directors' Report and the Corporate Governance Report). Remuneration of Directors is disclosed in note 25 to the financial statements.

28. Capital commitments and contingencies

(a) Outstanding capital commitments authorised at the year end but not provided for in the financial statements:

	2017 HK$M	2016 HK$M
Authorised and contracted for	**83,535**	84,645
Authorised but not contracted for	**7,338**	6,842
	90,873	91,487

Operating lease commitments are shown in note 9(b) to the financial statements.

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

	2017 HK$M	2016 HK$M
Associates	**3,176**	4,031

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

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

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

The proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. The Company is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with accounting policy 20 on page 109.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on the Company. However, the European Commission's finding against the Company, and the imposition of this fine, was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission issued a new decision against the Company and the other airlines involved in the case in March 2017. Another fine of Euros 57.12 million was imposed on the Company, which was paid by the Company and charged to profit or loss in June 2017. The Company filed an appeal against this latest decision, to which the European Commission filed a defence. In December 2017, the Company filed a Reply to this Defence. The European Commission has one further opportunity to respond to the Company's Reply, by filing a rejoinder within one month of formal service by the court of the Reply on them. It is unclear to the Company whether the one-month time limit has started to run yet. No date has yet been fixed for an appeal hearing.

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

29. Financial risk management

In the normal course of business, the Group is exposed to fluctuations in foreign exchange rates, interest rates and jet fuel prices. These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the policies approved by the Board.

Derivative financial instruments are used solely for financial risk management purposes and the Group does not hold or issue derivative financial instruments for proprietary trading purposes. Derivative financial instruments which constitute a hedge do not expose the Group to market risk since any change in their market value will be offset by a compensating change in the market value of the hedged items. Exposure to foreign exchange rates, interest rates and jet fuel prices movements are regularly reviewed and positions are amended in compliance with internal guidelines and limits.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. 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.

Trade debtors mainly represented passenger and freight sales due from agents and amounts due from airlines for interline services provided. The majority of the agents are connected to the settlement systems operated by the International Air Transport Association ("IATA") which is responsible for checking the credit worthiness of such agents and collecting bank guarantees or other monetary collateral according to local industry practice. In most cases amounts due from airlines are settled on net basis via an IATA clearing house. The credit risk with regard to individual agents and airlines is relatively low.

To manage credit risk, derivative financial transactions, deposits and funds are only carried out with financial institutions which have high credit ratings and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position and the amount of guarantees granted as disclosed in note 28 to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2017 totalled HK$1,413 million (2016: HK$1,331 million).

The movement in the provision for bad debts in respect of trade debtors during the year is set out in note 17 to the financial statements.

29. Financial risk management *(continued)*

(b) Liquidity risk

The Group's policy is to monitor liquidity and compliance with lending covenants, so as to ensure sufficient liquid funds and funding lines from financial institutions are available to meet liquidity requirements in both the short and long term. The analysis has been performed on the same basis as for 2016. The undiscounted payment profile of financial liabilities is outlined as follows:

	2017				
	Within one year HK$M	**After one year but within two years HK$M**	**After two years but within five years HK$M**	**After five years HK$M**	**Total HK$M**
Group					
Bank and other loans	**(6,308)**	**(10,939)**	**(30,286)**	**(13,188)**	**(60,721)**
Obligations under finance leases	**(4,589)**	**(4,278)**	**(10,073)**	**(8,125)**	**(27,065)**
Other long-term payables	**–**	**(845)**	**(1,453)**	**(673)**	**(2,971)**
Trade and other payables	**(13,999)**	**–**	**–**	**–**	**(13,999)**
Derivative financial liabilities, net	**(3,130)**	**(468)**	**(10)**	**–**	**(3,608)**
Total	**(28,026)**	**(16,530)**	**(41,822)**	**(21,986)**	**(108,364)**

	2016				
	Within one year HK$M	After one year but within two years HK$M	After two years but within five years HK$M	After five years HK$M	Total HK$M
Group					
Bank and other loans	(8,232)	(5,024)	(24,094)	(11,411)	(48,761)
Obligations under finance leases	(4,512)	(4,424)	(10,303)	(10,429)	(29,668)
Other long-term payables	–	(857)	(1,073)	(875)	(2,805)
Trade and other payables	(13,424)	–	–	–	(13,424)
Derivative financial liabilities, net	(5,813)	(4,035)	(28)	3	(9,873)
Total	(31,981)	(14,340)	(35,498)	(22,712)	(104,531)

29. Financial risk management *(continued)*

(c) Market risk

(i) Foreign currency risk

The Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. To manage this exposure, assets are, where possible, financed in those foreign currencies in which net operating surpluses are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce anticipated foreign currency surpluses. The use of foreign currency borrowings and currency derivatives to hedge future operating revenues is a key component of the financial risk management process, as exchange differences realised on the repayment of financial commitments are effectively matched by the change in value of the foreign currency earnings used to make those repayments.

The currencies giving rise to a risk of translation in the Group's financial statements in 2017 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2016: United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen).

At the reporting date, the exposure to these currencies was as follows:

	2017					
	USD HK$M	**EUR HK$M**	**AUD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Loans due from associates	**293**	**–**	**–**	**–**	**1,177**	**–**
Trade debtors, other receivables and prepayments	**7,492**	**453**	**185**	**31**	**1,070**	**246**
Liquid funds	**13,400**	**42**	**28**	**19**	**419**	**33**
Long-term loans	**(33,583)**	**–**	**–**	**(992)**	**–**	**(1,539)**
Obligations under finance leases	**(18,451)**	**(1,802)**	**–**	**–**	**–**	**(3,508)**
Trade creditors and other payables	**(6,784)**	**(225)**	**(99)**	**(59)**	**(371)**	**(190)**
Currency derivatives at notional value	**20,658**	**98**	**(2,026)**	**(353)**	**(5,339)**	**(645)**
Net exposure	**(16,975)**	**(1,434)**	**(1,912)**	**(1,354)**	**(3,044)**	**(5,603)**

	2016					
	USD HK$M	EUR HK$M	AUD HK$M	SGD HK$M	RMB HK$M	JPY HK$M
Group						
Loans due from associates	290	–	–	–	1,094	–
Trade debtors, other receivables and prepayments	5,954	349	138	37	1,024	185
Liquid funds	11,797	111	58	977	955	96
Long-term loans	(24,192)	–	–	(1,341)	–	(1,717)
Obligations under finance leases	(20,903)	(1,710)	–	–	–	(3,379)
Trade creditors and other payables	(13,639)	(253)	(109)	(70)	(566)	(244)
Currency derivatives at notional value	13,509	343	(1,717)	(56)	(6,328)	(502)
Net exposure	(27,184)	(1,160)	(1,630)	(453)	(3,821)	(5,561)

In addition to the exposure shown above, the Group is exposed to currency risk from its future net operating cash flows in foreign currencies, principally United States dollars, Renminbi, Australian dollars, New Taiwan dollars, Euros, Pound sterling, Indian rupees, Japanese yen and Indonesian rupiahs.

29. Financial risk management *(continued)*

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2017 would have resulted in a change in profit or loss and other equity components by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. It assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis as for 2016.

	2017	
	Net increase/(decrease) in profit or loss HK$M	**Net increase in other equity components HK$M**
United States dollars	**1,704**	**(706)**
Euros	**(2)**	**60**
Australian dollars	**(5)**	**88**
Singapore dollars	**–**	**65**
Renminbi	**(104)**	**229**
Japanese yen	**(5)**	**282**
Net increase	**1,588**	**18**

	2016	
	Net increase/(decrease) in profit or loss HK$M	Net increase in other equity components HK$M
United States dollars	1,614	(187)
Euros	–	43
Australian dollars	(4)	75
Singapore dollars	(47)	69
Renminbi	(117)	267
Japanese yen	(2)	279
Net increase	1,444	546

(ii) Interest rate risk

The Group's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates. Interest rate swaps are used to manage the interest rate profile of interest-bearing financial liabilities on a currency by currency basis to maintain an appropriate fixed rate and floating rate ratio. Interest rate risk is measured by using sensitivity analysis on variable rate instruments.

29. Financial risk management *(continued)*

At the reporting date the interest rate profile of the interest-bearing financial instruments was as below:

	2017 HK$M	2016 HK$M
Fixed rate instruments		
Loan due from an associate	**1,177**	–
Loans receivable	**–**	469
Long-term loans	**(2,490)**	(3,217)
Obligations under finance leases	**(5,929)**	(6,674)
Interest rate and currency swaps	**(28,788)**	(18,004)
Net exposure	**(36,030)**	(27,426)

	2017 HK$M	2016 HK$M
Variable rate instruments		
Loan due from an associate	**293**	1,384
Liquid funds	**19,094**	20,290
Long-term loans	**(51,404)**	(40,125)
Obligations under finance leases	**(18,571)**	(20,153)
Interest rate and currency swaps	**30,232**	19,140
Net exposure	**(20,356)**	(19,464)

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit or loss and increased other equity components for the year by the amounts shown below. These amounts represent the fair value change of interest rate swaps and financial liabilities designated as at fair value through profit or loss at the reporting date and the increase in net finance charges. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2016.

	2017		2016	
	Profit or loss HK$M	**Other equity components HK$M**	Profit or loss HK$M	Other equity components HK$M
Variable rate instruments	**(132)**	**157**	(101)	106

(iii) Fuel price risk

Fuel accounted for 30.7% of the Group's total operating expenses (2016: 29.6%). Exposure to fluctuations in the fuel price is managed by the use of fuel derivatives. The profit or loss generated from these fuel derivatives is dependent on the combination of contracts which generate payoffs in any particular range of fuel prices.

Sensitivity analysis for jet fuel price derivatives

An increase/(decrease) of five percent in the jet fuel price at the reporting date would have affected profit or loss and other equity components for the year by the amounts shown below. These amounts represent the change in fair value of fuel derivatives at the reporting date.

	2017		2016	
	Net increase/ (decrease) in profit or loss HK$M	**Net increase/ (decrease) in other equity components HK$M**	Net increase/ (decrease) in profit or loss HK$M	Net increase/ (decrease) in other equity components HK$M
Increase in jet fuel price by 5%	**(41)**	**670**	(11)	943
Decrease in jet fuel price by 5%	**21**	**(649)**	9	(939)

29. Financial risk management *(continued)*

(d) Hedge accounting

The carrying values of financial assets/(liabilities) designated as cash flow hedges at 31st December 2017 were as follows:

	2017 HK$M	2016 HK$M
Foreign currency risk		
– long-term liabilities (natural hedge)	**(6,500)**	(6,827)
– foreign currency forward contracts	**(500)**	883
Interest rate risk		
– interest rate swaps	**108**	(75)
Fuel price risk		
– fuel derivatives	**(2,828)**	(9,610)

(e) Fair values

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

	2017		2016	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**–**	**–**	469	494
Long-term loans	**(53,894)**	**(56,149)**	(43,342)	(45,291)
Obligations under finance leases	**(24,500)**	**(25,292)**	(26,827)	(27,639)

These financial instruments are measured using quoted prices in active markets for similar assets or liabilities, or using valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates.

The carrying amounts of other financial assets and liabilities are considered to be reasonable approximations to their fair values.

(f) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 31st December 2017 across three levels of the fair value hierarchy defined in HKFRS 13 “Fair Value Measurement” with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using discounted cash flow valuation techniques in which any significant input is not based on observable market data.

29. Financial risk management *(continued)*

	2017				2016			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	**–**	**–**	**–**	**–**	553	–	–	553
– unlisted	**–**	**–**	**722**	**722**	–	–	631	631
Liquid funds								
– funds with investment managers	**–**	**4,815**	**–**	**4,815**	–	4,749	–	4,749
– other liquid investments	**–**	**4**	**–**	**4**	–	4	–	4
Derivative financial assets	**–**	**1,813**	**–**	**1,813**	–	2,176	–	2,176
	–	**6,632**	**722**	**7,354**	553	6,929	631	8,113
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(2,001)**	**–**	**(2,001)**	–	(2,227)	–	(2,227)
Derivative financial liabilities	**–**	**(3,589)**	**–**	**(3,589)**	–	(9,849)	–	(9,849)
	–	**(5,590)**	**–**	**(5,590)**	–	(12,076)	–	(12,076)

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

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

Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	Positive/(negative) impact on valuation (HK$M)
Unlisted investments				
Discount rate	2017: 9.0% (2016: 8.5-9.0%)	The higher the discount rate, the lower the fair value	2017: +/- 0.5% (2016: +/- 0.5%)	2017: (19)/21 (2016: (17)/18)

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

	2017 HK$M	2016 HK$M
Investments at fair value – unlisted		
At 1st January	**631**	584
Additions	**6**	–
Disposals	**–**	(11)
Net unrealised gains recognised in other comprehensive income during the year	**101**	58
Impairment	**(16)**	–
At 31st December	**722**	631

29. Financial risk management *(continued)*

(g) Offsetting financial assets and financial liabilities

	2017		
	Amount of financial assets/(liabilities) presented in the statement of financial position HK$M	**Financial instruments not offset in the statement of financial position HK$M**	**Net amount HK$M**
Group			
Derivative financial assets	**1,813**	**(267)**	**1,546**
Derivative financial liabilities	**(3,589)**	**267**	**(3,322)**
	(1,776)	**–**	**(1,776)**

	2016		
	Amount of financial assets/(liabilities) presented in the statement of financial position HK$M	Financial instruments not offset in the statement of financial position HK$M	Net amount HK$M
Group			
Derivative financial assets	2,176	(1,235)	941
Derivative financial liabilities	(9,849)	1,235	(8,614)
	(7,673)	–	(7,673)

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements, providing offsetting in the event of default. The ISDA agreements do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not currently have any legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as default on the bank loans or other credit events.

30. Capital risk management

The Group's objectives when managing capital are to ensure a sufficient level of liquid funds and to establish an optimal capital structure which maximises shareholders' value.

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 115 and a ten year history is included on pages 110 and 111 of the annual report.

31. Company-level statement of financial position

	Note	**2017 HK$M**	2016 HK$M	**2017 US$M**	2016 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment		**92,747**	84,813	**11,891**	10,873
Intangible assets		**3,551**	3,257	**455**	418
Investments in subsidiaries		**36,797**	36,090	**4,718**	4,627
Investments in associates		**10,798**	10,796	**1,384**	1,384
Other long-term receivables and investments		**2,947**	2,792	**378**	358
		146,840	137,748	**18,826**	17,660
Long-term liabilities		**(69,197)**	(58,033)	**(8,871)**	(7,440)
Other long-term payables		**(2,407)**	(6,516)	**(309)**	(835)
Deferred tax liabilities		**(11,393)**	(9,898)	**(1,461)**	(1,269)
		(82,997)	(74,447)	**(10,641)**	(9,544)
Net non-current assets		**63,843**	63,301	**8,185**	8,116
Current assets and liabilities					
Stock		**1,320**	1,247	**169**	160
Trade, other receivables and other assets		**9,977**	8,823	**1,279**	1,131
Assets held for sale		**–**	31	**–**	4
Liquid funds		**12,844**	14,260	**1,647**	1,828
		24,141	24,361	**3,095**	3,123
Current portion of long-term liabilities		**(8,489)**	(10,354)	**(1,088)**	(1,327)
Trade and other payables		**(13,899)**	(16,386)	**(1,782)**	(2,102)
Unearned transportation revenue		**(13,644)**	(12,567)	**(1,749)**	(1,611)
Taxation		**(825)**	(494)	**(106)**	(63)
		(36,857)	(39,801)	**(4,725)**	(5,103)
Net current liabilities		**(12,716)**	(15,440)	**(1,630)**	(1,980)
Total assets less current liabilities		**134,124**	122,308	**17,196**	15,680
Net assets		**51,127**	47,861	**6,555**	6,136
CAPITAL AND RESERVES					
Share capital	*21*	**17,106**	17,106	**2,193**	2,193
Other reserves	*22*	**34,021**	30,755	**4,362**	3,943
Total equity		**51,127**	47,861	**6,555**	6,136

The financial statements are prepared and presented in HK$, the functional currency. The US$ figures are shown only as supplementary information and are translated at US$1:HK$7.8.

John Slosar
Director

Irene Lee
Director

Hong Kong, 14th March 2018

32. Impact of further new accounting standards

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 has made an assessment of HKFRS 9 and HKFRS 15, and is in the process of making an assessment of HKFRS 16, for the impact of these new standards 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 of HKFRS 16, further impacts may be identified in due course and will be taken into consideration when determining the adoption of these new requirements 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 now default to fair value through profit or loss unless there is an irrevocable election to designate as fair value through other comprehensive income (without recycling) on transition to HKFRS 9. The Group has decided to irrevocably designate those investments it considers to be long term strategic investments as fair value through other comprehensive income. This standard, and the irrevocable election, gives 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. 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, albeit the impact is not expected to be material.

HKFRS 15 "Revenue from Contracts with Customers" is relevant to the Group and became effective for accounting periods beginning from the 1st January 2018. The standard establishes a framework for reporting 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. The Group has assessed the impact of the new standard, and expects there to be a material credit adjustment to opening reserves on adoption of HKFRS15 in respect to the timing of recognition of unflown ticket breakage income. The Group currently adopts a more prudent policy than that required under HKFRS15 where breakage is to be recognised on each flight based on an assessment that it is highly probable that the income will not result in a significant reversal of the cumulative revenue recognised in the future. This assessment will be based on the historic patterns of breakage. HKFRS15 is also expected to impact the classification, presentation and disclosure of ancillary income, change fees and interline cargo transactions. The Group will adopt the modified retrospective transition approach.

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 a material 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 has completed an initial assessment of the implications of adopting this standard, however, will need to perform a further analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16.

Principal Subsidiaries and Associates

at 31st December 2017

Subsidiaries

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	60*	54,402,000 A shares and 36,268,000 B shares
Airline Property Limited	Hong Kong	Property investment	100	2 shares
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares
Asia Miles Limited	Hong Kong	Travel reward programme	100	2 shares
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	40,000 shares
Cathay Pacific Aero Limited	Hong Kong	Financial services	100	1 share
Cathay Pacific Aircraft Lease Finance Limited	Hong Kong	Aircraft leasing facilitator	100	1 share
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US$1 each
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares
Cathay Pacific MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US$1
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share
Deli Fresh Limited	Hong Kong	Food processing and catering	100	20 shares
Global Logistics System (H.K.) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	95	100 shares
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	100*	Registered capital of HK$8,000,000 (wholly foreign owned enterprise)
Hong Kong Airport Services Limited	Hong Kong	Aircraft ramp handling	100	100 shares
Hong Kong Aviation and Airport Services Limited	Hong Kong	Property investment	100*	2 shares
Hong Kong Dragon Airlines Limited	Hong Kong	Airline	100	500,000,000 shares
Troon Limited	Bermuda	Financial services	100	12,000 shares of US$1 each
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares

Principal subsidiaries and associates are those which materially affect the results or assets of the Group.

All shares are ordinary shares unless otherwise stated.

* *Shareholding held through subsidiaries.*

Associates

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned
Air China Cargo Co., Ltd.	People's Republic of China	Cargo carriage service	25**
Air China Limited	People's Republic of China	Airline	18
Cebu Pacific Catering Services Inc.	Philippines	Airline catering	40*
Ground Support Engineering Limited	Hong Kong	Airport ground engineering support and equipment maintenance	50*
HAECO ITM Limited	Hong Kong	Inventory technical management services	30
LSG Lufthansa Service Hong Kong Limited	Hong Kong	Airline catering	32*
Shanghai International Airport Services Co., Limited	People's Republic of China	Ground handling	25*

* *Shareholding held through subsidiaries.*

** *Shareholding held through subsidiary at 25%, another 24% held through an economic interest with total holding at 49%.*

1. Basis of accounting

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (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 measurement basis used is historical cost modified by the use of fair value for certain financial assets and liabilities as explained in accounting policies 8, 9, 10 and 12 below.

The preparation of the financial statements in conformity with HKFRS requires management to make certain estimates and assumptions which affect the amounts of property, plant and equipment, intangible assets, long-term investments, retirement benefit obligations and taxation included in the financial statements. These estimates and assumptions are continually re-evaluated and are based on management's expectations of future events which are considered to be reasonable.

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. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December together with the Group's share of the results and net assets of its associates. Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income. Where interests have been bought or sold during the year, only those results relating to the period of control are included in the financial statements.

Goodwill represents the excess of the cost of subsidiaries and associates over the fair value of the Group's share of the net assets at the date of acquisition. Goodwill is recognised at cost less accumulated impairment losses. Goodwill arising from the acquisition of subsidiaries is allocated to cash-generating units and is tested annually for impairment.

On disposal of a subsidiary or associate, goodwill is included in the calculation of any gain or loss.

Non-controlling interests in the consolidated statement of financial position comprise the outside shareholders' proportion of the net assets of subsidiaries and are treated as a part of equity. In the consolidated statement of profit or loss and other comprehensive income, non-controlling interests are disclosed as an allocation of the profit or loss and total comprehensive income for the year. Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated statement of financial position in accordance with accounting policy 9.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less any impairment loss recognised. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. Associates

Associates are those companies, not being subsidiaries, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant influence.

The consolidated statement of profit or loss and other comprehensive income includes the Group's share of results of associates as reported in their financial statements made up to dates not earlier than three months prior to 31st December. In the consolidated statement of financial position, investments in associates represent the Group's share of net assets, goodwill arising on acquisition of the associates (less any impairment) and loans to those companies.

In the Company's statement of financial position, investments in associates are stated at cost less any impairment loss recognised and loans to those companies.

4. Foreign currencies

Foreign currency transactions entered into during the year are translated into Hong Kong dollars at the market rates ruling at the relevant transaction dates whilst the following items are translated at the rates ruling at the reporting date:

(a) foreign currency denominated financial assets and liabilities.

(b) assets and liabilities of foreign subsidiaries and associates.

Exchange differences arising on the translation of foreign currencies into Hong Kong dollars are reflected in profit or loss except that:

(a) unrealised exchange differences on foreign currency denominated financial assets and liabilities, as described in accounting policies 8, 9 and 10 below, that qualify as effective cash flow hedge instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" are recognised directly in equity via the statement of changes in equity. These exchange differences are included in profit or loss as an adjustment to the hedged item in the same period or periods during which the hedged item affects profit or loss.

(b) unrealised exchange differences on net investments in foreign subsidiaries and associates (including intra-Group balances of an equity nature) and related long-term liabilities are taken directly to equity.

5. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. An acquired (owned and finance leased) aircraft reflects all components in its full service potential excluding the maintenance condition of its landing gear, airframe and engines. The cost relating to the maintenance element is identified on acquisition as a separate component and depreciated till its next major maintenance event. Expenditure for heavy maintenance visits on aircraft, engine overhauls and landing gear overhauls, is capitalised at cost and depreciated over the average expected life between major overhauls, estimated to be 4 to 10 years. Expenditure for engine overhaul costs covered by power-by-hour (fixed rate charged per hour) maintenance agreements is expensed by hours flown. Expenditure for other maintenance and repairs is charged to the profit or loss.

Depreciation of property, plant and equipment is calculated on a straight line basis to write down cost over their anticipated useful lives to their estimated residual values as follows:

Passenger aircraft	over 20 years to residual value of the lower of 10% of cost or expected realisable value
Freighter aircraft	over 20-27 years to residual value of between 10% to 20% of cost and over 10 years to nil residual value for freighters converted from passenger aircraft
Aircraft product	over 5-10 years to nil residual value
Other equipment	over 3-25 years to nil residual value
Buildings	over the lease term of the leasehold land to nil residual value

Major modifications to aircraft and reconfiguration costs are capitalised as part of aircraft cost and are depreciated over periods of up to 10 years.

The depreciation policy and the carrying amount of property, plant and equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which affect the life expectancy of the assets. Any impairment in value is recognised by writing down the carrying amount to estimated recoverable amount which is the higher of the value in use (the present value of future cash flows) and the fair value less costs of disposal.

6. Leased assets

Property, plant and equipment held under lease agreements that transfers substantially all the risks and rewards of ownership is treated as if it had been purchased outright at fair market value and the corresponding liabilities to the lessor, net of interest charges, are included as obligations under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership are treated as operating leases.

Amounts payable in respect of finance leases are apportioned between interest charges and reductions of obligations based on the interest rates implicit in the leases.

Operating lease payments and income are charged and credited respectively to profit or loss on a straight line basis over the life of the related lease.

With respect to operating lease agreements, where the Group is required to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. This provision is based on the present value of the expected future cost of meeting the maintenance and non-maintenance return condition, having regard to the current fleet plan and long-term maintenance schedules.

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation, acquisition of computer software licences and others. The accounting policy for goodwill is outlined in accounting policy 2 on page 105.

Expenditure on computer software licences and others which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis. The useful life of expenditure on computer software licences and others 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.

8. Financial assets

Other long-term receivables, bank and security deposits, trade and other short-term receivables are categorised as loans and receivables and are stated at amortised cost less impairment loss.

Where long-term investments held by the Group are designated as available-for-sale financial assets, these investments are stated at fair value. Fair value is based on quoted market prices at the end of the reporting period without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using an appropriate valuation model. Any change in fair value is recognised in the investment revaluation reserve. On disposal or if there is evidence that the investment is impaired, the cumulative gain or loss on the investment is reclassified from the investment revaluation reserve to profit or loss.

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Funds with investment managers and other liquid investments which are managed and evaluated on a fair value basis are designated as at fair value through profit or loss.

Impairment is recognised when the recoverability of the debt is in doubt resulting from financial difficulty of a customer or the debt in dispute.

The accounting policy for derivative financial assets is outlined in accounting policy 10.

Financial assets are recognised or derecognised by the Group on the date when the purchase or sale of the assets occurs.

9. Financial liabilities

Long-term loans, finance lease obligations and trade and other payables are stated at amortised cost or designated as at fair value through profit or loss.

Where long-term liabilities have been defeased by the funds and other investment, those liabilities and deposits (and income and charge arising therefrom) are netted off, in order to reflect the overall commercial effect of the arrangements. Such netting off occurs where there is a current legally enforceable right to set off the liability and the deposit and the Group intends either to settle on a net basis or to realise the deposit and settle the liability simultaneously.

The accounting policy for derivative financial liabilities is outlined in accounting policy 10.

Financial liabilities are recognised or derecognised when the contracted obligations are incurred or extinguished.

Interest expenses incurred under financial liabilities are calculated and recognised using the effective interest method.

10. Derivative financial instruments

Derivative financial instruments are used solely to manage exposures to fluctuations in foreign exchange rates, interest rates and jet fuel prices in accordance with the Group's risk management policies. The Group does not hold or issue derivative financial instruments for proprietary trading purposes.

All derivative financial instruments are recognised at fair value in the statement of financial position. Where derivative financial instruments are designated as effective hedging instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" and hedge exposure to fluctuations in foreign exchange rates, interest rates or jet fuel prices, any fair value change is accounted for as follows:

(a) the portion of the fair value change that is determined to be an effective cash flow hedge is recognised directly in equity via the statement of changes in equity and is included in profit or loss as an adjustment to revenue, net finance charges or fuel expense in the same period or periods during which the hedged transaction affects profit or loss.

(b) the ineffective portion of the fair value change is recognised in profit or loss immediately.

Derivatives which do not qualify as hedging instruments under HKAS 39 "Financial Instruments: Recognition and Measurement" are accounted for as held for trading financial instruments and any fair value change is recognised in profit or loss immediately.

11. Fair value measurement

Fair value of financial assets and financial liabilities is determined either by reference to quoted market values or by discounting future cash flows using market interest rates for similar instruments.

12. Retirement benefits

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss and other comprehensive income so as to spread the regular cost over the service lives of employees.

The asset or liability recognised in the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligations) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligations are calculated every three years by independent actuaries and are determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and return on plan assets excluding interest income are charged or credited to other comprehensive income in the statement of profit or loss and other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the statement of profit or loss and other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss and other comprehensive income in the period to which the contributions relate.

13. Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised.

Deferred tax assets relating to unused tax losses and deductible temporary differences are recognised to the extent that it is probable that future taxable profits will be available against which these unused tax losses and deductible temporary differences can be utilised.

In addition, where initial cash benefits have been received in respect of certain lease arrangements, provision is made for the future obligation to make tax payments.

14. Stock

Stock held for consumption is valued either at cost or weighted average cost less any applicable allowance for obsolescence. Stock held for disposal is stated at the lower of cost and net realisable value. Net realisable value represents estimated resale price.

15. Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amounts are to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

16. Revenue recognition

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unflown passenger and cargo sales is recorded as unearned transportation revenue. Income from catering and other services is recognised when the services are rendered. Interest income is recognised as it accrues while dividend income is recognised when the right to receive payment is established.

17. Maintenance and overhaul costs

Replacement spares and labour costs for maintenance and overhaul of aircraft are charged to profit or loss on consumption and as incurred respectively unless they are capitalised according to the accounting policy 5.

18. Loyalty programme

The Company operates a customer loyalty programme called Asia Miles (the "programme"). As members accumulate miles by travelling on Cathay Pacific or Cathay Dragon flights, or when the Company sells miles to participating partners in the programme, revenue from the initial sales transaction equal to the programme awards at their fair value is deferred as a liability until the miles are redeemed or the passenger is uplifted in the case of the Group's flight redemptions. Breakage, the proportion of points that are expected to expire, is recognised to reduce fair value, and is determined by a number of assumptions including historical experience, future redemption pattern and programme design.

Marketing revenue, associated with the sales of miles to participating partners is measured as the difference between the consideration received and the revenue deferred, and is recognised when the service is performed.

19. Related parties

Related parties are individuals and companies, including subsidiary, fellow subsidiary, jointly controlled and associated companies and key management (including close members of their families), where the individual, Company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

20. Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits is required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Statistics

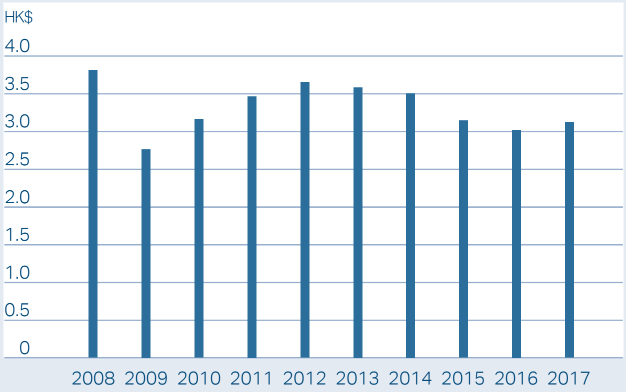
		2017	2016
Consolidated profit or loss summary	*HK$M*		
Passenger services		**66,408**	66,926
Cargo services		**23,903**	20,063
Catering, recoveries and other services		**6,973**	5,762
Revenue		**97,284**	92,751
Operating expenses		**(99,563)**	(93,276)
Operating (loss)/profit		**(2,279)**	(525)
Profit on disposal of investments		**586**	–
Gain on deemed disposal of an associate		**244**	–
Net finance charges		**(1,761)**	(1,301)
Share of profits/(losses) of associates		**2,630**	2,049
(Loss)/profit before taxation		**(580)**	223
Taxation		**(308)**	(497)
(Loss)/profit for the year		**(888)**	(274)
Profit attributable to non-controlling interests		**(371)**	(301)
(Loss)/profit attributable to the shareholders of Cathay Pacific		**(1,259)**	(575)
Dividends paid		**–**	(1,259)
Retained profit for the year		**(1,259)**	(1,834)
Consolidated statement of financial position summary	*HK$M*		
Property, plant and equipment and intangible assets		**122,403**	117,390
Long-term receivables and investments		**32,212**	27,902
Borrowings		**(78,394)**	(70,169)
Liquid funds less bank overdrafts		**19,094**	20,290
Net borrowings		**(59,300)**	(49,879)
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		**(18,649)**	(21,727)
Other long-term payables		**(3,502)**	(7,517)
Deferred taxation		**(11,892)**	(10,643)
Net assets		**61,272**	55,526
Financed by:			
Funds attributable to the shareholders of Cathay Pacific		**61,101**	55,365
Non-controlling interests		**171**	161
Total equity		**61,272**	55,526
Per share			
Shareholders' funds	*HK$*	**15.53**	14.07
EBITDA	*HK$*	**2.68**	2.56
(Loss)/earnings	*HK cents*	**(32.0)**	(14.6)
Dividend	*HK$*	**0.05**	0.05
Ratios			
(Loss)/profit margin	*%*	**(1.3)**	(0.6)
Return on capital employed	*%*	**0.8**	1.0
Dividend cover	*Times*	**(6.4)**	(2.9)
Cash interest cover	*Times*	**4.9**	9.1
Gross debt/equity ratio	*Times*	**1.28**	1.27
Net debt/equity ratio	*Times*	**0.97**	0.90

2015	2014	2013	2012	2011	2010	2009	2008
73,047	75,734	71,826	70,133	67,778	59,354	45,920	57,964
23,122	25,400	23,663	24,555	25,980	25,901	17,255	24,623
6,173	4,857	4,995	4,688	4,648	4,269	3,803	3,976
102,342	105,991	100,484	99,376	98,406	89,524	66,978	86,563
(95,678)	(101,556)	(96,724)	(97,763)	(93,125)	(78,672)	(62,583)	(94,911)
6,664	4,435	3,760	1,613	5,281	10,852	4,395	(8,348)
–	–	–	–	–	2,165	1,254	–
–	–	–	–	–	868	–	–
(1,164)	(1,158)	(1,019)	(884)	(744)	(978)	(847)	(1,012)
1,965	772	838	754	1,708	2,577	264	(764)
7,465	4,049	3,579	1,483	6,245	15,484	5,066	(10,124)
(1,157)	(599)	(675)	(409)	(779)	(1,441)	(275)	1,366
6,308	3,450	2,904	1,074	5,466	14,043	4,791	(8,758)
(308)	(300)	(284)	(212)	(169)	(185)	(170)	(224)
6,000	3,150	2,620	862	5,297	13,858	4,621	(8,982)
(2,046)	(1,022)	(551)	(1,338)	(3,777)	(1,691)	–	(2,438)
3,954	2,128	2,069	(476)	1,520	12,167	4,621	(11,420)
111,158	108,789	104,737	93,703	82,099	74,116	73,345	73,821
27,947	29,290	27,449	24,776	23,393	17,512	14,321	14,504
(63,105)	(65,096)	(67,052)	(59,546)	(43,335)	(39,629)	(42,642)	(40,280)
20,647	21,098	27,736	24,182	19,597	24,194	16,511	15,082
(42,458)	(43,998)	(39,316)	(35,364)	(23,738)	(15,435)	(26,131)	(25,198)
(23,961)	(22,478)	(19,110)	(15,711)	(16,685)	(14,022)	(12,864)	(16,887)
(15,838)	(10,487)	(1,318)	(3,205)	(3,650)	(1,700)	(1,086)	(5,509)
(8,781)	(9,263)	(9,429)	(8,061)	(6,651)	(5,842)	(5,255)	(4,737)
48,067	51,853	63,013	56,138	54,768	54,629	42,330	35,994
47,927	51,722	62,888	56,021	54,633	54,476	42,182	35,878
140	131	125	117	135	153	148	116
48,067	51,853	63,013	56,138	54,768	54,629	42,330	35,994
12.18	13.15	15.99	14.24	13.89	13.85	10.72	9.12
4.45	3.44	3.04	2.31	3.34	5.80	2.95	(1.00)
152.5	80.1	66.6	21.9	134.7	352.3	117.5	(228.3)
0.53	0.36	0.22	0.08	0.52	1.11	0.10	0.03
5.9	3.0	2.6	0.9	5.4	15.5	6.9	(10.4)
8.0	4.7	4.0	2.3	8.4	21.7	8.7	(12.3)
2.9	2.2	3.0	2.7	2.6	3.2	11.8	(76.1)
25.5	20.7	23.8	20.9	41.7	35.2	5.1	3.7
1.32	1.26	1.07	1.06	0.79	0.73	1.01	1.12
0.89	0.85	0.63	0.63	0.43	0.28	0.62	0.70

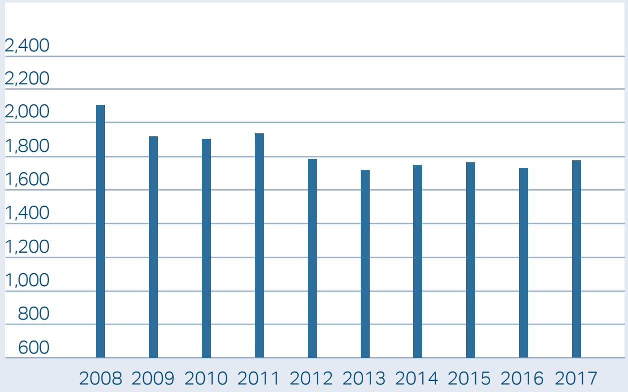
		2017	2016
Cathay Pacific and Cathay Dragon operating summary			
Available tonne kilometres	*Million*	**31,439**	30,462
Revenue tonne kilometres	*Million*	**23,679**	22,418
Available seat kilometres	*Million*	**150,138**	146,086
Revenue passengers carried	*'000*	**34,820**	34,323
Revenue passenger kilometres	*Million*	**126,663**	123,478
Revenue load factor	*%*	**80.0**	79.5
Passenger load factor	*%*	**84.4**	84.5
Cargo and mail carried	*'000 tonnes*	**2,056**	1,854
Cargo and mail revenue tonne kilometres	*Million*	**11,633**	10,675
Cargo and mail load factor	*%*	**67.8**	64.4
Excess baggage carried	*Tonnes*	**2,449**	2,471
Kilometres flown	*Million*	**596**	579
Block hours	*'000 hours*	**857**	826
Aircraft departures	*'000*	**175**	172
Length of scheduled routes network	*'000 kilometres*	**653**	636
Number of destinations at year end	*Destinations*	**200**	182
Staff number at year end	*Number*	**26,029**	26,674
ATK per staff	*'000*	**1,208**	1,142
On-time performance			
Departure (within 15 minutes)	*%*	**71.2**	72.1
Average aircraft utilisation	*Hours per day*		
A320-200		**9.3**	9.3
A321-200		**9.4**	9.4
A330-300		**10.7**	11.4
A340-300		**3.8**	8.3
A340-600		**–**	–
A350-900		**14.1**	12.7
747-400		**–**	5.2
747-200F/300SF		**12.7**	–
747-400F/BCF/8F		**4.6**	11.7
777-200/300		**8.8**	9.4
777-300ER		**16.0**	16.0
Fleet average		**12.3**	12.2
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330-300		**37**	41
A340-300		**–**	4
A350-900		**22**	10
747-400		**–**	–
747-200F		**–**	–
747-400F		**–**	–
747-400BCF		**–**	1
747-400ERF		**6**	6
747-8F		**14**	14
777-200		**5**	5
777-300		**12**	12
777-300ER		**53**	53
Total		**149**	146
Aircraft operated by Cathay Dragon:			
A320-200		**15**	15
A321-200		**8**	8
A330-300		**24**	20
747-200F		**–**	–
747-400BCF		**–**	–
Total		**47**	43

2015	2014	2013	2012	2011	2010	2009	2008
30,048	28,440	26,259	26,250	26,383	24,461	22,249	24,410
22,220	20,722	18,696	18,819	19,309	19,373	16,775	17,499
142,680	134,711	127,215	129,595	126,340	115,748	111,167	115,478
34,065	31,570	29,920	28,961	27,581	26,796	24,558	24,959
122,330	112,257	104,571	103,837	101,536	96,588	89,440	90,975
81.1	79.1	77.5	76.2	77.0	81.1	77.7	75.1
85.7	83.3	82.2	80.1	80.4	83.4	80.5	78.8
1,798	1,723	1,539	1,563	1,649	1,804	1,528	1,645
10,586	10,044	8,750	8,942	9,648	10,175	8,256	8,842
64.2	64.3	61.8	64.2	67.2	75.7	70.8	65.9
2,596	2,699	2,599	2,711	3,103	4,053	3,883	2,963
576	550	512	502	494	464	431	460
823	789	735	715	695	652	605	649
173	167	160	154	146	138	130	138
620	586	576	602	568	535	481	453
179	210	190	179	167	146	122	124
26,833	25,755	24,572	23,844	23,015	21,592	20,907	21,309
1,120	1,104	1,069	1,101	1,146	1,133	1,064	1,146
64.7	70.1	75.5	77.4	82.0	80.9	86.8	81.4
9.4	9.2	9.1	8.8	8.9	8.2	8.0	8.4
9.8	9.9	8.8	8.9	8.4	8.6	7.8	8.4
12.1	12.4	12.0	12.3	12.1	11.6	10.8	10.9
8.5	11.6	13.3	12.7	13.0	13.8	12.2	14.7
–	–	–	–	–	–	–	11.4
–	–	–	–	–	–	–	–
5.7	8.2	10.9	12.7	13.7	13.2	12.9	14.1
–	–	–	–	–	–	5.4	7.5
11.9	11.8	10.9	11.4	13.8	14.4	13.2	13.1
8.6	8.8	8.3	8.4	8.2	8.0	8.1	8.7
15.9	16.1	15.8	15.7	15.7	15.3	15.8	14.3
12.2	12.2	11.8	12.0	12.3	12.0	11.2	11.5
42	40	35	37	33	32	32	32
7	11	11	11	13	15	15	15
–	–	–	–	–	–	–	–
3	7	13	18	21	22	23	23
–	–	–	–	–	–	–	5
4	5	6	6	6	6	6	6
1	1	1	6	8	12	13	10
6	6	6	6	6	6	6	2
13	13	13	8	4	–	–	–
5	5	5	5	5	5	5	5
12	12	12	12	12	12	12	12
53	47	38	29	24	18	14	9
146	147	140	138	132	128	126	119
15	15	15	15	11	11	9	10
8	8	6	6	6	6	6	6
19	18	20	17	15	14	14	16
–	–	–	–	–	–	–	1
–	–	–	–	–	–	–	2
42	41	41	38	32	31	29	35

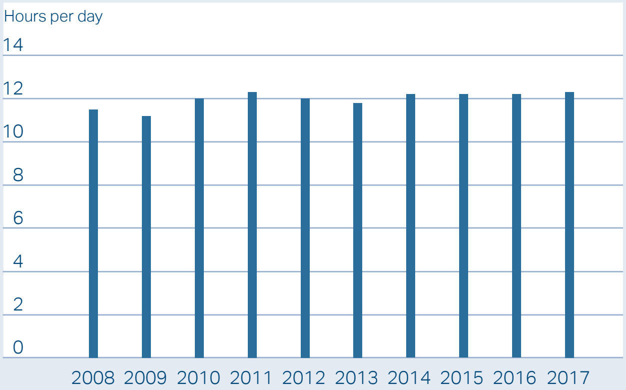
Cost per ATK (with fuel)



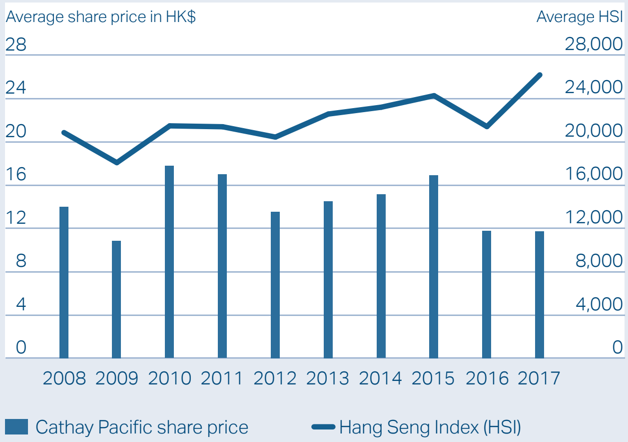
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Productivity											
Cost per ATK (with fuel)	*HK$*	**3.12**	3.02	3.14	3.50	3.58	3.65	3.46	3.16	2.76	3.81
ATK per HK$'000 staff cost	*Unit*	**1,775**	1,730	1,764	1,750	1,720	1,785	1,936	1,905	1,919	2,106
Aircraft utilisation	*Hours per day*	**12.3**	12.2	12.2	12.2	11.8	12.0	12.3	12.0	11.2	11.5
Share prices	*HK$*										
High		**13.4**	14.0	20.6	17.7	16.8	15.9	23.1	24.1	14.7	20.3
Low		**10.4**	10.1	12.7	13.7	12.2	11.9	11.9	12.8	7.0	7.1
Year-end		**12.1**	10.2	13.4	16.9	16.4	14.2	13.3	21.5	14.5	8.8
Price ratios (Note)	*Times*										
Price/earnings		**(37.8)**	(69.8)	8.8	21.1	24.6	64.9	9.9	6.1	12.3	(3.9)
Market capitalisation/ funds attributable to the shareholders of Cathay Pacific		**0.8**	0.7	1.1	1.3	1.0	1.0	1.0	1.6	1.4	1.0
Price/cash flows		**7.4**	5.2	3.1	5.4	4.6	6.1	3.4	4.5	12.7	8.9

Note: Based on year end share price, where applicable.

Terms

Borrowings Total borrowings (loans and lease obligations) less security deposits, notes and zero coupon bonds.

Net borrowings Borrowings and bank overdrafts less liquid funds.

Available tonne kilometres ("ATK") Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

Available cargo and mail tonne kilometres ("AFTK") Cargo and mail capacity, measured in tonnes available for the carriage of freight on each sector multiplied by the sector distance.

Available seat kilometres ("ASK") Passenger seat capacity, measured in seats available for the carriage of passengers on each sector multiplied by the sector distance.

Revenue passenger kilometres ("RPK") Number of passengers carried on each sector multiplied by the sector distance.

Revenue tonne kilometres ("RTK") Traffic volume, measured in load tonnes from the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

On-time performance Departure within 15 minutes of scheduled departure time.

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from incidental activities.

Ratios

$$\text{Earnings/(loss) per share} = \frac{\text{Profit/(loss) attributable to the shareholders of Cathay Pacific}}{\text{Weighted average number of shares (by days) in issue for the year}}$$

$$\text{Profit/(loss) margin} = \frac{\text{Profit/(loss) attributable to the shareholders of Cathay Pacific}}{\text{Revenue}}$$

$$\text{Shareholders' funds per share} = \frac{\text{Funds attributable to the shareholders of Cathay Pacific}}{\text{Total issued and fully paid shares at end of the year}}$$

$$\text{Return on capital employed} = \frac{\text{Operating profit and share of profits of associates less taxation}}{\text{Average of total equity and net borrowings}}$$

$$\text{Dividend cover} = \frac{\text{Profit/(loss) attributable to the shareholders of Cathay Pacific}}{\text{Dividends}}$$

$$\text{Cash interest cover} = \frac{\text{Cash generated from operations}}{\text{Net interest paid}}$$

$$\text{Gross debt/equity ratio} = \frac{\text{Borrowings}}{\text{Funds attributable to the shareholders of Cathay Pacific}}$$

$$\text{Net debt/equity ratio} = \frac{\text{Net borrowings}}{\text{Funds attributable to the shareholders of Cathay Pacific}}$$

$$\text{Passenger/Cargo and mail load factor} = \frac{\text{Revenue passenger kilometres/Cargo and mail revenue tonne kilometres}}{\text{Available seat kilometres/Available cargo and mail tonne kilometres}}$$

$$\text{Revenue load factor} = \frac{\text{Total passenger, cargo and mail traffic revenue}}{\text{Maximum possible revenue at current yields and capacity}}$$

Breakeven load factor = A theoretical revenue load factor at which the traffic revenue equates to the net operating expenses.

$$\text{Passenger/Cargo and mail yield} = \frac{\text{Passenger revenue/Cargo and mail revenue}}{\text{Revenue passenger kilometres/Cargo and mail revenue tonne kilometres}}$$

$$\text{Cost per ATK} = \frac{\text{Total operating expenses of Cathay Pacific and Cathay Dragon}}{\text{ATK of Cathay Pacific and Cathay Dragon}}$$

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

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Financial calendar

Year ended 31st December 2017	
Annual report available to shareholders	6th April 2018
Annual General Meeting	9th May 2018
Six months ending 30th June 2018	
Interim results announcement	August 2018
Interim dividend payable	October 2018

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