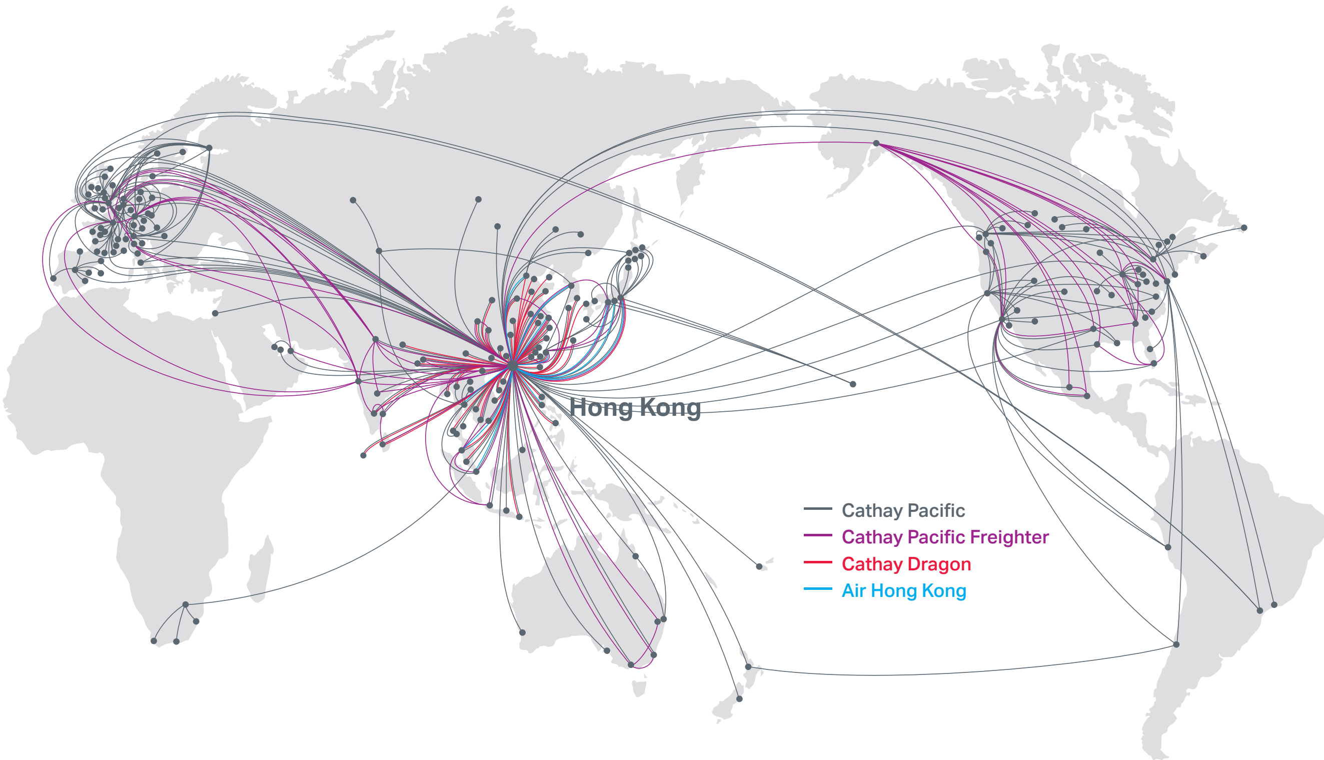
CATHAY PACIFIC

Interim Report 2018

Cathay Pacific Airways Limited
Stock Code: 00293

oneworld



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Corporate Information

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

Investor relations

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Cathay Pacific Airways Limited (“Cathay Pacific”) is an international airline registered and based in Hong Kong. Together with Hong Kong Dragon Airlines Limited (“Cathay Dragon”), it offers scheduled passenger and cargo services to 212 destinations in 53 countries and territories.

Cathay Pacific 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 206 aircraft at 30th June 2018. Cathay Pacific itself operated 148 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 30th June 2018 it had 78 new aircraft due for delivery up to 2024.

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 54 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 32,400 people worldwide, of whom around 25,800 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.

Group Financial Statistics

		2018	2017	
		Six months ended 30th June		Change
Results				
Revenue	*HK$ million*	**53,078**	45,858	**+15.7%**
Loss attributable to the shareholders of Cathay Pacific	*HK$ million*	**(263)**	(2,051)	**+1,788**
Loss per share	*HK cents*	**(6.7)**	(52.1)	**+45.4**
Dividend per share	*HK$*	**0.10**	–	**+0.10**
Loss margin	*%*	**(0.5)**	(4.5)	**+4.0%pt**

		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**65,056**	61,101	**+6.5%**
Net borrowings	*HK$ million*	**55,272**	59,300	**-6.8%**
Shareholders' funds per share	*HK$*	**16.5**	15.5	**+6.5%**
Net debt/equity ratio	*Times*	**0.85**	0.97	**-0.12 times**

Operating Statistics – Cathay Pacific and Cathay Dragon

		2018	2017	
		Six months ended 30th June		Change
Available tonne kilometres ("ATK")	*Million*	**15,747**	15,190	**+3.7%**
Available seat kilometres ("ASK")	*Million*	**75,770**	73,444	**+3.2%**
Available cargo & mail tonne kilometres ("AFTK")	*Million*	**8,542**	8,206	**+4.1%**
Passenger revenue per ASK	*HK cents*	**46.8**	43.7	**+7.1%**
Revenue passenger kilometres ("RPK")	*Million*	**63,810**	62,242	**+2.5%**
Revenue passengers carried	*'000*	**17,485**	17,163	**+1.9%**
Passenger load factor	*%*	**84.2**	84.7	**-0.5%pt**
Passenger yield	*HK cents*	**55.4**	51.5	**+7.6%**
Cargo and mail revenue per AFTK	*HK$*	**1.32**	1.10	**+20.0%**
Cargo and mail revenue tonne kilometres ("RFTK")	*Million*	**5,831**	5,435	**+7.3%**
Cargo and mail carried	*'000 tonnes*	**1,038**	966	**+7.5%**
Cargo and mail load factor	*%*	**68.3**	66.2	**+2.1%pt**
Cargo and mail yield	*HK$*	**1.93**	1.66	**+16.3%**
Cost per ATK (with fuel)	*HK$*	**3.29**	3.14	**+4.8%**
Fuel consumption per million revenue tonne kilometres	*Barrels*	**1,840**	1,888	**-2.5%**
Cost per ATK (without fuel)	*HK$*	**2.29**	2.17	**+5.5%**
Underlying* cost per ATK (without fuel)	*HK$*	**2.20**	2.13	**+3.3%**
ATK per HK$'000 staff cost	*Unit*	**1,783**	1,739	**+2.5%**
Aircraft utilisation	*Hours per day*	**12.2**	12.3	**-0.8%**
On-time performance	*%*	**74.1**	73.1	**+1.0%pt**

* Underlying costs exclude exceptional items and are adjusted for the effect of foreign currency movements and adoption of HKFRS 15.

The operating environment for our airlines remains challenging. We are half way through our three year transformation programme, which is designed to make our businesses leaner, more agile and more effective competitors. The programme is on track. Despite higher fuel prices, we performed much better in the first half of 2018 than in the first half of 2017. The Cathay Pacific Group reported an attributable loss of HK$263 million for the first six months of 2018. This compares to an attributable loss of HK$2,051 million in the first half of 2017. The loss per share in the first half of 2018 was HK6.7 cents compared to a loss per share of HK52.1 cents in the first half of 2017. Our airlines, Cathay Pacific and Cathay Dragon, reported an attributable loss of HK$904 million for the first six months of 2018, compared to an attributable loss of HK$2,765 million in the first half of 2017. Revenue generation was satisfactory during the first half of 2018, with passenger yield improving. Our cargo business was strong, with growth in both volume and yield. We benefited from a weak US dollar during the early part of the period, but were adversely affected by significantly increased fuel prices.

Business performance

The Group's passenger revenue increased by 10.4% to HK$35,452 million in the first half of 2018. Capacity increased by 3.2%. The growth reflected the introduction of five new routes, increased frequencies on existing routes and the use of larger aircraft on popular routes. The load factor decreased by 0.5 percentage points to 84.2%. Passengers carried increased by 1.9% to 17.5 million. Yield increased by 7.6% to HK55.4 cents. This reflected improvements in revenue management, favourable foreign currency movements, increased revenue from fuel surcharges and strong premium class demand. There was satisfactory growth in ancillary revenue.

Cathay Dragon introduced services to Nanning in January and to Jinan in March. Cathay Pacific introduced services to Brussels in March, to Dublin in June and a seasonal service to Copenhagen in May. These services have been well received and have strengthened the connectivity of Hong Kong International Airport. Cathay Pacific's seasonal service to Barcelona became a year-round service in April. Cathay Dragon reintroduced a service to Tokyo Haneda in March. We stopped flying to Kota Kinabalu in January and to Dusseldorf in March.

Cargo revenue improved, reflecting strong demand. Tonnage carried grew faster than capacity and yield strengthened, reflecting increasing demand for specialist cargo shipments and the movement of higher value goods to and from Asia. The Group's cargo revenue in the first half of 2018 was HK$12,971 million, an increase of 23.4% compared to the same period in 2017. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 4.1%. The load factor increased by 2.1 percentage points, to 68.3%. Tonnage carried increased by 7.5% to 1.0 million tonnes. Yield increased by 16.3% to HK$1.93.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK$3,621 million (or 31.6%) compared with the first half of 2017, reflecting a 27.9% increase in average into plane fuel prices and a 2.1% increase in consumption. Fuel is the Group's most significant cost, accounting for 30.1% of total operating costs in the first half of 2018 (compared to 30.4% in the same period in 2017). Fuel hedging losses were reduced. After taking fuel hedging into account, fuel costs increased by HK$1,037 million (or 7.1%) compared with the first half of 2017. Fuel consumption per revenue tonne kilometre fell by 2.5%, as a result of the introduction of more fuel efficient aircraft.

There was a 5.5% increase in non-fuel costs per available tonne kilometre, to HK$2.29. Disregarding the effect of foreign currency movements, exceptional items and the impact of adopting a new accounting standard, the increase was 3.3%. The increase reflected higher depreciation and finance costs resulting from the acquisition of aircraft, increased route related expenses and costs incurred to improve our customer proposition.

The contribution from our subsidiaries and associated companies was reduced, principally because of weaker results from Air China Cargo.

In June, we received the first of 20 new Airbus A350-1000 aircraft, a larger version of the Airbus A350-900 aircraft already in the fleet. The new aircraft will be used on the new service which we are introducing to Washington D.C. in September and on other long-haul routes. At 30th June 2018, we had 78 new aircraft on order for delivery over the next five years. These new aircraft will improve our fuel and operating efficiency and reduce our emissions.

Our Airbus A350 aircraft have inflight Wi-Fi and our latest seats and inflight entertainment systems. We are retrofitting the economy class cabins of our 65 Boeing 777 aircraft. The retrofit includes the introduction of inflight Wi-Fi, which is also being introduced on our Airbus A330 aircraft. We are introducing restaurant style dining on long haul business class services. Our loyalty programmes are being made more rewarding and competitive.

Prospects

Our airlines usually perform better in the second half of the year than in the first half of the year. We expect this to be the case in 2018. The strength of the US dollar and economic uncertainty arising from global trade concerns remain challenges. But we still expect passenger yields to continue to improve and the cargo business to remain strong. Fuel prices are expected to be higher. Hedging losses will reduce but net fuel costs will increase. Our new aircraft will improve fuel efficiency and we expect to generate more ancillary revenue.

Our transformation programme will continue. We believe that we are on track to achieve our objective of achieving sustainable long-term performance for our airline businesses. There is still much to do, but I am confident in our future. Of course, our success can only be achieved with the extraordinary efforts of management and service delivery professionals. Their dedication and devotion to Cathay Pacific has shone through during recent difficult times. I thank them for their commitment and their loyalty.

Cathay Pacific has been Hong Kong's home airline for over seven decades. We remain fully committed to this magnificent city. We will continue to make substantial investments in the development and strengthening of Hong Kong's position as Asia's largest international aviation hub.

John Slosar

Chairman

Hong Kong, 8th August 2018

The operating environment for our airlines has been challenging for some time. In particular, intense competition has led to overcapacity on key passenger routes and is severely affecting our business. In 2017, we embarked on a three year transformation programme. At the halfway point we are on track and showing results. Despite higher fuel prices, we performed much better in the first half of 2018 than in the first half of 2017. The transformation 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. This year, we are improving the customer proposition, productivity and the analysis of our business, establishing a global business services team and reorganising our nine core business processes. In the first half of 2018, we introduced five new passenger routes. The premium class passenger load factor was high. Our cargo business continued to grow.

Transformation

- Premium class demand is strong. So is cargo demand. But there are still structural challenges. Competing capacity and non-stop flights are increasing. Our competitor airlines are getting better. Passenger expectations are changing.
- In 2017, we laid the foundations of our transformation. A new head office organisation was put in place with clearer accountabilities. We reduced headcount by 600 and created centres of excellence to reduce duplication and to improve efficiency. We formed a central digital team with the ability to experiment rapidly. We improved our ability to analyse data. We expanded our network, improved our loyalty offering for Marco Polo and Asia Miles members, established a social care team and started digital surveys.
- In 2018, we are reviewing our branding and improving what we offer to customers where it matters most, especially the quality of food and the style of service. We are increasing ancillary sources of revenue. We have completed the groundwork for a transformation of our global call centres. We have improved crew rostering. We have started to transform our integrated operations centre. We have improved the productivity of line maintenance at outports. Our staff training focuses more on the customer and less on rules.
- Our aim is to achieve continuous improvement in all areas of our business. We are reengineering the nine core business processes. We are investing more in digital and analytical capability and in process automation. Our Global Business Services team will take on tasks resulting from the reengineering of our core business processes. The transformation programme includes over 700 separate initiatives.

Innovation

- We took delivery of our first Airbus A350-1000 aircraft in June 2018. The Airbus A350-1000 has a longer range and more capacity than the Airbus A350-900. We expect to have 20 aircraft of this type in service by the end of 2021.
- The Deck, Cathay Pacific's latest business class lounge at Hong Kong International Airport, opened in March 2018. We closed The Cabin in April 2018.
- We commenced the installation of new economy class seats, in a new configuration on our Boeing 777-300ER and Boeing 777-300 aircraft in April. The new seats have been ergonomically-designed and feature thicker cushioning for optimal comfort. An enhanced inflight entertainment experience as well as larger personal screens on the Boeing 777-300ER aircraft are also part of this enhancement programme.
- We are installing Wi-Fi on our Boeing 777 and Airbus A330 aircraft. The Airbus A350 aircraft are already Wi-Fi enabled.

- We have introduced more meal options and a restaurant style of dining experience on our business class services to Chicago and London Gatwick and we will roll this programme out across all long haul routes.
- Self-service bag tagging facilities were introduced in Melbourne, Nagoya, Perth, Seoul, Tokyo-Narita and Tokyo-Haneda (for Cathay Dragon) in the first half of 2018. Self-service bag drop facilities were introduced in Brisbane and Melbourne.

Awards

- In January 2018, Cathay Pacific and Cathay Dragon service teams and individual staff members won honours at the Hong Kong Customer Service Excellence Awards 2017.
- In February 2018, Cathay Pacific won Best First Class Sparkling at the Cellars in the Sky 2017 Awards.
- In March 2018, Cathay Pacific won Best Entertainment (Asia and Australia region) at the APEX Regional Passenger Choice Awards.

Hub development

- In the first half of 2018, the passenger capacity of Cathay Pacific and Cathay Dragon increased by 3.2%, reflecting the launch of routes to Brussels, Copenhagen, Dublin, Jinan and Nanning and increases in frequency on some existing routes. Cathay Pacific's passenger capacity increased by 2.4%. Cathay Dragon's passenger capacity increased by 8.9%.
- We are doing more to improve the reliability of our operations. In the first half of 2018, our on-time performance improved compared to the first half of 2017.
- Cathay Pacific introduced four passenger flights per week to Brussels in March 2018 and to Dublin in June 2018 and three passenger flights per week on a seasonal basis to Copenhagen in May 2018.
- Cathay Pacific will introduce four passenger flights per week to Washington D.C. in September 2018 and three passenger flights per week on a seasonal basis to Cape Town in November 2018.
- From March 2019, Cathay Pacific will introduce four passenger flights per week to Seattle using the Airbus A350-900 aircraft.
- Cathay Dragon introduced four passenger flights per week to Nanning in January 2018 and to Jinan in March 2018.
- Cathay Dragon will introduce passenger flights to Davao City in the Philippines and to Medan in Indonesia in October 2018.
- In March 2018, Cathay Dragon reintroduced the service to Tokyo Haneda which had been suspended in October 2017.
- From March 2018, the frequency of Cathay Pacific's service to Tel Aviv was increased from four to six passenger flights per week during peak season. The service is operated by Airbus A350-900 aircraft. The service will become daily from October 2018 and will be operated by Airbus A350-1000 aircraft in seasonal highs.
- In April 2018, Cathay Pacific's previously seasonal service to Barcelona became a year-round passenger service.
- From October 2018, Cathay Pacific will increase the frequency of its passenger services to Adelaide from five to six flights per week.
- From March 2018, Cathay Dragon increased the frequency of its passenger service to Fukuoka from 11 flights per week to twice daily on a seasonal basis.
- Cathay Pacific will increase capacity on its Delhi passenger service from October 2018. One of the two daily flights will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- Cathay Pacific will increase capacity on its Mumbai passenger service from October 2018. Three of the 10 weekly flights will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.

- Cathay Pacific will increase capacity on its Chennai passenger service from December 2018. The daily flight will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- From October 2018, Cathay Pacific will reduce the frequency of its passenger service to Madrid from five to four flights per week during the winter season.
- From October 2018, Cathay Pacific will reduce the frequency of its passenger service to Paris from 11 to 10 flights per week during the winter season.
- Cathay Pacific's passenger services to Amsterdam and Madrid will be operated by Airbus A350-1000 aircraft from October and December 2018 respectively. From December, services to Manchester will also be operated by Airbus A350-1000 on a seasonal basis.
- In February 2018, Cathay Dragon introduced a business class service to Da Nang.
- Cathay Dragon stopped flying to Kota Kinabalu in January 2018.
- Cathay Pacific stopped flying to Dusseldorf in March 2018.
- For freighter services, Cathay Pacific increased frequencies to Chennai from six flights weekly to daily and its Mumbai from twice weekly to three times in June 2018. It also stopped flying to Calgary in March 2018.
- Additional capacity will be added to key routes in America during the second half of 2018 to meet seasonal demand.

Partnerships

- In February 2018, Cathay Pacific entered into a codeshare agreement with ferry operator Cotai Water Jet. The CX code has been placed on Cotai Water Jet services operating between Hong Kong International Airport and the Taipa Ferry Terminal in Macao.
- In March 2018, Cathay Pacific entered into a codeshare agreement with Air Astana. The CX code has been placed on Air Astana's flights between Hong Kong and Almaty, Bangkok and Almaty, Seoul and Almaty and on some flights between Almaty and Astana. Air Astana's KC code has been placed on some Cathay Pacific flights to Melbourne, Perth, Singapore and Sydney.
- In July 2018, Cathay Pacific entered into a codeshare agreement with Brussels Airlines. The CX code has been placed on Brussels Airlines' flights between Brussels and seven popular destinations across Europe: Berlin (Berlin-Tegel), Hamburg, Lyon (Lyon-Saint Exupery), Marseilles, Toulouse, Oslo and Prague.

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 A350-1000 aircraft are being flown on their delivery flights from Toulouse using fuel containing 10% biofuel.
- Unopened food items from inbound Cathay Pacific flights to Hong Kong are collected by Feeding Hong Kong, a non-profit organisation which provides surplus food to Hong Kong charities for distribution to people in need. Approximately 140 tonnes of surplus food were donated during the first half 2018.
- In March 2018, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards.

- 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.
- 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.
- Our Sustainable Development Report for 2017 was published in July 2018. The report is available for viewing at http://downloads.cathaypacific.com/cx/aboutus/sd/2017/pdf/cx-sd-report-2017-en.pdf.

Contribution to the community

- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. 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 June, a group of 13 Cathay Pacific employees travelled to Guizhou province in Mainland China as part of a "Change for Good" field trip organised by UNICEF. The aim was to give them a better understanding of how "Change for Good" donations are used to help to improve the lives of disadvantaged children and their families.
- We organised tours of our headquarters at Hong Kong International Airport, Cathay Pacific City, for around 2,600 visitors in the first six months of 2018.
- The Cathay Dragon aviation certification 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. The 2018 programme commenced in March with 30 participants. To date, over 270 participants have graduated from the programme. About 40% of the graduates have started aviation-related careers.

Commitment to employees

- At 30th June 2018, the Cathay Pacific Group employed more than 32,400 people worldwide. Around 25,800 of these people are based in Hong Kong. Cathay Pacific employs around 22,000 people worldwide. Cathay Dragon employs more than 3,400 people.
- Cathay Pacific recruited around 1,200 employees in the first six months of 2018, including around 470 cabin crew and around 90 pilots. Cathay Dragon recruited around 140 cabin crew and 15 pilots in the same period.
- 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.

Fleet development

- At 30th June 2018, Cathay Pacific operated 148 aircraft, Cathay Dragon operated 47 aircraft and Air Hong Kong operated 11 aircraft (a total of 206 aircraft). There are 78 new aircraft on order for delivery up to 2024.
- We took delivery of our first Airbus A350-1000 aircraft in June 2018. We expect to take delivery of a further seven aircraft of this type in the second half of 2018 and to have a total of 20 in service by the end of 2021.
- We will take delivery of two used Boeing 777-300 aircraft in the second half of 2018, and one Boeing 777-300ER will be returned to its lessor.
- The operating leases of three Airbus A330-300 aircraft expired in the first half of 2018. The aircraft were returned to their lessors.

Fleet profile*

	Number at 30th June 2018				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	3	**34**						1	2				
A350-900	16	4	2	**22**		2	4	**6**							2
A350-1000	1			**1**	7[(a)]	4	8	**19**							
747-400BCF			1[(b)]	**1**					1						
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	1		6	4	2	9
777-9X							21	**21**							
Total	76	43	29	**148**	9	9	33	**51**	2	2	2	6	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**							
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	3		7	**10**					7						
747-400BCF			1[(b/d)]	**1**					1						
Total	3		8	**11**					8						
Grand total	**96**	**43**	**67**[(d)]	**206**	**9**	**9**	**65**	**83**	**12**	**6**	**8**	**13**	**13**	**3**	**12**

* The table does not reflect aircraft movements after 30th June 2018.

(a) One aircraft has been delivered in July 2018.

(b) A freighter leased to Air Hong Kong was returned to Cathay Pacific in June and will be returned to the lessor in the second half of 2018.

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

(d) 59 of the 67 aircraft which are subjected 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

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60% 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, one Boeing 747-400BCF converted freighters dry leased from Cathay Pacific. It also operates two wet leased Airbus A330-300 passenger-to-freighter converted freighters.
- 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 in the first half of 2018.
- Compared with the first half of 2017, capacity decreased by 1.6% to 372 million available tonne kilometres in the first half of 2018. The load factor decreased by 1.1 percentage point to 64.4%. Revenue tonne kilometres decreased by 3.2% to 240 million.
- Air Hong Kong recorded an increase in profit in the first half of 2018 compared with the first half of 2017.
- In November 2017, 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.
- AML achieved an increase in profit in the first half of 2018 compared with the first half of 2017 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 52 international airlines in Hong Kong. It produced 82,450 meals for 205 flights per day on average in the first half of 2018 (a decrease of 0.5% and an increase of 1.0% respectively compared with the first half of 2017).
- CPCS's profit in the first half of 2018 decreased compared with the first half of 2017. Increase in material and staff costs more than offset an increase in revenue.
- The profits of the flight kitchens outside Hong Kong in the first half of 2018 decreased compared with the first half of 2017.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, owns and operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes. The terminal handles cargo for Cathay Pacific, Cathay Dragon, Air Hong Kong and 13 other airlines.
- CPSL handled 1,006 thousand tonnes of cargo in the first half of 2018 (an increase of 3% compared with the first half of 2017), 54% of which were transhipments. Export and import shipments accounted for 29% and 17% respectively of the total.
- The financial results in the first half of 2018 declined compared with the first half of 2017. This was mainly due to a higher volume of transit cargo and increased cost pressures.

Hong Kong Airport Services Limited (“HAS”)

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. At 30th June 2018, it provided ground handling services to 22 airlines, including Cathay Pacific and Cathay Dragon.
- In the first half of 2018, HAS had 42.7% and 2.9% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport. In 2017, HAS had a 20% share in the passenger handling business. The decrease to 2.9% in the first half of 2018 reflects the transfer of Cathay Dragon passenger handling from HAS to Cathay Pacific itself.
- Ramp handling increased by 5.8% and passenger handling decreased by 44.2%, in each case between the first halves of 2017 and 2018.
- The financial results for the first half of 2018 improved compared with the first half of 2017. This principally reflected better staff efficiency and more ramp handling business.
- HAS’ ramp handling licence at Hong Kong International Airport has been renewed for 10 years from July 2018.

Air China Limited (“Air China”)

- Air China, in which Cathay Pacific has a 18.13% interest, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 30th June 2018, Air China operated 308 domestic and 126 international (including regional) routes to 42 countries and regions, including 69 overseas cities, four regional cities and 116 domestic cities.
- Our share of Air China’s results is based on its financial statements drawn up three months in arrears. Consequently our 2018 interim results include Air China’s results for the six months ended 31st March 2018, adjusted for any significant events or transactions for the period from 1st April 2018 to 30th June 2018.
- For the six months ended 31st March 2018, Air China’s results improved compared to the six months ended 31st March 2017. This reflected traffic and revenue growth for both passenger and cargo, together with the benefits of a stronger Renminbi through the first quarter of the year. This was partly offset by rising fuel costs.

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 30th June 2018, Air China Cargo operated 15 freighters. It flies to nine cities in Mainland China and 11 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.
- In the first half of 2018, Air China Cargo’s profits were lower than in the first half of 2017. Unrealised exchange losses on loans denominated in United States dollars more than offset an underlying favourable operating result associated with an improved cargo yield, despite increased operating costs due to higher fuel prices.

Passenger services

Our passenger business in the first half of 2018 was stronger than in the first half of 2017. The Group's passenger revenue in the first six months of 2018 was HK$35,452 million, an increase of 10.4% compared to the same period in 2017. Capacity increased by 3.2%, reflecting the launching of new routes to Brussels, Copenhagen, Dublin, Jinan and Nanning and increased frequencies on other routes. The load factor decreased by 0.5 percentage points, to 84.2%. Yield increased by 7.6% (6.6% before the adoption of HKFRS 15) to HK55.4 cents, reflecting improvements in revenue management, favourable foreign currency movements at the beginning of the period, increased revenue from fuel surcharges and strong premium class demand. Demand for corporate travel strengthened, particularly on routes to Europe and the United States. Non-corporate premium class demand also increased. Economy class demand, especially on Southeast Asian and Southwest Pacific routes, was weaker than expected, reflecting strong competition and overcapacity.

Available seat kilometres ("ASK"), load factor and yield by region for Cathay Pacific and Cathay Dragon passenger services for the first half of 2018 were as follows:

	ASK (million)			Load factor (%)			Yield*
	2018	2017	**Change**	**2018**	2017	**Change**	**Change**
India, Middle East, Sri Lanka and South Africa	**5,884**	5,896	**-0.2%**	**81.7**	83.6	**-1.9%pt**	**+11.5%**
Southwest Pacific	**9,301**	8,760	**+6.2%**	**81.6**	85.2	**-3.6%pt**	**+3.0%**
Southeast Asia	**10,362**	10,088	**+2.7%**	**83.2**	84.2	**-1.0%pt**	**+9.0%**
Europe	**15,143**	13,548	**+11.8%**	**86.2**	89.0	**-2.8%pt**	**+9.7%**
North Asia	**15,588**	15,349	**+1.6%**	**80.4**	80.0	**+0.4%pt**	**+7.4%**
Americas	**19,492**	19,803	**-1.6%**	**88.2**	85.8	**+2.4%pt**	**+4.2%**
Overall	**75,770**	73,444	**+3.2%**	**84.2**	84.7	**-0.5%pt**	**+6.6%**

* Before the adoption of HKFRS 15 to allow for comparability.

- Premium class demand was strong, particularly on long haul routes.
- Demand during Chinese New Year and the Easter holiday period was strong, particularly on short haul destinations.
- Our Indian routes benefited from through traffic to the United States due to a portable electronics ban on other Middle Eastern carriers.
- Demand on Middle East routes was strong driven by robust bookings from Mainland China and Japan.
- Competition remained fierce on Southwest Pacific routes driven by increased capacity from other carriers. Less reliance on transit passengers helped to improve yield.
- Yield improved on Southeast Asia routes. Demand for travel to and from Singapore and Bangkok remained popular.
- We added significant capacity to Europe including the introduction of Brussels, Copenhagen and Dublin, and increased frequencies to London Gatwick and Manchester. Traffic volumes are yet to catch up with this newly deployed capacity. Yield has improved on European routes.
- Yield on routes between Mainland China and Hong Kong improved due to a lower proportion of transit passengers.
- Demand for travel to and from Japan remained robust with strong demand from Japan and the Pearl River Delta region.
- Demand on the South Korean route grew, however, this was from a low base following political concerns in the early part of 2017.

- Despite the reduction of capacity in Americas, revenue and efficiency remained strong driven by inward bound flows to Hong Kong.
- We sold premium class tickets on a promotional basis to leisure travellers.
- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.
- Cathay Pacific introduced four passenger flights per week to Brussels in March 2018 and to Dublin in June 2018 and three passenger flights per week on a seasonal basis to Copenhagen in May 2018. These services are operated by the Airbus A350-900 aircraft.
- Cathay Pacific will introduce four passenger flights per week to Washington D.C. in September 2018 using the Airbus A350-1000 aircraft and three passenger flights per week on a seasonal basis to Cape Town in November 2018 using the Airbus A350-900 aircraft.
- From March 2019, Cathay Pacific will introduce four passenger flights per week to Seattle using the Airbus A350-900 aircraft.
- Cathay Dragon introduced four passenger flights per week to Nanning in January 2018 and to Jinan in March 2018.
- Cathay Dragon will introduce passenger flights to Davao City in the Philippines and to Medan in Indonesia in October 2018.
- In March 2018, Cathay Dragon reintroduced the service to Tokyo Haneda which had been suspended in October 2017.
- From March 2018, the frequency of Cathay Pacific's service to Tel Aviv was increased from four to six passenger flights per week during peak season. The service is operated by Airbus A350-900 aircraft. The service will become daily from October 2018 and will be operated by Airbus A350-1000 aircraft during seasonal highs.
- In April 2018, Cathay Pacific's previously seasonal service to Barcelona became a year-round service.
- From October 2018, Cathay Pacific will increase the frequency of its passenger services to Adelaide from five to six flights per week.
- From March 2018, Cathay Dragon increased the frequency of its passenger service to Fukuoka from 11 flights per week to twice daily on a seasonal basis.
- Cathay Pacific will increase capacity on its Delhi service from October 2018. One of the two daily flights will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- Cathay Pacific will increase capacity on its Mumbai service from October 2018. Three of the 10 weekly flights will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- Cathay Pacific will increase capacity on its Chennai service from December 2018. The daily flight will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.
- From October 2018, Cathay Pacific will reduce the frequency of its passenger service to Madrid from five to four flights per week during the winter season.
- From October 2018, Cathay Pacific will reduce the frequency of its passenger service to Paris from 11 to 10 flights per week during the winter season.
- Cathay Pacific's passenger services to Amsterdam and Madrid will be operated by Airbus A350-1000 aircraft from October and December 2018 respectively. From December, services to Manchester will also be operated by Airbus A350-1000 aircraft on a seasonal basis.
- In February 2018, Cathay Dragon introduced a business class service to Da Nang.
- Cathay Dragon stopped flying to Kota Kinabalu in January 2018.
- Cathay Pacific stopped flying to Dusseldorf in March 2018.

Cargo services

The Group's cargo revenue in the first six months of 2018 was HK$12,971 million, an increase of 23.4% compared to the same period in 2017. This reflected strong demand, favourable exchange rates at the beginning of the period and increased revenue from fuel surcharges. The cargo capacity of Cathay Pacific and Cathay Dragon increased by 4.1%. The load factor increased by 2.1 percentage points to 68.3%. Tonnage carried increased by 7.5%. Yield increased by 16.3% to HK$1.93, reflecting increasing demand for specialist cargo shipments and the movement of higher value goods to and from Asia.

Available cargo and mail tonne kilometres ("AFTK"), load factor and yield for Cathay Pacific and Cathay Dragon cargo services for the first half of 2018 were as follows:

	AFTK (million)			Load factor (%)			Yield
	2018	2017	**Change**	**2018**	2017	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**8,542**	8,206	**+4.1%**	**68.3**	66.2	**+2.1%pt**	**+16.3%**

- Cargo demand was strong in the first half of 2018 and overall tonnage grew faster than capacity. Shipments from Hong Kong and Mainland China were stable and trans-shipment from the Indian subcontinent, Europe, Japan and Southeast Asia were strong.
- E-commerce shipments from Asia remained strong whilst exports of machinery and food from Europe and the Americas to Asia continued to grow, resulting in a more balanced trade flow. We carried cargo to and from more places in Europe in line with the expansion of our passenger network in Europe.
- We now offer our customers more cargo product options for the transportation of high-value, temperature-sensitive pharmaceutical products through new rental agreements with va-Q-tec and Sonoco for their special thermal containers. This complements our existing solutions with Envirotainer, DoKaSch and CSafe.
- Cathay Pacific increased freighter service frequencies to Chennai from six times weekly to daily, and Mumbai from twice to three times weekly in June 2018. It also stopped flying to Calgary in March 2018.
- Additional capacity will be added to key routes in America during second half of 2018 to cope with seasonal demand.

Loyalty and reward programmes

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.
- 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, over 400 restaurants, and retail shops.
- There was a 4.7% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in the first half of 2018 compared to the same period of last year.
- 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 on page 109 in the 2017 Annual Report.

Revenue

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2018 HK$M	2017 HK$M	**Change**	**2018 HK$M**	2017 HK$M	**Change**
Passenger services	**35,452**	32,105	**+10.4%**	**35,452**	32,105	**+10.4%**
Cargo services	**12,971**	10,515	**+23.4%**	**11,276**	9,007	**+25.2%**
Catering, recoveries and other services	**4,655**	3,238	**+43.8%**	**4,299**	2,832	**+51.8%**
Total revenue	**53,078**	45,858	**+15.7%**	**51,027**	43,944	**+16.1%**

Before the adoption of HKFRS 15 Group passenger services revenue increased by 9.4% compared with a 3.2% increase in capacity (as did combined Cathay Pacific and Cathay Dragon), Group cargo services revenue increased by 23.0% (combined Cathay Pacific and Cathay Dragon by 24.8% compared with a 4.1% increase in capacity) and Group catering, recoveries and other services increased by 27.3% (combined Cathay Pacific and Cathay Dragon by 30.2%).

Operating expenses

	Group			Cathay Pacific and Cathay Dragon		
	Six months ended 30th June			Six months ended 30th June		
	2018 HK$M	2017 HK$M	**Change**	**2018 HK$M**	2017 HK$M	**Change**
Staff	**9,935**	9,845	**+0.9%**	**8,834**	8,736	**+1.1%**
Inflight service and passenger expenses	**2,625**	2,412	**+8.8%**	**2,625**	2,412	**+8.8%**
Landing, parking and route expenses	**8,648**	7,307	**+18.4%**	**8,472**	7,161	**+18.3%**
Fuel, including hedging losses	**16,046**	14,937	**+7.4%**	**15,737**	14,700	**+7.1%**
Aircraft maintenance	**4,691**	4,461	**+5.2%**	**4,490**	4,302	**+4.4%**
Aircraft depreciation and operating leases	**6,362**	5,581	**+14.0%**	**6,212**	5,496	**+13.0%**
Other depreciation, amortisation and operating leases	**1,424**	1,372	**+3.8%**	**1,045**	950	**+10.0%**
Commissions	**398**	320	**+24.4%**	**398**	320	**+24.4%**
Others	**2,252**	2,157	**+4.4%**	**3,061**	2,929	**+4.5%**
Operating expenses	**52,381**	48,392	**+8.2%**	**50,874**	47,006	**+8.2%**
Net finance charges	**1,010**	814	**+24.1%**	**896**	693	**+29.3%**
Total operating expenses	**53,391**	49,206	**+8.5%**	**51,770**	47,699	**+8.5%**

Before the adoption of HKFRS 15 the Group's total operating expenses increased by 6.7% (combined Cathay Pacific and Cathay Dragon by 6.5%).

Operating results analysis

	2018 HK$M	2017 HK$M	Change HK$M
Airlines' loss (after exceptional items*) before taxation	**(743)**	(3,755)	**+3,012**
Gains on disposal of investment and deemed partial disposal of associate	**–**	830	**-830**
Taxation	**(161)**	160	**-321**
Airlines' loss after taxation	**(904)**	(2,765)	**+1,861**
Share of profits from subsidiaries and associates	**641**	714	**-73**
Loss attributable to the shareholders of Cathay Pacific	**(263)**	(2,051)	**+1,788**

* Exceptional items include a HK$101 million gain on the disposal of CO_2 emissions credits (2017: provisions for a European Commission airfreight fine of Euros 57.12 million (equivalent to approximately HK$498 million) and redundancy costs of HK$224 million for the reorganisation of our head office).

The changes in the airlines' loss (adjusting for exceptional items, the presentational impact of HKFRS 15 and isolating the effect of foreign currency movements) before taxation can be analysed as follows:

	Reported HK$M	Exceptional items HK$M	HKFRS 15 adoption HK$M	Currency movement HK$M	Adjusted HK$M	ATK unit * % change	*Note*
2017 Airlines' loss before tax	**(3,755)**				**(3,755)**		
Changes:							
– Passenger and Cargo revenue	**5,616**		(375)	(793)	**4,448**	+6.9%	*1*
– Other revenue	**1,467**		(613)	(19)	**835**	+24.9%	*2*
– Staff	**(98)**	(224)		31	**(291)**	-0.2%	*3*
– Inflight service and passenger expenses	**(213)**		(12)	16	**(209)**	+4.8%	*4*
– Landing, parking and route expenses	**(1,311)**		761	154	**(396)**	+1.8%	*5*
– Fuel, including hedging losses	**(1,037)**			2	**(1,035)**	+3.3%	*6*
– Aircraft maintenance	**(188)**			6	**(182)**	+0.5%	*7*
– Owning the assets **	**(1,014)**			24	**(990)**	+9.8%	*8*
– Other items (including commissions)	**(210)**	(599)	239	304	**(266)**	+5.8%	*9*
Sub-total	**(743)**	(823)	–	(275)	**(1,841)**		
– Net impact of foreign currency movements					**275**		
– Movement in non-recurring exceptional items					**823**		
2018 Airlines' loss before tax					**(743)**		

* ATK unit % change represents the adjusted revenue or cost component change per ATK.

**includes aircraft and other depreciation and operating leases, and net finance charges.

Note:

1) As per Review of Operations section for passenger and cargo services.
2) The growth principally reflects cargo flown under Atlas (5Y) operations together with lease back income, and an increase in Asia Miles activity. The associated costs are within owning the assets and other items respectively. Passenger and Cargo ancillary revenue growth has been satisfactory.
3) There has been a reduction in our unit staff costs following on from the reorganisation of our head office in mid-2017.
4) We have invested more in our customer proposition (catering, inflight entertainment and lounges).
5) Increased route related expenses (inflationary pressures in navigation, overflying, landing and parking).
6) Fuel costs increased due to a 27.9% rise in the average into-plane fuel price and a 2.1% rise in consumption. This was partially offset by a 79.8% decrease in fuel hedging losses.
7) Costs have been held in line with capacity.
8) Higher depreciation and finance costs resulting from rising interest rates and the investment in additional efficient aircraft capacity (fuel consumption per revenue tonne kilometre reduced by 2.5%).
9) Increased investment in digital enablement, Asia Miles proposition and marketing of new ports.

- The combined cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon increased from HK$3.14 to HK$3.29, an increase of 4.8%.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon increased from HK$2.17 to HK$2.29, an increase of 5.5%.
- The underlying cost per ATK (without fuel), which excludes exceptional items and adjusts for the effect of foreign currency movements and the adoption of HKFRS 15, increased from HK$2.13 to HK$2.20, an increase of 3.3%.

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Gross fuel cost	**15,393**	11,700
Fuel hedging losses	**653**	3,237
Fuel cost	**16,046**	14,937

Fuel costs increased due to a 27.9% rise in the average into-plane fuel price and a 2.1% rise in consumption.
This was partially offset by a 79.8% decrease in fuel hedging losses.

Financial position

- Additions to property, plant and equipment were HK$3,675 million, comprising HK$3,578 million in respect of aircraft and related equipment, HK$28 million in respect of buildings and HK$69 million in respect of other equipment.
- Borrowings are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2029, with 50.7% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 87.2% of which are denominated in United States dollars, decreased by 19.4% to HK$15,394 million.
- Net borrowings (after taking liquid funds into account) decreased by 6.8% to HK$55,272 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 6.5% to HK$65,056 million. This was due to unrealised hedging gains of HK$3,587 million recognised in the cash flow hedge reserve, an increase of HK$631 million taken to retained profit on initial application of HKFRS 15 as noted in note 2(b) to the financial statements and other reserve movements.
- The net debt/equity ratio decreased from 0.97 times to 0.85 times.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2017 Annual Report.

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

KPMG

Introduction

We have reviewed the interim financial report set out on pages 20 to 41 which comprises the consolidated statement of financial position of Cathay Pacific Airways Limited (the "Company") and its subsidiaries (together the "Group") as of 30th June 2018 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2018 – Unaudited

	Note	2018 HK$M	2017 HK$M	2018 US$M	2017 US$M
Revenue					
Passenger services		**35,452**	32,105	**4,545**	4,116
Cargo services		**12,971**	10,515	**1,662**	1,348
Catering, recoveries and other services		**4,655**	3,238	**597**	415
Total revenue		**53,078**	45,858	**6,804**	5,879
Expenses					
Staff		**(9,935)**	(9,845)	**(1,274)**	(1,262)
Inflight service and passenger expenses		**(2,625)**	(2,412)	**(337)**	(309)
Landing, parking and route expenses		**(8,648)**	(7,307)	**(1,109)**	(937)
Fuel, including hedging losses		**(16,046)**	(14,937)	**(2,057)**	(1,915)
Aircraft maintenance		**(4,691)**	(4,461)	**(600)**	(572)
Aircraft depreciation and operating leases		**(6,362)**	(5,581)	**(816)**	(715)
Other depreciation, amortisation and operating leases		**(1,424)**	(1,372)	**(182)**	(176)
Commissions		**(398)**	(320)	**(51)**	(41)
Others		**(2,252)**	(2,157)	**(289)**	(276)
Operating expenses		**(52,381)**	(48,392)	**(6,715)**	(6,203)
Operating profit/(loss) before non-recurring items		**697**	(2,534)	**89**	(324)
Gain on disposal of a long-term investment		**–**	586	**–**	75
Gain on deemed partial disposal of an associate	4	**–**	244	**–**	31
Operating profit/(loss)	5	**697**	(1,704)	**89**	(218)
Finance charges		**(1,169)**	(1,061)	**(149)**	(140)
Finance income		**159**	247	**20**	36
Net finance charges	6	**(1,010)**	(814)	**(129)**	(104)
Share of profits of associates		**449**	533	**57**	68
Profit/(loss) before taxation		**136**	(1,985)	**17**	(254)
Taxation	7	**(211)**	84	**(27)**	10
Loss for the period		**(75)**	(1,901)	**(10)**	(244)
Non-controlling interests		**(188)**	(150)	**(24)**	(19)
Loss attributable to the shareholders of Cathay Pacific		**(263)**	(2,051)	**(34)**	(263)
Loss per share (basic and diluted)	8	**(6.7)¢**	(52.1)¢	**(0.9)¢**	(6.7)¢
Loss for the period		**(75)**	(1,901)	**(10)**	(244)
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**4,074**	(939)	**522**	(120)
Revaluation of available-for-sale financial assets		**–**	(506)	**–**	(65)
Share of other comprehensive income of associates		**63**	356	**8**	46
Exchange differences on translation of foreign operations		**(353)**	852	**(45)**	109
Other comprehensive income for the period, net of taxation	9	**3,784**	(237)	**485**	(30)
Total comprehensive income for the period		**3,709**	(2,138)	**475**	(274)
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**3,521**	(2,288)	**451**	(293)
Non-controlling interests		**188**	150	**24**	19
		3,709	(2,138)	**475**	(274)

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 24 to 41 form part of these financial statements.

Consolidated Statement of Financial Position

at 30th June 2018 – Unaudited

	Note	**30th June 2018 HK$M**	31st December 2017 HK$M	**30th June 2018 US$M**	31st December 2017 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	*10*	**110,114**	111,182	**14,117**	14,254
Intangible assets	*11*	**11,189**	11,221	**1,434**	1,438
Investments in associates	*12*	**27,981**	28,144	**3,587**	3,608
Other long-term receivables and investments		**5,061**	4,068	**649**	522
Deferred tax assets		**842**	928	**108**	119
		155,187	155,543	**19,895**	19,941
Long-term liabilities	*13*	**(58,558)**	(69,506)	**(7,507)**	(8,911)
Other long-term payables	*14*	**(3,170)**	(3,502)	**(406)**	(449)
Deferred tax liabilities		**(13,383)**	(12,820)	**(1,716)**	(1,644)
		(75,111)	(85,828)	**(9,629)**	(11,004)
Net non-current assets		**80,076**	69,715	**10,266**	8,937
Current assets and liabilities					
Stock		**1,771**	1,515	**227**	194
Trade, other receivables and other assets	*15*	**12,707**	11,361	**1,629**	1,457
Assets held for sale		**865**	865	**111**	111
Liquid funds	*16*	**15,394**	19,094	**1,973**	2,448
		30,737	32,835	**3,940**	4,210
Current portion of long-term liabilities	*13*	**(12,108)**	(8,888)	**(1,552)**	(1,139)
Trade and other payables	*17*	**(17,128)**	(17,057)	**(2,196)**	(2,187)
Unearned transportation revenue		**(14,831)**	(13,961)	**(1,901)**	(1,790)
Taxation		**(1,511)**	(1,372)	**(193)**	(176)
		(45,578)	(41,278)	**(5,842)**	(5,292)
Net current liabilities		**(14,841)**	(8,443)	**(1,902)**	(1,082)
Total assets less current liabilities		**140,346**	147,100	**17,993**	18,859
Net assets		**65,235**	61,272	**8,364**	7,855
CAPITAL AND RESERVES					
Share capital	*18(a)*	**17,106**	17,106	**2,193**	2,193
Other reserves		**47,950**	43,995	**6,148**	5,640
Funds attributable to the shareholders of Cathay Pacific		**65,056**	61,101	**8,341**	7,833
Non-controlling interests		**179**	171	**23**	22
Total equity		**65,235**	61,272	**8,364**	7,855

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 24 to 41 form part of these financial statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2018 – Unaudited

	2018 HK$M	2017 HK$M	**2018 US$M**	2017 US$M
Operating activities				
Cash generated from operations	**9,308**	3,577	**1,193**	458
Interest received	**115**	106	**14**	14
Interest paid	**(840)**	(711)	**(107)**	(91)
Tax paid	**(90)**	(186)	**(11)**	(24)
Net cash inflow from operating activities	**8,493**	2,786	**1,089**	357
Investing activities				
Net decrease/(increase) in liquid funds other than cash and cash equivalents	**2,066**	(1,926)	**265**	(246)
Proceeds from sales of property, plant and equipment	**16**	25	**2**	3
Proceeds from sales of intangible assets	**196**	–	**25**	–
Proceeds from sales of assets held for sale	**–**	8	**–**	1
Proceeds from disposal of a long-term investment	**–**	633	**–**	81
Net decrease in other long-term receivables and investments	**–**	465	**–**	60
Payments for property, plant and equipment and intangible assets	**(4,001)**	(8,235)	**(513)**	(1,056)
Dividends received from associates	**20**	11	**3**	1
Net cash outflow from investing activities	**(1,703)**	(9,019)	**(218)**	(1,156)
Financing activities				
New financing	**1,236**	9,148	**158**	1,173
Loan and finance lease repayments	**(9,345)**	(7,857)	**(1,198)**	(1,007)
Dividends paid – to the shareholders of Cathay Pacific	**(197)**	–	**(25)**	–
– to non-controlling interests	**(180)**	(254)	**(23)**	(33)
Net cash (outflow)/inflow from financing activities	**(8,486)**	1,037	**(1,088)**	133
Decrease in cash and cash equivalents	**(1,696)**	(5,196)	**(217)**	(666)
Cash and cash equivalents at 1st January	**6,914**	9,778	**886**	1,254
Effect of exchange differences	**10**	163	**1**	20
Cash and cash equivalents at 30th June	**5,228**	4,745	**670**	608

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 24 to 41 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2018 – Unaudited

	Attributable to the shareholders of Cathay Pacific								
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve (recycling) HK$M	Investment revaluation reserve (non-recycling) HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
Balance at 31st December 2017	**17,106**	**44,115**	**505**	**–**	**(1,503)**	**878**	**61,101**	**171**	**61,272**
Impact on initial application of HKFRS 9	**–**	**725**	**(505)**	**(181)**	**–**	**(39)**	**–**	**–**	**–**
Impact on initial application of HKFRS 15	**–**	**631**	**–**	**–**	**–**	**–**	**631**	**–**	**631**
Adjusted balance at 1st January 2018	**17,106**	**45,471**	**–**	**(181)**	**(1,503)**	**839**	**61,732**	**171**	**61,903**
Changes in equity for the six months ended 30th June 2018:									
(Loss)/profit for the period	**–**	**(263)**	**–**	**–**	**–**	**–**	**(263)**	**188**	**(75)**
Other comprehensive income	**–**	**–**	**–**	**–**	**4,074**	**(290)**	**3,784**	**–**	**3,784**
Total comprehensive income for the period	**–**	**(263)**	**–**	**–**	**4,074**	**(290)**	**3,521**	**188**	**3,709**
2017 interim dividend	**–**	**(197)**	**–**	**–**	**–**	**–**	**(197)**	**–**	**(197)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(180)**	**(180)**
At 30th June 2018	**17,106**	**45,011**	**–**	**(181)**	**2,571**	**549**	**65,056**	**179**	**65,235**
At 1st January 2017	17,106	44,672	908	–	(5,855)	(1,466)	55,365	161	55,526
Changes in equity for the six months ended 30th June 2017:									
(Loss)/profit for the period	–	(2,051)	–	–	–	–	(2,051)	150	(1,901)
Other comprehensive income	–	–	(506)	–	(939)	1,208	(237)	–	(237)
Total comprehensive income for the period	–	(2,051)	(506)	–	(939)	1,208	(2,288)	150	(2,138)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(162)	(162)
At 30th June 2017	17,106	42,621	402	–	(6,794)	(258)	53,077	149	53,226

The notes on pages 24 to 41 form part of these financial statements.

Notes to the Financial Statements

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 8th August 2018.

The financial information relating to the year ended 31st December 2017 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2017 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards ("HKFRS") and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9 "Financial Instruments"
- HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and impacted by HKFRS 15 in relation to timing of revenue recognition and gross/net presentation of revenue. Details of the changes in accounting policies are discussed in note 2(a) for HKFRS 9 and note 2(b) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15.

2. Changes in accounting policies (continued)

	At 31st December 2017 HK$M	Impact on initial application of HKFRS 9 (Note 2a) HK$M	Impact on initial application of HKFRS 15 (Note 2b) HK$M	At 1st January 2018 HK$M
Investments in associates	28,144	–	116	**28,260**
Deferred tax assets	928	–	(6)	**922**
Deferred tax liabilities	(12,820)	–	(65)	**(12,885)**
Unearned transportation revenue	(13,961)	–	586	**(13,375)**
Retained profit	(44,115)	(725)	(631)	**(45,471)**
Investment revaluation reserve (recycling)	(505)	505	–	**–**
Investment revaluation reserve (non-recycling)	–	181	–	**181**
Other reserves	(878)	39	–	**(839)**

Further details of these changes are set out in note 2(a) and note 2(b) of this note.

(a) HKFRS 9 "Financial Instruments"

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1st January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1st January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained profit and reserves.

	HK$M
Retained profit	
Transferred from investment revaluation reserve (recycling) relating to equity investments now measured at fair value through profit or loss	**505**
Transferred to investment revaluation reserve (non-recycling) relating to historical impairment of equity investments now measured at fair value through other comprehensive income	**181**
Transferred from other reserves relating to share of associate's impact of HKFRS 9	**39**
Increase in retained profit at 1st January 2018	**725**
Investment revaluation reserve (recycling)	
Transferred to retained profit relating to equity investments now measured at fair value through profit or loss and decrease in investment revaluation reserve (recycling) at 1st January 2018	**(505)**
Investment revaluation reserve (non-recycling)	
Transferred from retained profit relating to historical impairment of equity investments now measured at fair value through other comprehensive income and decrease in investment revaluation reserve (non-recycling) at 1st January 2018	**(181)**
Other reserves	
Transferred to retained profit relating to share of associate's impact of HKFRS 9 and decrease in other reserves at 1st January 2018	**(39)**

2. Changes in accounting policies (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at fair value through profit or loss. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
– fair value through other comprehensive income – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
– fair value through profit or loss, if the investment does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments are classified as fair value through profit or loss unless the equity investments are not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at fair value through other comprehensive income (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the investment revaluation reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the investment revaluation reserve (non-recycling) is transferred to retained profit. It is not recycled through profit or loss. Dividends from equity investments, irrespective of whether classified as at fair value through profit or loss or fair value through other comprehensive income (non-recycling), are recognised in profit or loss as other income.

2. Changes in accounting policies (continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31st December 2017 HK$M	Reclassification HK$M	HKFRS 9 carrying amount at 1st January 2018 HK$M
Financial assets measured at fair value through other comprehensive income (non-recycling)			
Equity investments	–	23	**23**
Financial assets carried at fair value through profit or loss			
Equity investments	–	699	**699**
Financial assets classified as available-for-sale under HKAS 39			
Equity investments	722	(722)	**–**

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1st January 2018 have not been impacted by the initial application of HKFRS 9.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses model. The expected credit losses model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises expected credit losses earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new expected credit losses model to the financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates).

Financial assets measured at fair value, including equity investments measured at fair value through profit or loss, equity investments designated at fair value through other comprehensive income (non-recycling) and derivative financial assets, are not subjected to the expected credit losses assessment.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In measuring expected credit losses, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2. Changes in accounting policies (continued)

Expected credit losses are measured on either of the following bases:

- 12-month expected credit losses: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime expected credit losses: these are losses that are expected to result from all possible default events over the expected lives of the items to which the expected credit losses model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses. Expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

Expected credit losses are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the expected credit losses amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

The adoption of the expected credit losses model under HKFRS 9 has no material impact on the Group.

2. Changes in accounting policies (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(iii) Hedge accounting

The Group has elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the Group's financial statements in this regard.

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained profit and reserves as at 1st January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed at 1st January 2018 (the date of initial application of HKFRS 9 by the Group):
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain equity investments not held for trading to be classified as at fair value through other comprehensive income (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime expected credit loss has been recognised for that financial instrument.
- All hedging relationships designated under HKAS 39 at 31st December 2017 met the criteria for hedge accounting under HKFRS 9 at 1st January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

(b) HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 "Revenue", which covered revenue arising from sale of goods and rendering of services.

2. Changes in accounting policies (continued)

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 18.

The following table summaries the impact of transition to HKFRS 15 on retained profit and the related tax impact at 1st January 2018:

	HK$M
Retained profit	
Earlier recognition of breakage revenue for the airlines	**586**
Earlier recognition of breakage revenue for Air China	**116**
Related tax	**(71)**
Net increase in retained profit at 1st January 2018	**631**

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from ticket breakage was recognised when the likelihood of the customer exercising their remaining rights becomes remote, which is later than the requirements under HKFRS 15 "Revenue from Contracts with Customers". Ticket breakage relates to a portion of contractual rights captured under contract liabilities that the Group does not expect to be exercised.

Under HKFRS 15, breakage revenue is recognised earlier according to the pattern of rights exercised by the customer as reflected by the point of flown to match the timing of revenue recognition with the underlying travel performance obligations. This is based on an expectation of breakage based on an assessment of historical patterns. The estimation is made such that the revenue recognised is not expected to result in a significant reversal of cumulative revenue in the future.

As a result of this change in accounting policy, the Group has made adjustments to opening balances as at 1st January 2018 which increased retained profit by HK$631 million (being HK$586 million for the airlines, HK$116 million for the Group's share of results of Air China Limited ("Air China") and an offsetting tax impact of HK$71 million). In addition, the in-year positive impact on the airlines' profit was HK$25 million.

(ii) Presentation of revenue

Passenger revenue
Flight related passenger ancillary income (e.g. change fees, extra legroom and seat choice income) of HK$350 million for the six months ended 30th June 2018 which is not considered distinct from the travel component because it is not capable of being separable is reclassified as passenger revenue to bring the dependent elements of ticket-related revenue alongside the underlying performance obligations of the ticket. Such income was classified under other revenue for the six months ended 30th June 2017.

2. Changes in accounting policies (continued)

Cargo revenue

Freightage related cargo ancillary income (e.g. documentation administrative fees) of HK$37 million for the six months ended 30th June 2018 which is not considered distinct from the carriage component because it is not capable of being separable is classified to cargo revenue to bring the dependent elements of freightage-related revenue alongside the underlying performance obligations of the cargo shipments. Such income was classified as other revenue for the six months ended 30th June 2017.

Freightage revenue for cargo transported by another carrier of HK$160 million where we are deemed under HKFRS 15 as the principal and not the agent in the provision of such services is grossed up under other revenue for the Group for the six months ended 30th June 2018 (HK$239 million for Cathay Pacific and Cathay Dragon inclusive of HK$79 million for Air Hong Kong sectors).

Cargo handling revenue where we are deemed under HKFRS 15 as the principal and not the agent in the provision of such services is grossed up as other revenue of HK$761 million for the Group for the six months ended 30th June 2018.

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2018 HK$M	2017 HK$M	**2018 HK$M**	2017 HK$M	**2018 HK$M**	2017 HK$M	**2018 HK$M**	2017 HK$M
Sales to external customers	**52,455**	45,197	**623**	661			**53,078**	45,858
Inter-segment sales	**4**	4	**1,841**	1,987			**1,845**	1,991
Segment revenue	**52,459**	45,201	**2,464**	2,648			**54,923**	47,849
Segment profit/(loss)	**707**	(1,762)	**(10)**	58			**697**	(1,704)
Net finance charges	**(899)**	(716)	**(111)**	(98)			**(1,010)**	(814)
	(192)	(2,478)	**(121)**	(40)			**(313)**	(2,518)
Share of profits of associates					**449**	533	**449**	533
Profit/(loss) before taxation							**136**	(1,985)
Taxation	**(245)**	87	**34**	(3)			**(211)**	84
Loss for the period							**(75)**	(1,901)

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.

3. Segment information (continued)

(b) Geographical information

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**26,791**	23,111
– Japan, Korea and Taiwan	**5,175**	4,657
India, Middle East, Sri Lanka and South Africa	**2,470**	2,003
Southwest Pacific	**2,585**	2,536
Southeast Asia	**4,022**	3,698
Europe	**5,108**	3,945
Americas	**6,927**	5,908
	53,078	45,858

A geographic analysis of segment results is not disclosed for the reasons set out in the 2017 Annual Report.

4. Gain on deemed partial disposal of an associate

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

5. Operating profit/(loss)

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**998**	1,005
– owned	**3,613**	3,277
Amortisation of intangible assets	**263**	254
Operating lease rentals		
– land and buildings	**566**	535
– aircraft and related equipment	**2,288**	1,855
– others	**58**	27
Provision for impairment of assets held for sale	**–**	1
Loss on disposal of property, plant and equipment, net	**52**	130
Gain on disposal of intangible assets	**(101)**	–
Gain on disposal of a long-term investment	**–**	(586)
Cost of stock expensed	**1,090**	1,090
Exchange differences, net	**319**	49
Auditors' remuneration	**7**	7
Dividend income from unlisted investments	**(41)**	(26)

The Group has initially applied HKFRS 9 and HKFRS 15 at 1st January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.

6. Net finance charges

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**307**	266
– bank loans and overdrafts		
– wholly repayable within five years	**238**	154
– not wholly repayable within five years	**453**	309
– other loans		
– wholly repayable within five years	**58**	61
– not wholly repayable within five years	**–**	9
– other long-term receivables	**–**	(5)
	1,056	794
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(36)**	(45)
– bank deposits and others	**(123)**	(83)
	(159)	(128)
Fair value change:		
– (gain)/loss on obligations under finance leases designated as at fair value through profit or loss	**(46)**	127
– loss on financial derivatives	**159**	21
	113	148
	1,010	814

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

Included in fair value change in respect of financial derivatives are net losses from derivatives that are classified as held for trading of HK$39 million (2017: net gains of HK$115 million).

7. Taxation

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Current tax expenses		
– Hong Kong profits tax	**90**	85
– overseas tax	**135**	110
– (over)/under provisions for prior years	**(29)**	26
Deferred tax		
– origination and reversal of temporary differences	**15**	(305)
	211	(84)

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 20(d) to the financial statements).

8. Loss per share (basic and diluted)

Loss per share is calculated by dividing the loss attributable to the shareholders of Cathay Pacific of HK$263 million (2017: HK$2,051 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2017: 3,934 million) shares.

9. Other comprehensive income

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Cash flow hedges		
– gain/(loss) recognised during the period	**3,587**	(3,949)
– loss transferred to profit or loss	**1,039**	2,904
– deferred taxation	**(552)**	106
Revaluation of available-for-sale financial assets		
– gain recognised during the period	**–**	69
– reclassified to profit or loss	**–**	(575)
Share of other comprehensive income of associates	**63**	356
Exchange differences on translation of foreign operations		
– (loss)/gain recognised during the period	**(353)**	769
– reclassified to profit or loss	**–**	83
Other comprehensive income for the period	**3,784**	(237)

10. Property, plant and equipment

	Aircraft and related equipment HK$M	Other equipment HK$M	Buildings HK$M	Buildings under construction HK$M	Total HK$M
Cost					
At 1st January 2018	**154,012**	**5,424**	**15,141**	**35**	**174,612**
Additions	**3,578**	**69**	**27**	**1**	**3,675**
Disposals	**(187)**	**(140)**	**(86)**	**–**	**(413)**
At 30th June 2018	**157,403**	**5,353**	**15,082**	**36**	**177,874**
Accumulated depreciation and impairment					
At 1st January 2018	**55,181**	**3,165**	**5,084**	**–**	**63,430**
Charge for the period	**4,074**	**179**	**358**	**–**	**4,611**
Disposals	**(80)**	**(139)**	**(62)**	**–**	**(281)**
At 30th June 2018	**59,175**	**3,205**	**5,380**	**–**	**67,760**
Net book value					
At 30th June 2018	**98,228**	**2,148**	**9,702**	**36**	**110,114**
At 31st December 2017	98,831	2,259	10,057	35	111,182

Property, plant and equipment at 30th June 2018 include leased assets of HK$30,478 million (31st December 2017: HK$31,474 million).

11. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2018	**7,666**	**6,227**	**253**	**14,146**
Additions	**–**	**326**	**–**	**326**
Disposals	**–**	**–**	**(214)**	**(214)**
At 30th June 2018	**7,666**	**6,553**	**39**	**14,258**
Accumulated amortisation				
At 1st January 2018	**–**	**2,793**	**132**	**2,925**
Charge for the period	**–**	**261**	**2**	**263**
Disposals	**–**	**–**	**(119)**	**(119)**
At 30th June 2018	**–**	**3,054**	**15**	**3,069**
Net book value				
At 30th June 2018	**7,666**	**3,499**	**24**	**11,189**
At 31st December 2017	7,666	3,434	121	11,221

12. Investments in associates

	30th June 2018 HK$M	31st December 2017 HK$M
Share of net assets		
– listed in Hong Kong	**20,021**	20,151
– unlisted	**3,027**	2,999
Goodwill	**3,474**	3,519
	26,522	26,669
Loans due from associates	**1,459**	1,475
	27,981	28,144

13. Long-term liabilities

	30th June 2018		31st December 2017	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**7,446**	**40,372**	4,823	49,071
Obligations under finance leases	**4,662**	**18,186**	4,065	20,435
	12,108	**58,558**	8,888	69,506

14. Other long-term payables

Other long-term payables include a maintenance provision for returning the aircraft under operating leases to certain maintenance conditions, the long-term portion of derivative financial liabilities and other deferred liabilities.

15. Trade, other receivables and other assets

	30th June 2018 HK$M	31st December 2017 HK$M
Trade debtors	**6,416**	6,131
Derivative financial assets – current portion	**867**	32
Other receivables and prepayments	**5,400**	5,139
Due from associates and other related companies	**24**	59
	12,707	11,361

	30th June 2018 HK$M	31st December 2017 HK$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	**5,433**	4,880
One to three months	**202**	573
More than three months	**781**	678
	6,416	6,131

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

The Group continues to disclose the ageing of trade debtor balances after the recognition of impairment losses in accordance with HKFRS 9 "Financial Instruments".

16. Liquid funds

	30th June 2018 HK$M	31st December 2017 HK$M
Short-term deposits and bank balances	**5,228**	6,914
Short-term deposits maturing beyond three months when placed	**5,062**	7,128
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,929**	4,815
– bank deposits	**12**	75
Other liquid investments		
– debt securities listed outside Hong Kong	**5**	4
– bank deposits	**158**	158
	15,394	19,094

Included in other liquid investments are bank deposits of HK$158 million (31st December 2017: HK$158 million) and debt securities of HK$5 million (31st December 2017: 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.

17. Trade and other payables

	30th June 2018 HK$M	31st December 2017 HK$M
Trade creditors	**6,704**	5,112
Derivative financial liabilities – current portion	**569**	3,058
Other payables	**9,623**	8,553
Due to associates	**104**	258
Due to other related companies	**128**	76
	17,128	17,057

	30th June 2018 HK$M	31st December 2017 HK$M
Analysis of trade creditors by invoice date:		
Within one month	**6,268**	5,002
One to three months	**411**	82
More than three months	**25**	28
	6,704	5,112

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

18. Share capital, dividend and reserves

(a) Share capital

	30th June 2018		31st December 2017	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 30th June / 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period (2017: nil). At 30th June 2018, 3,933,844,572 shares were in issue (31st December 2017: 3,933,844,572 shares).

(b) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period.

	2018 HK$M	2017 HK$M
Interim dividend declared and paid after the interim period of HK$0.10 per share (2017: nil)	**393**	–

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period.

	Six months ended 30th June	
	2018 HK$M	2017 HK$M
Interim dividend in respect of the previous financial year, approved and paid during the following interim period, of HK$0.05 per share (paid during the six months ended 30th June 2017: nil)	**197**	–

18. Share capital, dividend and reserves (continued)

The Directors have declared a first interim dividend of HK$0.10 per share (2017: nil per share) for the year ending 31st December 2018. The interim dividend which totals HK$393 million (2017: nil) will be paid on 3rd October 2018 to shareholders registered at the close of business on the record date, being Friday, 7th September 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 5th September 2018. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 7th September 2018, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 6th September 2018.

(c) Reserves

The investment revaluation reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income under HKFRS 9 that are held at the end of the reporting period (see note 2(a)(i)).

19. Related party transactions

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:

	Six months ended 30th June 2018		Six months ended 30th June 2017	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**223**	**1**	171	6
Aircraft maintenance costs	**643**	**1,285**	520	1,141
Operating costs	**373**	**139**	373	137
Dividend income	**441**	**41**	332	26
Finance income	**18**	**–**	–	–
Property, plant and equipment purchase	**–**	**–**	–	14

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

20. Capital commitments and contingencies

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

	30th June 2018 HK$M	31st December 2017 HK$M
Authorised and contracted for	**80,068**	83,535
Authorised but not contracted for	**8,100**	7,338
	88,168	90,873

20. Capital commitments and contingencies (continued)

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

	30th June 2018 HK$M	31st December 2017 HK$M
Associates	**3,025**	3,176

(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 outcomes 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 the 2017 Annual Report.

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. A fine of Euros 57.12 million was imposed on the Company, which was paid by the Company in June 2017. The Company filed an appeal against this latest decision, to which the Commission filed a defence. In December 2017, the Company filed a Reply to this Defence. On 9th March 2018, the European Commission filed a rejoinder to the Company's Reply. 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. The Company is represented by legal counsel and is defending these actions.

21. Financial risk management

(a) Fair values

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

	30th June 2018		31st December 2017	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Long-term loans	**(47,818)**	**(49,487)**	(53,894)	(56,149)
Obligations under finance leases	**(22,848)**	**(23,531)**	(24,500)	(25,292)

(b) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2018 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 input 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.

	30th June 2018				31st December 2017			
	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								
Unlisted equity investments	**–**	**–**	**722**	**722**	–	–	722	722
Liquid funds								
– funds with investment managers	**–**	**4,929**	**–**	**4,929**	–	4,815	–	4,815
– other liquid investments	**–**	**5**	**–**	**5**	–	4	–	4
Derivative financial assets	**–**	**3,745**	**–**	**3,745**	–	1,813	–	1,813
	–	**8,679**	**722**	**9,401**	–	6,632	722	7,354
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(1,807)**	**–**	**(1,807)**	–	(2,001)	–	(2,001)
Derivative financial liabilities	**–**	**(596)**	**–**	**(596)**	–	(3,589)	–	(3,589)
	–	**(2,403)**	**–**	**(2,403)**	–	(5,590)	–	(5,590)

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

21. Financial risk management (continued)

The fair value of the unlisted equity 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.
At 30th June 2018 and 31st December 2017, 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 equity investments				
– Discount rate	2018: 9.0% (2017: 9.0%)	The higher the discount rate, the lower the fair value	2018: +/- 0.5% (2017: +/- 0.5%)	2018: (19)/21 (2017: (19)/21)

There was no movement in the balance of Level 3 fair value measurements during the period ended 30th June 2018 (30th June 2017: nil).

22. Comparative figures

The Group has initially applied HKFRS 9 and HKFRS 15 at 1st January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2 above.

23. Impact of further new accounting standards

The HKICPA has issued amendments and new standards which become effective for accounting periods beginning on or after 1st January 2019 and which are not adopted in the financial statements. The Group is in the process of making an assessment of the impact of HKFRS 16 "Leases" in the period of initial application. 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 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, 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.

Corporate governance

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

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

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

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

The 2018 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

Directors' particulars

Changes in the particulars of the Directors are set out as follows:

1. Irene Lee retired as an Independent Non-Executive Director of CLP Holdings Limited with effect from the conclusion of its annual general meeting held on 4th May 2018.
2. John Slosar retired as Chairman and an Executive Director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.
3. Merlin Swire was elected as Chairman and re-designated as an Executive Director of Swire Pacific Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.

Directors' interests

At 30th June 2018, 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).

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2018 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 30th June 2018:

(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) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were 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 55.10% of the equity of Swire Pacific and controlling 63.97% 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.

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