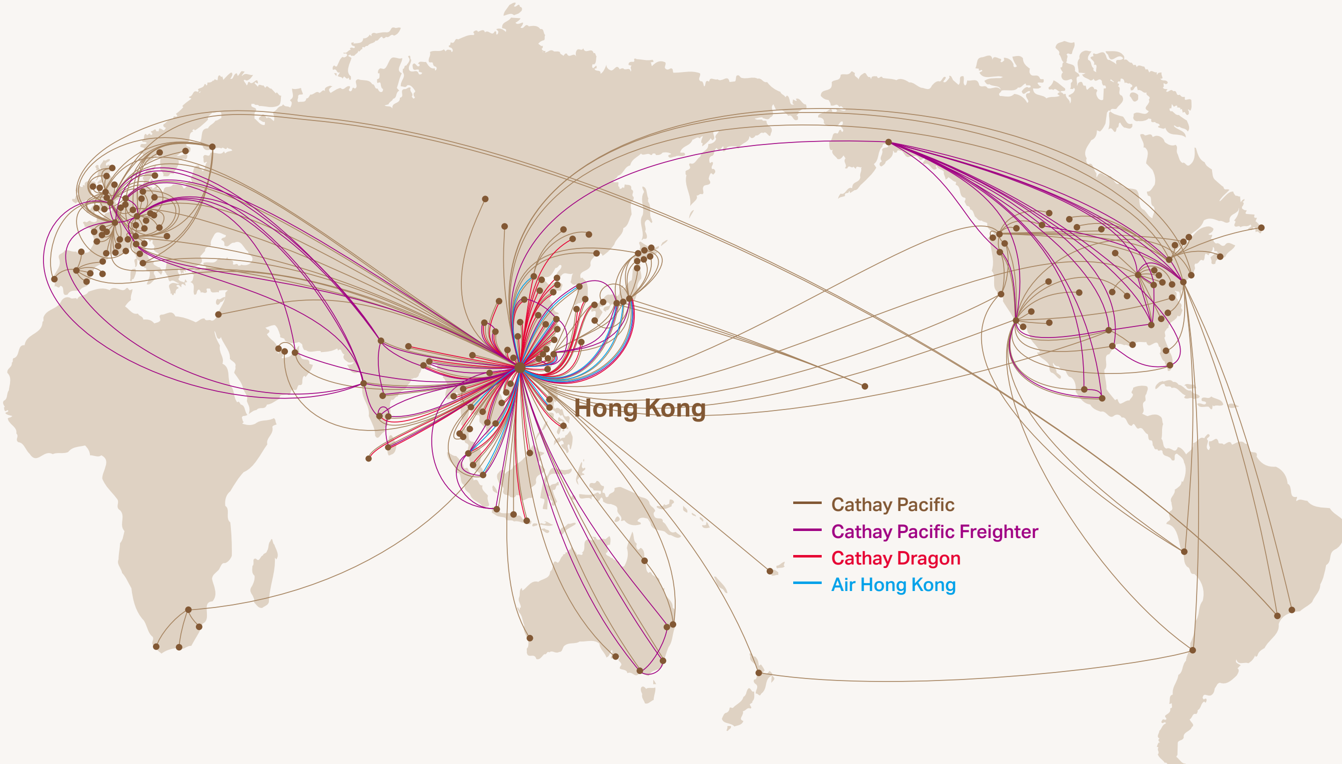
CATHAY PACIFIC

Cathay Pacific Airways Limited

Stock Code: 00293

Interim Report 2017

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 is an international airline registered and based in Hong Kong, offering scheduled passenger and cargo services to 198 destinations in 49 countries and territories.

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

The Cathay Pacific Group operated 203 aircraft at 30th June 2017. Cathay Pacific itself had 144 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 2017 it had 53 new aircraft due for delivery up to 2024.

Hong Kong Dragon Airlines Limited ("Cathay Dragon"), a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 46 aircraft on scheduled services to 56 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 33,200 people worldwide, of whom around 25,900 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.

Financial and Operating Highlights

GROUP FINANCIAL STATISTICS

		2017	2016	
		Six months ended 30th June		Change
Results				
Revenue	*HK$ million*	**45,858**	45,683	**+0.4%**
(Loss)/profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**(2,051)**	353	**-681.0%**
(Loss)/earnings per share	*HK cents*	**(52.1)**	9.0	**-678.9%**
Dividend per share	*HK$*	**–**	0.05	**-100.0%**
(Loss)/profit margin	*%*	**(4.5)**	0.8	**-5.3%pt**
		30th June	31st December	
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**53,077**	55,365	**-4.1%**
Net borrowings	*HK$ million*	**55,046**	49,879	**+10.4%**
Shareholders' funds per share	*HK$*	**13.5**	14.1	**-4.3%**
Net debt/equity ratio	*Times*	**1.04**	0.90	**+0.14 times**

OPERATING STATISTICS – CATHAY PACIFIC AND CATHAY DRAGON

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

Chairman's Letter

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

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

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

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

BUSINESS PERFORMANCE

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

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

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

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

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

The contribution from subsidiary and associated companies was satisfactory.

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

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

PROSPECTS

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

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

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

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

John Slosar
Chairman
Hong Kong, 16th August 2017

Fundamental structural changes within the airline industry continued to affect the operating environment for our airlines and created difficult operating conditions in the first half of 2017. The factors which affected our performance were largely the same as in 2016. Intense competition with other airlines was the most significant. Other major adverse factors were higher fuel prices (including the effect of our hedging), the adverse effect of the strength of the Hong Kong dollar on revenues denominated in other currencies, and higher aircraft maintenance costs. Passenger revenue was under pressure. Cargo revenue improved, reflecting robust demand. Total fuel costs increased, but fuel hedging losses were reduced. The contribution from subsidiary and associated companies was satisfactory. We have started a three-year corporate transformation program with the intention of achieving returns above the cost of capital and of reducing our unit costs, excluding fuel. However, it is about more than just cost savings. We must strengthen our brand while maintaining our high standards, identity and excellence in a challenging environment. Through the transformation, Cathay Pacific is intended to emerge as a leaner, more agile and more profitable airline that responds to changing market trends and customer preferences.

AWARD-WINNING PRODUCTS AND SERVICES

- We took delivery of six Airbus A350-900 aircraft in the first six months of 2017 and another one in July. We expect to have 22 aircraft of this type in service by the end of the year. The new aircraft have lower operating costs than existing aircraft and have been well received by customers. They have our latest cabins, seats and entertainment systems and inflight connectivity.
- The G16 lounge at Hong Kong International Airport is undergoing extensive refurbishment. The opening date of the refurbished lounge will be announced in due course. In the fourth quarter of 2017, we will open a new lounge at Changi Airport in Singapore.
- A refreshment of the first class cabins of Cathay Pacific aircraft will start in August 2017.
- Cathay Pacific and Cathay Dragon are introducing more movie and audio content on their inflight entertainment systems.
- In May 2017, Cathay Dragon completed the introduction of wireless inflight entertainment on its Airbus A320 aircraft.
- In January 2017, Cathay Pacific was ranked first among the world's largest airlines by the Jet Airliner Crash Data Evaluation Centre in terms of safety (for 2016).
- In January 2017, Cathay Pacific received the following awards at the TheDesignAir 2016 Awards: Best New Lounge – "The Pier" Business Class Lounge; Best Airline Brand; Best Premium Economy Design – Cathay Pacific Airbus A350 premium economy seat.
- In February 2017, Cathay Pacific ranked third in the airlines category in Fortune magazine's World's Most Admired Companies.
- In February 2017, Cathay Pacific won Best First Class Sparkling and Best-Presented First Class Wine List at the Cellars in the Sky 2016 Awards.

HUB DEVELOPMENT

- In the first half of 2017, the passenger capacity of Cathay Pacific and Cathay Dragon increased by 1.1%, reflecting the introduction of a route to Tel Aviv and increases in frequency on some existing routes. Cathay Pacific's passenger capacity increased by 0.3%. Cathay Dragon's passenger capacity increased by 7.5%.

- We are doing more to improve the reliability of our operations. In the first half of 2017, our on-time performance improved compared to the same period in 2016.

- We introduced passenger services of four flights per week to Tel Aviv in March. The service, which is operated by Airbus A350-900 aircraft, has been very well received. We will put on extra flights to meet seasonal demand on this route from September to November 2017. We introduced seasonal passenger services to Barcelona (July to October 2017) and will introduce seasonal passenger services to Christchurch (December 2017 to February 2018). These services will be operated by Airbus A350-900 aircraft.

- In June 2017, we increased the frequency of our services to London Gatwick (from four flights per week to daily) and Manchester (from four to five flights per week). The Manchester service is now operated by Airbus A350-900 aircraft. From December 2017, the frequency of the Manchester service will be increased to daily.

- From October 2017, the frequency of our service to Madrid will be increased from four to five flights per week.

- From December 2017, the frequency of our service to Paris will be increased from 10 to 11 flights per week.

- In March 2017, we increased the frequency of our services to Boston (from four flights per week to daily) and Vancouver (from 14 to 17 flights per week).

- To meet seasonal demand, we increased the frequency of our service to Toronto by four flights per week between June and August 2017 (making this a twice-daily service).

- From October 2017, we will increase the frequency of our service to San Francisco to three-times-daily (by adding four flights per week) and will reduce the frequency of our service to Los Angeles from 28 to 21 flights per week.

- In July 2017, we increased the frequency of our services to Hanoi (from 10 to 12 flights per week) and Ho Chi Minh City (from 18 to 19 flights per week).

- From July 2017, our service to Adelaide became five flights per week year-round.

- From October 2017 to March 2018, we will replace our current four-times-weekly one-stop service to Brisbane via Cairns with direct flights to both cities. The Brisbane frequency will be 11 flights per week. The Cairns frequency will be three flights per week.

- In March 2017, we increased capacity on our daily non-stop flight to Brisbane by using Airbus A350-900 aircraft.

- In March 2017, we increased capacity on our route to Melbourne. The route used to be operated only by Airbus A330-300 aircraft. One of the three daily flights is now operated by Boeing 777-300ER aircraft, one by Airbus A350-900 aircraft and one by Airbus A330-300 aircraft.

- During the 2017/8 winter period, one of the daily flights to San Francisco will be operated by Airbus A350-900 aircraft instead of Boeing 777-300ER aircraft, one more of the daily flights to Melbourne will be operated by Airbus A350-900 aircraft instead of Airbus A330-300 aircraft, the daily flight to Perth will be operated by Airbus A350-900 aircraft instead of Airbus A330-300 aircraft and one more of the daily flights to Sydney will be operated by Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft.

- In March 2017, we increased the frequency of our Delhi cargo service from four to five flights per week.

- In June 2017, we increased the frequency of our Chennai cargo service from four to six flights per week.

- In June 2017, we wet-leased two Atlas Air Worldwide Boeing 747-8F freighters. This enabled us to increase the frequencies of our Atlanta, Chicago, Miami and Amsterdam cargo services and to increase capacity on our Mexico cargo service.
- We stopped flying to Riyadh in March 2017.
- In October 2017, we will suspend services between Taipei and Fukuoka and will introduce a second daily flight between Taipei and Tokyo Narita.
- Cathay Dragon now operates the four daily flights to Kuala Lumpur which were previously operated by Cathay Pacific.
- Cathay Dragon's service to Tokyo Haneda will be suspended from October 2017.

FLEET DEVELOPMENT

- At 30th June 2017, Cathay Pacific operated 144 aircraft, Cathay Dragon operated 46 aircraft and Air Hong Kong operated 13 aircraft (a total of 203 aircraft). There are 53 new aircraft on order for delivery up to 2024.
- We took delivery of six Airbus A350-900 aircraft in the first six months of 2017 and another one in July. We expect to have 22 aircraft of this type in service by the end of the year.
- We will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expect to have 26 aircraft of this type in service by the end of 2020.
- We retired our last four Airbus A340-300 aircraft during the first half of 2017 and retired one Boeing 747-400BCF converted freighter in June 2017.
- Three Airbus A330-300 aircraft were transferred to Cathay Dragon in the first half of 2017, two in February 2017 and one in March 2017. One more such aircraft was transferred in July 2017.

ADVANCES IN TECHNOLOGY

- Self-service bag drop facilities have been introduced in Amsterdam, Paris, Singapore and Toronto. Kiosk tag bagging facilities have been introduced in a number of airports. These facilities will be introduced in other airports later this year and in 2018.
- The internet booking engine on the Cathay Pacific website has a new look and additional features.
- In May 2017, a new online check-in service was introduced.
- The Asia Miles mobile app has been upgraded so as to be more user friendly and to respond faster.

PARTNERSHIPS

- In January 2017, Cathay Pacific entered into a codeshare and frequent flyer programme agreement with Air Canada. The CX code has been placed on some domestic Air Canada flights. Air Canada's AC code has been placed on some Cathay Pacific and Cathay Dragon flights to Southeast Asia.
- In March 2017, Cathay Pacific entered into a codeshare and frequent flyer programme agreement with the Lufthansa group, under which Cathay Pacific is extending its codeshare network to more continental European destinations through agreements with Lufthansa, Swiss and Austrian Airlines.
- In May 2017, Cathay Pacific entered into a codeshare agreement with **one**world partner Iberia covering Iberia's flights between Madrid and Alicante, Barcelona, Bilbao, Palma, Valencia and Lisbon.

- In July 2017, Cathay Pacific entered into a codeshare arrangement with MIAT Mongolian Airlines. Under the arrangement, the CX code has been placed on MIAT flights between Hong Kong and Ulaanbaatar and MIAT's OM code has been placed on some Cathay Pacific flights between Hong Kong and Brisbane, Melbourne, Perth, Singapore and Sydney.
- In July 2017, Cathay Dragon extended its codeshare arrangements with Shenzhen Airlines, so that they cover Shenzhen Airlines' flights between Hong Kong and Harbin, Jinan and Yantai and Cathay Dragon's flights between Hong Kong and Nanjing and Xi'an. Shenzhen Airlines also entered into a frequent flyer programme agreement with Asia Miles, covering flights within Mainland China and between Mainland China and Hong Kong, Macau and Taiwan.
- In February 2017, Cathay Pacific's joint business agreement with Lufthansa Cargo AG came into effect on cargo routes from Hong Kong to Europe. It will come into effect on routes from Europe to Hong Kong in the third quarter of 2018.

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 2016 emissions data from intra-EU flights were reported on by an external auditor in January 2017 and our emissions report was submitted to the UK Environment Agency in February 2017.
- All our Airbus A350-900 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 have been collected by Feeding Hong Kong, a non-profit organisation which provides surplus food to Hong Kong charities for distribution to people in need. More than 115 tonnes of surplus food were donated during the first half 2017.
- In March 2017, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards outside Cathay City.
- Our retired Airbus A340 aircraft are being dealt with under PAMELA (Airbus' Process for Advanced Management of End-of-Life Aircraft). This enables old aircraft to be dismantled (and disposed of or recycled) in a sustainable manner.
- We share environmental best practice and experience with Air China.
- 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 and supply chain questionnaires.
- In May 2017, Cathay Pacific was awarded the Hong Kong Awards for Environmental Excellence Gold Award in the Transport and Logistics sector.

- We screened the documentary "A Plastic Ocean" at a staff movie night. The director answered questions afterwards. The movie is available on our inflight entertainment systems.
- Our Sustainable Development Report for 2016 was published in July 2017. The report is available at www.cathaypacific.com/sdreport.

CONTRIBUTION TO THE COMMUNITY

- In May 2017, Hong Kong SAR Financial Secretary Paul Chan was the guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300 aircraft was a special treat for some 230 Hong Kong residents from less-advantaged families. Most of the participants had never flown before.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. 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 million, benefiting more than 490 children.
- In June, nine Cathay Pacific staff travelled to Myanmar as part of a "Change for Good" field trip organised by UNICEF. The aim was to give them a better understanding of how "Change for Good" donations are used to help improve the lives of disadvantaged children and their families.
- The Cathay Pacific Volunteers, made up of around 1,500 Cathay Pacific staff, help the local community in Hong Kong. Their "English on Air" programme has helped more than 2,600 students to improve their conversational English skills. They sort unopened food and drinks from inbound flights to Hong Kong for distribution to families in need.
- We organised tours of our headquarters at Hong Kong International Airport, Cathay Pacific City, for nearly 7,000 visitors in the first six months of 2017.
- 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 2017 programme commenced in March with 30 participants. To date, nearly 250 participants have graduated from the programme. Almost half of the graduates have started aviation-related careers.

COMMITMENT TO STAFF

- At 30th June 2017, the Cathay Pacific Group employed more than 33,200 people worldwide. Around 25,900 of these people are based in Hong Kong. Cathay Pacific employs more than 22,800 people worldwide. Cathay Dragon employs more than 3,400 people.
- Cathay Pacific recruited around 460 staff in the first six months of 2017, including nearly 170 cabin crew and around 90 pilots. Cathay Dragon recruited more than 200 cabin crew and more than 40 pilots in the same period.
- In May 2017, we announced 600 redundancies at our head office as part of our three-year corporate transformation programme. All redundant employees are receiving a severance package including up to 12 months salary and extended medical benefits.
- Cathay Pacific has started an internship programme for non-final year IT undergraduates.
- We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

FLEET PROFILE*

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

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

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

REVIEW OF OTHER SUBSIDIARIES AND ASSOCIATES

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

- Air Hong Kong is the only all-cargo airline in Hong Kong. It is 60.0% owned by Cathay Pacific. It operates express cargo services for DHL Express.
- Air Hong Kong operates eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters, one wet leased Boeing 767-300 freighter and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- 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 86% within 15 minutes in the first half of 2017.
- Compared with the first half of 2016, capacity decreased by 2.1% to 378 million available tonne kilometres in the first half of 2017. The load factor increased by 0.5 percentage points to 65.5%. Revenue tonne kilometres decreased by 1.2% to 248 million.
- Air Hong Kong recorded a marginal increase in profit in the first half of 2017 compared with the first half of 2016.
- In July 2017, Cathay Pacific announced entry into a non-binding memorandum of understanding about the possible extension of arrangements with DHL Express after their expiry at the end of 2018.

Asia Miles Limited ("AML")

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

Cathay Pacific Catering Services (H.K.) Limited ("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 48 international airlines in Hong Kong. It produced 82,880 meals per day on average for 203 flights per day on average in the first half of 2017 (a decrease of 1.3% and an increase of 1.5% respectively compared with the first half of 2016).
- CPCS's profit in the first half of 2017 decreased compared with the first half of 2016. Increases in staff and depreciation costs more than offset an increase in revenue.
- An expanded facility with 40% additional capacity started to operate in May 2017.
- Outside Hong Kong, profits were generally in line with expectations.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes.

- CPSL handled 978 thousand tonnes of cargo in the first half of 2017, 49% of which were transhipments. Export and import shipments accounted for 33% and 18% respectively of the total.

- The financial results in the first half of 2017 improved compared with the first half of 2016. This was mainly due to an increase in tonnage and effective management of operating costs.

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 2017, it provided services to 22 airlines, including Cathay Pacific and Cathay Dragon.

- In the first half of 2017, HAS had 41.5% and 19.7% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport.

- In the first half of 2017, ramp handling flights decreased by 3.2% and passenger handling flights increased by 0.1% compared with the same period in 2016.

- The financial results for the first half of 2017 were worse than those for the first half of 2016. There were fewer customers and staff costs increased significantly.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific had a 18.13% interest at 30th June 2017, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. In March 2017, Cathay Pacific's shareholding in Air China was reduced from 20.13% as a result of a new issue of A shares by Air China.

- At 30th June 2017, Air China operated 287 domestic and 121 international (including regional) routes to 40 countries and regions, including 66 overseas cities, three regional cities and 115 domestic cities.

- Our share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently our 2017 interim results include Air China's results for the six months ended 31st March 2017, adjusted for any significant events or transactions for the period from 1st April 2017 to 30th June 2017.

- Air China's results decreased in the six months to 31st March 2017. This reflected exchange losses and lower contributions from associates.

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

- 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 2017, Air China Cargo operated 15 freighters. It flies to 10 cities in Mainland China and 12 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 180 destinations.

- In the first half of 2017, Air China Cargo made a profit compared to a loss recorded in the first half of 2016. Higher fuel prices were more than offset by higher yields.

PASSENGER SERVICES

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

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

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

- We introduced a four-times-weekly services to Tel Aviv in March. The service, which is operated by Airbus A350-900 aircraft, has been very well received in all classes. We will put on extra flights to meet seasonal demand on this route from September to November 2017. We introduced seasonal services to Barcelona (July to October 2017) and will introduce seasonal services to Christchurch (December 2017 to February 2018). These services will be operated by Airbus A350-900 aircraft.

- We sold premium class tickets on a promotional basis to non-corporate customers.

- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.

- Demand over the Chinese New Year holiday was strong, but yield was under pressure.

- The performance of our Southwest Pacific routes was below expectations. Demand on Southwest Pacific routes was weak. Increased capacity from Mainland China, Hong Kong and Australian carriers put pressure on yield and the number of transit passengers.

- Yield on routes between Hong Kong and Mainland China and Southeast Asia was under pressure because of increased competition, particularly from low-cost carriers.

- Demand on European routes grew, but from a low base, reflecting security concerns in the early part of 2016.

- Demand for travel to and from Madrid grew. Bookings for our seasonal summer services to Barcelona have been strong.
- Demand for travel to the United States was weak.
- Increased competition on routes to Canada is putting increased pressure on yield, especially during seasonally weak periods.
- In March 2017, we increased the frequency of our services to Boston (from four flights per week to daily) and Vancouver (from 14 to 17 flights per week).
- To meet seasonal demand, we increased the frequency of our service to Toronto by four flights per week between June and August 2017 (making this a twice-daily service).
- From October 2017, we will increase the frequency of our service to San Francisco to three-times-daily (by adding four flights per week) and will reduce the frequency of our service to Los Angeles from 28 to 21 flights per week.
- The load factor on the route to London Gatwick, introduced in 2016, was high, but revenue was adversely affected by the weakness of sterling.
- In June 2017, we increased the frequency of our services to London Gatwick (from four flights per week to daily) and Manchester (from four to five flights per week). The Manchester service is now operated by Airbus A350-900 aircraft. From December 2017, the frequency of the Manchester service will be increased to daily.
- From October 2017, the frequency of our service to Madrid will be increased from four to five flights per week.
- From December 2017, the frequency of our service to Paris will be increased from 10 to 11 flights per week.
- From July 2017, our service to Adelaide became five flights per week year-round.
- From October 2017 to March 2018, we will replace our current four-times-weekly one-stop service to Brisbane via Cairns with direct flights to both cities. The Brisbane frequency will be 11 flights per week. The Cairns frequency will be three flights per week.
- In March 2017, we increased capacity on our daily non-stop flight to Brisbane by using Airbus A350-900 aircraft.
- In March 2017, we increased capacity on our route to Melbourne. The route used to be operated only by Airbus A330-300 aircraft. One of the three daily flights is now operated by Boeing 777-300ER aircraft, one by Airbus A350-900 aircraft and one by Airbus A330-300 aircraft.
- The performance of our routes to Thailand was satisfactory.
- In July 2017, we increased the frequency of our services to Hanoi (from 10 to 12 flights per week) and Ho Chi Minh City (from 18 to 19 flights per week).
- Demand for travel to Northeast Asia was strong in the early part of 2017, but political tensions between Mainland China and South Korea in the second quarter affected demand for travel to South Korea.
- We stopped flying to Riyadh in March 2017.
- In October 2017, we will suspend services between Taipei and Fukuoka and will introduce a second daily flight between Taipei and Tokyo Narita.

- Cathay Dragon now operates the four daily flights to Kuala Lumpur which were previously operated by Cathay Pacific.
- Cathay Dragon's service to Tokyo Haneda will be suspended from October 2017.

CARGO SERVICES

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

Available tonne kilometres ("ATK"), load factor and yield for Cathay Pacific and Cathay Dragon cargo services for the first half of 2017 were as follows:

	ATK (million)			Load factor (%)			Yield
	2017	2016	**Change**	**2017**	2016	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**8,206**	8,021	**+2.3%**	**66.2**	62.2	**+4.0%pt**	**+4.4%**

- Cargo demand was robust in the first half of 2017. Tonnage carried grew faster than capacity. Yield benefited from the resumption (from April) of fuel surcharges and from strong demand for Mainland China exports.
- In February 2017, Cathay Pacific's joint business agreement with Lufthansa Cargo AG came into effect on cargo routes from Hong Kong to Europe. It will come into effect on routes from Europe to Hong Kong in the third quarter of 2018.
- In June 2017, we wet-leased two Atlas Air Worldwide Boeing 747-8F freighters. This enabled us to increase the frequencies of our Atlanta, Chicago, Miami and Amsterdam cargo services and to increase capacity on our Mexico cargo service.
- Cargo exports from Mainland China were very strong during the first six months of 2017, particularly on transpacific routes.
- Demand for shipments of perishable goods to Mainland China increased.
- Demand for shipments to and from the Indian sub-continent was strong during the period.
- In March 2017, we increased the frequency of our Delhi cargo service from four to five flights per week.
- In June 2017, we increased the frequency of our Chennai cargo service from four to six flights per week.
- Demand for shipments within Asia was stronger in the first half of 2017 than in the first half of 2016.
- Our European routes did better. Increased shipments of pharmaceutical products benefited yield.

- Our two-times-weekly service to Portland Oregon which was introduced in November 2016, will become a three-times-weekly service in September 2017, reflecting strong demand.

- Shipments to and from South America grew strongly, assisted by interline arrangements with LATAM Airlines group, Amerijet International and Atlas Air Worldwide.

- Fuel surcharges were reimposed in April 2017.

- In June 2017, we retired one Boeing 747-400BCF converted freighter.

- CPSL's air cargo terminal handled 978 thousand tonnes of cargo in the first half of 2017. The terminal handles cargo for Cathay Pacific, Cathay Dragon, Air Hong Kong and 13 other airlines.

- The outlook for our cargo operations in the second half of 2017 is good.

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 nine million members and over 700 partners worldwide, including 29 airlines, more than 400 restaurants, and hotels and shops.

- There was a 12% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in the first half of 2017 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 2016 Annual Report.

REVENUE

	Group		Cathay Pacific and Cathay Dragon	
	Six months ended 30th June		Six months ended 30th June	
	2017 HK$M	2016 HK$M	**2017 HK$M**	2016 HK$M
Passenger services	**32,105**	33,413	**32,105**	33,413
Cargo services	**10,515**	9,415	**9,007**	7,951
Catering, recoveries and other services	**3,238**	2,855	**2,832**	2,543
Total revenue	**45,858**	45,683	**43,944**	43,907

- Group passenger revenue decreased by 3.9% compared with a 1.1% increase in capacity.
- Group cargo revenue increased by 11.7%. Combined Cathay Pacific and Cathay Dragon cargo revenue increased by 13.3% compared with a 2.3% increase in capacity.
- Group revenue from catering, recoveries and other services increased by 13.4%.

OPERATING EXPENSES

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

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

CATHAY PACIFIC AND CATHAY DRAGON OPERATING RESULTS ANALYSIS

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

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

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

FUEL EXPENDITURE AND HEDGING

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

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

FINANCIAL POSITION

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

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 22 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 2017 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 2017 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
16th August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30th June 2017 – Unaudited

	Note	2017 HK$M	2016 HK$M	2017 US$M	2016 US$M
Revenue					
Passenger services		**32,105**	33,413	**4,116**	4,284
Cargo services		**10,515**	9,415	**1,348**	1,207
Catering, recoveries and other services		**3,238**	2,855	**415**	366
Total revenue		**45,858**	45,683	**5,879**	5,857
Expenses					
Staff		**(9,845)**	(9,867)	**(1,262)**	(1,265)
Inflight service and passenger expenses		**(2,412)**	(2,372)	**(309)**	(304)
Landing, parking and route expenses		**(7,307)**	(7,376)	**(937)**	(946)
Fuel, including hedging losses		**(14,937)**	(13,259)	**(1,915)**	(1,700)
Aircraft maintenance		**(4,461)**	(4,170)	**(572)**	(535)
Aircraft depreciation and operating leases		**(5,581)**	(5,065)	**(715)**	(649)
Other depreciation, amortisation and operating leases		**(1,372)**	(1,213)	**(176)**	(155)
Commissions		**(320)**	(371)	**(41)**	(48)
Others		**(2,157)**	(1,326)	**(276)**	(170)
Operating expenses		**(48,392)**	(45,019)	**(6,203)**	(5,772)
Operating (loss)/profit before non-recurring items		**(2,534)**	664	**(324)**	85
Gain on disposal of long-term investment		**586**	–	**75**	–
Gain on deemed partial disposal of an associate	4	**244**	–	**31**	–
Operating (loss)/profit	5	**(1,704)**	664	**(218)**	85
Finance charges		**(1,061)**	(851)	**(140)**	(109)
Finance income		**247**	244	**36**	31
Net finance charges	6	**(814)**	(607)	**(104)**	(78)
Share of profits of associates		**533**	683	**68**	87
(Loss)/profit before taxation		**(1,985)**	740	**(254)**	94
Taxation	7	**84**	(237)	**10**	(30)
(Loss)/profit for the period		**(1,901)**	503	**(244)**	64
Non-controlling interests		**(150)**	(150)	**(19)**	(19)
(Loss)/profit attributable to the shareholders of Cathay Pacific		**(2,051)**	353	**(263)**	45
(Loss)/profit for the period		**(1,901)**	503	**(244)**	64
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**(939)**	4,046	**(120)**	519
Revaluation of available-for-sale financial assets		**(506)**	73	**(65)**	9
Share of other comprehensive income of associates		**356**	(180)	**46**	(23)
Exchange differences on translation of foreign operations		**852**	(493)	**109**	(63)
Other comprehensive income for the period, net of taxation	8	**(237)**	3,446	**(30)**	442
Total comprehensive income for the period		**(2,138)**	3,949	**(274)**	506
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**(2,288)**	3,799	**(293)**	487
Non-controlling interests		**150**	150	**19**	19
		(2,138)	3,949	**(274)**	506
(Loss)/earnings per share (basic and diluted)	9	**(52.1)¢**	9.0¢	**(6.7)¢**	1.2¢

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 HK$7.8.

The notes on pages 26 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30th June 2017 – Unaudited

	Note	30th June 2017 HK$M	31st December 2016 HK$M	30th June 2017 US$M	31st December 2016 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	11	**109,911**	106,456	**14,092**	13,648
Intangible assets	12	**11,133**	10,934	**1,427**	1,402
Investments in associates	13	**24,955**	23,298	**3,199**	2,987
Other long-term receivables and investments		**3,517**	4,604	**451**	590
Deferred tax assets		**835**	737	**107**	94
		150,351	146,029	**19,276**	18,721
Long-term liabilities	14	**(64,877)**	(58,906)	**(8,318)**	(7,552)
Other long-term payables	15	**(6,543)**	(7,517)	**(839)**	(964)
Deferred tax liabilities		**(11,073)**	(11,380)	**(1,419)**	(1,458)
		(82,493)	(77,803)	**(10,576)**	(9,974)
Net non-current assets		**67,858**	68,226	**8,700**	8,747
Current assets and liabilities					
Stock		**1,573**	1,514	**202**	194
Trade, other receivables and other assets	16	**10,080**	9,557	**1,292**	1,225
Assets held for sale		**–**	31	**–**	4
Liquid funds	17	**17,257**	20,290	**2,212**	2,602
		28,910	31,392	**3,706**	4,025
Current portion of long-term liabilities	14	**(7,426)**	(11,263)	**(952)**	(1,444)
Trade and other payables	18	**(20,909)**	(19,104)	**(2,680)**	(2,449)
Unearned transportation revenue		**(14,435)**	(12,926)	**(1,851)**	(1,657)
Taxation		**(772)**	(707)	**(99)**	(91)
Dividend payable to non-controlling interests		**–**	(92)	**–**	(12)
		(43,542)	(44,092)	**(5,582)**	(5,653)
Net current liabilities		**(14,632)**	(12,700)	**(1,876)**	(1,628)
Total assets less current liabilities		**135,719**	133,329	**17,400**	17,093
Net assets		**53,226**	55,526	**6,824**	7,119
CAPITAL AND RESERVES					
Share capital and other statutory capital reserves	19	**17,106**	17,106	**2,193**	2,193
Other reserves		**35,971**	38,259	**4,612**	4,905
Funds attributable to the shareholders of Cathay Pacific		**53,077**	55,365	**6,805**	7,098
Non-controlling interests		**149**	161	**19**	21
Total equity		**53,226**	55,526	**6,824**	7,119

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 HK$7.8.

The notes on pages 26 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30th June 2017 – Unaudited

	2017 HK$M	2016 HK$M	2017 US$M	2016 US$M
Operating activities				
Cash generated from operations	**3,577**	5,569	**458**	714
Interest received	**106**	97	**14**	12
Net interest paid	**(711)**	(504)	**(91)**	(65)
Tax paid	**(186)**	(205)	**(24)**	(26)
Net cash inflow from operating activities	**2,786**	4,957	**357**	635
Investing activities				
Net increase in liquid funds other than cash and cash equivalents	**(1,926)**	(1,020)	**(246)**	(131)
Proceeds from scrap/sales of property, plant and equipment	**25**	12	**3**	2
Proceeds from sales of assets held for sale	**8**	279	**1**	36
Proceeds from disposal of long-term investment	**633**	–	**81**	–
Net decrease/(increase) in other long-term receivables and investments	**465**	(47)	**60**	(6)
Payments for property, plant and equipment and intangible assets	**(8,235)**	(2,828)	**(1,056)**	(362)
Dividends received from associates	**11**	345	**1**	44
Repayment of loans to associates	**–**	19	**–**	2
Loans to associates	**–**	(12)	**–**	(2)
Net cash outflow from investing activities	**(9,019)**	(3,252)	**(1,156)**	(417)
Financing activities				
New financing	**9,148**	6,088	**1,173**	781
Loan and finance lease repayments	**(7,857)**	(7,253)	**(1,007)**	(930)
Security deposits placed	**–**	(23)	**–**	(3)
Dividends paid – to the shareholders of Cathay Pacific	**–**	(1,062)	**–**	(136)
– to non-controlling interests	**(254)**	(132)	**(33)**	(17)
Net cash inflow/(outflow) from financing activities	**1,037**	(2,382)	**133**	(305)
Decrease in cash and cash equivalents	**(5,196)**	(677)	**(666)**	(87)
Cash and cash equivalents at 1st January	**9,778**	7,207	**1,254**	924
Effect of exchange differences	**163**	35	**20**	5
Cash and cash equivalents at 30th June	**4,745**	6,565	**608**	842

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 HK$7.8.

The notes on pages 26 to 41 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30th June 2017 – Unaudited

	Attributable to the shareholders of Cathay Pacific							
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
At 1st January 2017	**17,106**	**44,672**	**908**	**(5,855)**	**(1,466)**	**55,365**	**161**	**55,526**
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**
At 1st January 2016	17,106	45,900	730	(15,545)	(264)	47,927	140	48,067
Changes in equity for the six months ended 30th June 2016:								
Profit for the period	–	353	–	–	–	353	150	503
Other comprehensive income	–	–	73	4,046	(673)	3,446	–	3,446
Total comprehensive income for the period	–	353	73	4,046	(673)	3,799	150	3,949
2015 second interim dividend	–	(1,062)	–	–	–	(1,062)	–	(1,062)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(132)	(132)
At 30th June 2016	17,106	45,191	803	(11,499)	(937)	50,664	158	50,822

The notes on pages 26 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 16th August 2017.

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

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

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

2. Changes in accounting policies and estimates

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

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

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

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

3. Segment information

(a) Segment results

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

The Group's two reportable segments are classified according to the nature of the business. The airline business segment comprises the Group's passenger and cargo operations. The non-airline business segment includes mainly catering, ground handling, aircraft ramp handling services and cargo terminal operations. The unallocated results represent the Group's share of profits of associates.

The major revenue earning asset is the aircraft fleet which is used for both passenger and cargo services. Management considers that there is no suitable basis for allocating such assets and related operating costs between the two segments. Accordingly, passenger and cargo services are not disclosed as separate business segments.

Inter-segment sales are based on prices set on an arm's length basis.

3. Segment information (continued)

(b) Geographical information

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

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

4. Gain on deemed partial disposal of an associate

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

5. Operating (loss)/profit

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

6. Net finance charges

	Six months ended 30th June	
	2017 HK$M	2016 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**266**	228
– interest income on related security deposits, notes and zero coupon bonds	**–**	(2)
	266	226
– bank loans and overdrafts		
– wholly repayable within five years	**154**	101
– not wholly repayable within five years	**309**	209
– other loans		
– wholly repayable within five years	**61**	48
– not wholly repayable within five years	**9**	8
– other long-term receivables	**(5)**	(10)
	794	582
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(45)**	(62)
– bank deposits and others	**(83)**	(81)
	(128)	(143)
Fair value change:		
– loss on obligations under finance leases designated as at fair value through profit or loss	**127**	97
– loss on financial derivatives	**21**	71
	148	168
	814	607

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 gains from derivatives that are classified as held for trading of HK$115 million (2016: HK$69 million).

7. Taxation

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

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 21(d) to the financial statements).

8. Other comprehensive income

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

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

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

10. Dividend

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

11. 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 2017	**145,751**	**4,777**	**12,502**	**2,431**	**165,461**
Exchange differences	**2**	**–**	**–**	**–**	**2**
Additions	**7,183**	**163**	**400**	**109**	**7,855**
Disposals	**(2,308)**	**(63)**	**–**	**–**	**(2,371)**
Transfers	**–**	**–**	**2,475**	**(2,475)**	**–**
At 30th June 2017	**150,628**	**4,877**	**15,377**	**65**	**170,947**
Accumulated depreciation and impairment					
At 1st January 2017	**51,764**	**2,881**	**4,360**	**–**	**59,005**
Charge for the period	**3,726**	**177**	**379**	**–**	**4,282**
Disposals	**(2,190)**	**(61)**	**–**	**–**	**(2,251)**
At 30th June 2017	**53,300**	**2,997**	**4,739**	**–**	**61,036**
Net book value					
At 30th June 2017	**97,328**	**1,880**	**10,638**	**65**	**109,911**
At 31st December 2016	93,987	1,896	8,142	2,431	106,456

Property, plant and equipment at 30th June 2017 include leased assets of HK$32,104 million (31st December 2016: HK$33,964 million).

12. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2017	**7,666**	**5,304**	**253**	**13,223**
Additions	**–**	**453**	**–**	**453**
At 30th June 2017	**7,666**	**5,757**	**253**	**13,676**
Accumulated amortisation				
At 1st January 2017	**–**	**2,280**	**9**	**2,289**
Charge for the period	**–**	**252**	**2**	**254**
At 30th June 2017	**–**	**2,532**	**11**	**2,543**
Net book value				
At 30th June 2017	**7,666**	**3,225**	**242**	**11,133**
At 31st December 2016	7,666	3,024	244	10,934

13. Investments in associates

	30th June 2017 HK$M	31st December 2016 HK$M
Share of net assets		
– listed in Hong Kong	**17,737**	16,141
– unlisted	**2,417**	2,139
Goodwill	**3,374**	3,629
Loans due from associates	**1,427**	1,389
	24,955	23,298

14. Long-term liabilities

	30th June 2017		31st December 2016	
	Current HK$M	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	**3,764**	**43,430**	7,217	36,125
Obligations under finance leases	**3,662**	**21,447**	4,046	22,781
	7,426	**64,877**	11,263	58,906

15. Other long-term payables

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

16. Trade, other receivables and other assets

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

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

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

17. Liquid funds

	30th June 2017 HK$M	31st December 2016 HK$M
Short-term deposits and bank balances	**4,745**	9,778
Short-term deposits maturing beyond three months when placed	**7,497**	5,556
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,832**	4,749
– bank deposits	**22**	33
Other liquid investments		
– debt securities listed outside Hong Kong	**4**	4
– bank deposits	**157**	170
	17,257	20,290

Included in other liquid investments are bank deposits of HK$157 million (31st December 2016: HK$170 million) and debt securities of HK$4 million (31st December 2016: HK$4 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

18. Trade and other payables

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

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

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

19. Share capital

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

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

20. 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 2017		Six months ended 30th June 2016	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**171**	**6**	112	20
Aircraft maintenance costs	**520**	**1,141**	585	1,132
Operating costs	**373**	**137**	379	142
Dividend income	**332**	**26**	393	1
Finance income	**–**	**–**	18	–
Property, plant and equipment purchase	**–**	**14**	–	–

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

21. 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 2017 HK$M	31st December 2016 HK$M
Authorised and contracted for	**77,446**	84,645
Authorised but not contracted for	**6,680**	6,842
	84,126	91,487

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

	30th June 2017 HK$M	31st December 2016 HK$M
Associates	**3,797**	4,031

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

(d) The Company operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected 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 2016 Annual Report.

21. Capital commitments and contingencies (continued)

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 to 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 General Court delivered judgment in December 2015 annulling the European Commission's finding against the Company 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 has filed an appeal against this latest decision.

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

22. Financial risk management

(a) Fair values

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

	30th June 2017		31st December 2016	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Loans receivable	**–**	**–**	469	494
Long-term loans	**(47,194)**	**(49,414)**	(43,342)	(45,291)
Obligations under finance leases	**(25,109)**	**(23,108)**	(26,827)	(27,639)

22. Financial risk management (continued)

(b) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 30th June 2017 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using 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 2017				31st December 2016			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Investments at fair value								
– listed	**–**	**–**	**–**	**–**	553	–	–	553
– unlisted	**–**	**–**	**618**	**618**	–	–	631	631
Liquid funds								
– funds with investment managers	**–**	**4,832**	**–**	**4,832**	–	4,749	–	4,749
– other liquid investments	**–**	**4**	**–**	**4**	–	4	–	4
Derivative financial assets	**–**	**1,585**	**–**	**1,585**	–	2,176	–	2,176
	–	**6,421**	**618**	**7,039**	553	6,929	631	8,113
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(2,176)**	**–**	**(2,176)**	–	(2,227)	–	(2,227)
Derivative financial liabilities	**–**	**(9,527)**	**–**	**(9,527)**	–	(9,849)	–	(9,849)
	–	**(11,703)**	**–**	**(11,703)**	–	(12,076)	–	(12,076)

22. Financial risk management (continued)

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

The fair value of the unlisted investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate. At 30th June 2017 and 31st December 2016, 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 investment				
– Discount rate	2017: 8.5-9.0% (2016: 8.5-9.0%)	The higher the discount rate, the lower the fair value	2017: +/- 0.5% (2016: +/- 0.5%)	2017: (17)/18 (2016: (17)/18)

There was no movement in the balance of Level 3 fair value measurements during the period ended 30th June 2017 (30th June 2016: nil).

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

23. Impact of further new accounting standards (continued)

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

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

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

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 2017 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. John Harrison ceased to be an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited, The London Metal Exchange Limited and LME Clear Limited on 26th April 2017.

2. Ivan Chu was re-designated from an Executive Director to a Non-Executive Director and ceased to be Chief Executive of the Company on his appointment as Chairman of John Swire & Sons (China) Limited with effect from 1st May 2017.

3. Rupert Hogg was appointed as Chief Executive Officer of the Company with effect from 1st May 2017.

4. Irene Lee resigned as an Independent Non-Executive Director of Noble Group Limited on 11th May 2017.

5. Paul Loo was appointed as an Executive Director of the Company on his appointment as Chief Customer and Commercial Officer of the Company with effect from 1st June 2017.

6. Gregory Hughes was appointed as an Executive Director of the Company on his appointment as Chief Operations and Service Delivery Officer of the Company with effect from 1st June 2017.

7. Martin Murray was retitled from Finance Director to Chief Financial Officer of the Company with effect from 1st June 2017 but without any change in his responsibilities.

8. Algernon Yau resigned as an Executive Director of the Company on his appointment as Director Service Delivery of the Company with effect from 1st June 2017 while remaining as Chief Executive Officer of Hong Kong Dragon Airlines Limited.

9. John Slosar was appointed as an Independent Non-Executive Director of PureCircle Limited with effect from 1st July 2017.

DIRECTORS' INTERESTS

At 30th June 2017, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed the following interest in the shares of Cathay Pacific Airways Limited:

	Capacity	No. of shares	Percentage of voting shares (%)
Nil	–	–	–

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 2017 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest [(a)]
2. China National Aviation Holding Company	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. Kingboard Chemical Holdings Limited	354,369,000	9.00	Attributable interest [(d)]

Note: At 30th June 2017:

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

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

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

(b) China National Aviation Holding Company 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 55.03% of the equity of Swire Pacific and controlling 63.81% of the voting rights attached to shares in Swire Pacific.

(d) Kingboard Chemical Holdings Limited is deemed to be interested in a total of 354,369,000 shares of the Company, comprising 33,594,000 shares held directly and 320,775,000 shares held by its subsidiaries.

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