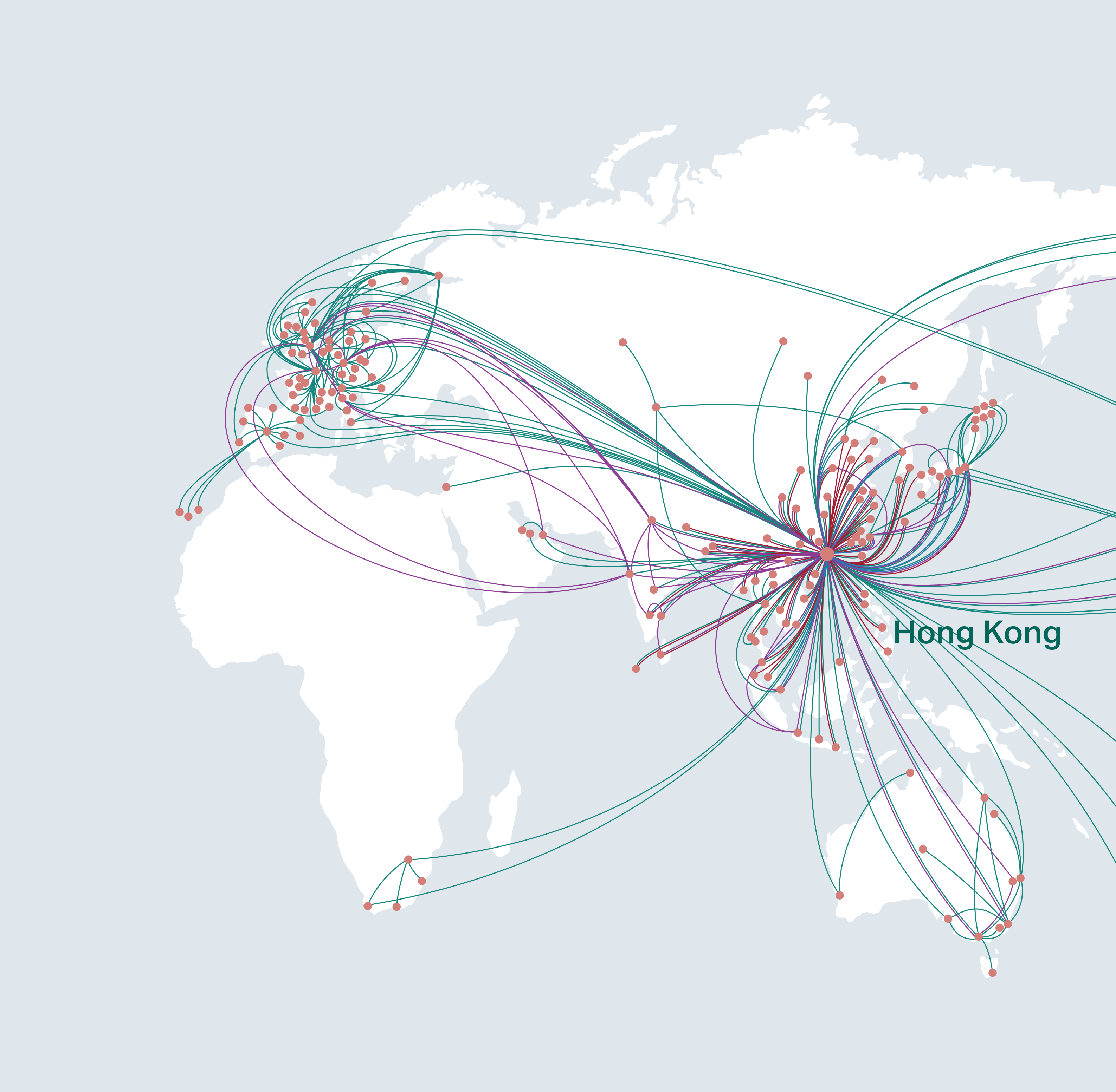
CATHAY PACIFIC

Annual Report 2018

Cathay Pacific Airways Limited

Stock Code: 293

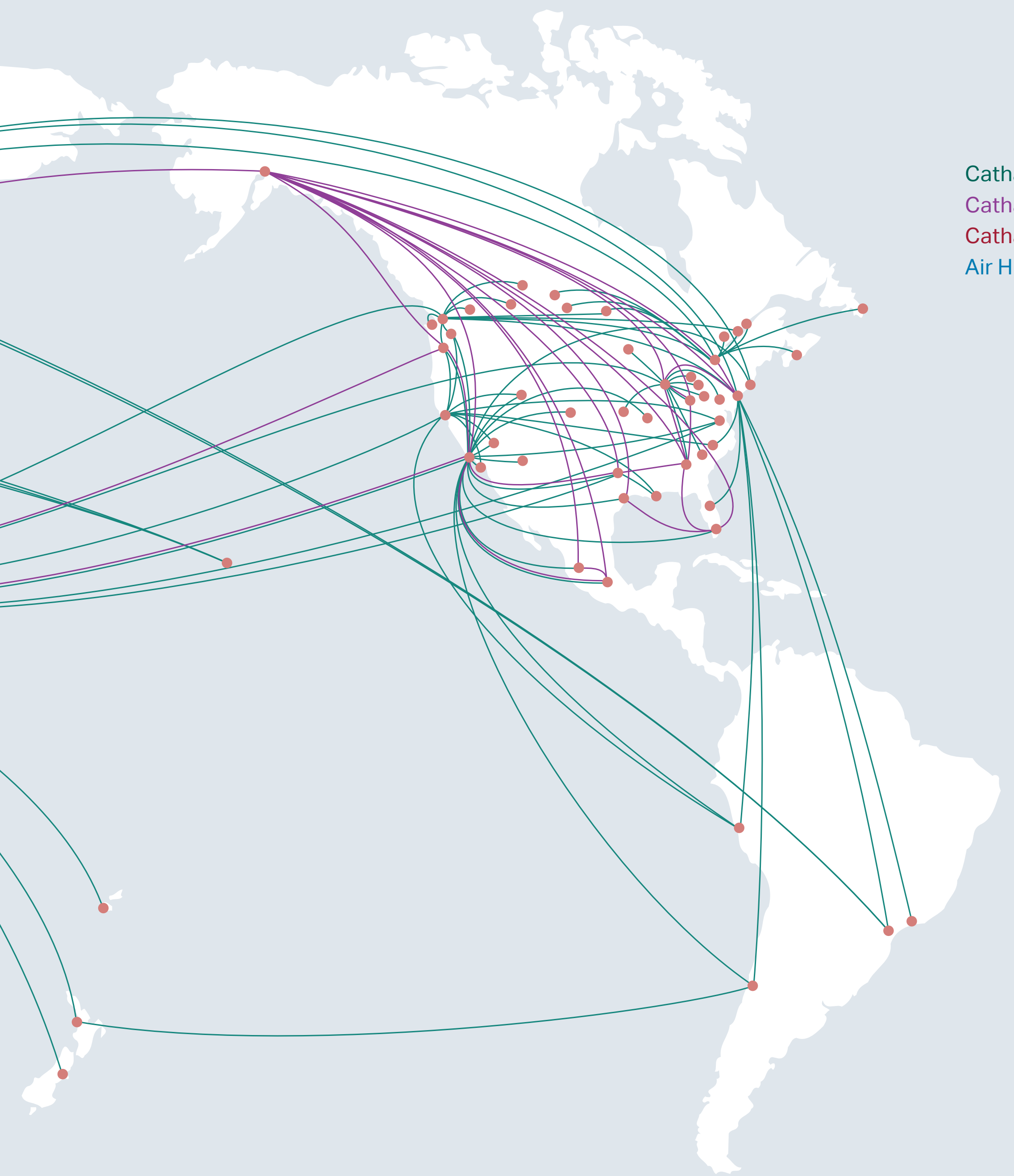
Contents



Cathay Pacific Airways Limited ("Cathay Pacific"), with its subsidiaries Hong Kong Dragon Airlines Limited ("Cathay Dragon") and AHK Air Hong Kong Limited ("Air Hong Kong"), operated 212 aircraft at the end of 2018, directly connecting Hong Kong to 109 destinations in 35 countries worldwide (232 and 53 respectively with code share agreements), including 26 destinations in Mainland China. The Cathay Pacific Group is the world's 9th largest carrier of international passengers, and the 2nd largest carrier of international air cargo.

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

Cathay Pacific itself operated 154 passenger and cargo aircraft at 31st December 2018. The Group's other investments include catering and ground-handling companies and its corporate headquarters and cargo terminal at Hong Kong International Airport. The Group continues to invest heavily in its home city. At 31st December 2018 it had 71 new aircraft due for delivery up to 2024.



Cathay Dragon, a regional airline registered and based in Hong Kong, is a wholly owned subsidiary of Cathay Pacific operating 48 aircraft at 31st December 2018. Air Hong Kong, an all-cargo carrier offering scheduled services in Asia, is a wholly-owned subsidiary of Cathay Pacific operating 10 aircraft at 31st December 2018. 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 and its subsidiaries employ more than 32,400 people worldwide, of whom around 26,200 are employed in Hong Kong. Cathay Pacific is listed on The Stock Exchange of Hong Kong Limited, as are its substantial shareholders Swire Pacific Limited ("Swire Pacific") and Air China.

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

A Chinese translation of this Annual Report is available upon request from the Company's Registrars.

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Financial and Operational Highlights

Group Financial Statistics

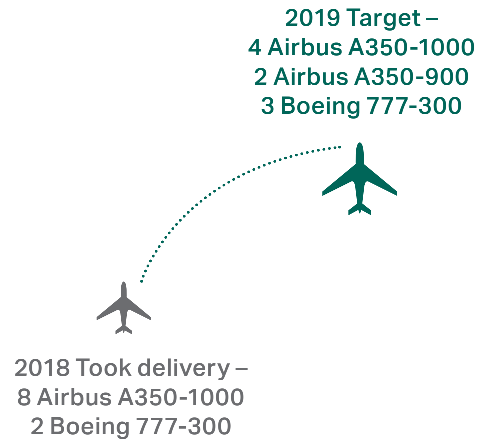
		2018	2017	Change
Results				
Revenue	*HK$ million*	**111,060**	97,284	**+14.2%**
Profit/(loss) attributable to the shareholders of Cathay Pacific	*HK$ million*	**2,345**	(1,259)	**+3,604**
Earnings/(loss) per share	*HK cents*	**59.6**	(32.0)	**+91.6**
Dividend per share	*HK$*	**0.30**	0.05	**+0.25**
Profit/(loss) margin	*%*	**2.1**	(1.3)	**+3.4%pt**
Financial position				
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**63,936**	61,101	**+4.6%**
Net borrowings	*HK$ million*	**58,581**	59,300	**-1.2%**
Shareholders' funds per share	*HK$*	**16.3**	15.5	**+5.2%**
Net debt/equity ratio	*Times*	**0.92**	0.97	**-0.05 times**

Operating Statistics – Cathay Pacific and Cathay Dragon

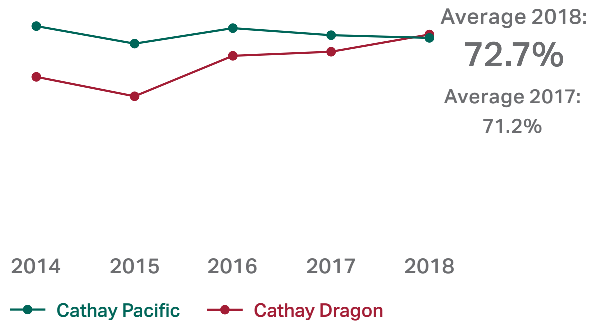
		2018	2017	Change
Available tonne kilometres ("ATK")	*Million*	**32,387**	31,439	**+3.0%**
Available seat kilometres ("ASK")	*Million*	**155,362**	150,138	**+3.5%**
Available cargo & mail tonne kilometres ("AFTK")	*Million*	**17,616**	17,163	**+2.6%**
Revenue tonne kilometres ("RTK")	*Million*	**24,543**	23,679	**+3.6%**
Passenger revenue per ASK	*HK cents*	**47.1**	44.2	**+6.6%**
Revenue passenger kilometres ("RPK")	*Million*	**130,630**	126,663	**+3.1%**
Revenue passengers carried	*'000*	**35,468**	34,820	**+1.9%**
Passenger load factor	*%*	**84.1**	84.4	**-0.3%pt**
Passenger yield	*HK cents*	**55.8**	52.3	**+6.7%**
Cargo and mail revenue per AFTK	*HK$*	**1.40**	1.20	**+16.7%**
Cargo and mail revenue tonne kilometres ("RFTK")	*Million*	**12,122**	11,633	**+4.2%**
Cargo and mail carried	*'000 tonnes*	**2,152**	2,056	**+4.7%**
Cargo and mail load factor	*%*	**68.8**	67.8	**+1.0%pt**
Cargo and mail yield	*HK$*	**2.03**	1.77	**+14.7%**
Cost per ATK (with fuel)	*HK$*	**3.27**	3.12	**+4.8%**
Fuel consumption per million RTK	*Barrels*	**1,830**	1,866	**-1.9%**
Fuel consumption per million ATK	*Barrels*	**1,387**	1,405	**-1.3%**
Cost per ATK (without fuel)	*HK$*	**2.25**	2.14	**+5.1%**
Underlying* cost per ATK (without fuel)	*HK$*	**2.16**	2.12	**+1.9%**
ATK per HK$'000 staff cost	*Unit*	**1,801**	1,775	**+1.5%**
ATK per staff	*'000*	**1,217**	1,208	**+0.7%**
Aircraft utilisation	*Hours per day*	**12.3**	12.3	**–**
On-time performance	*%*	**72.7**	71.2	**+1.5%pt**
Average age of fleet	*Years*	**9.9**	9.3	**+6.5%**
GHG emissions	*Million tonnes of CO_2e*	**18.0**	17.7	**+1.7%**
GHG emissions per ATK	*Grammes of CO_2e*	**556**	564	**-1.4%**
Lost time injury rate	*Number of injuries per 100 full-time equivalent employees*	**4.55**	3.54	**+28.5%**

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

Fleet

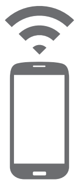


On-time Performance



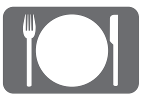
Network

Digital Enhancement



Disruption communication, mobile self-service and inflight connectivity

Meals



Rollout of new Business class plated meals

Seats

New and improved long-haul economy class seats

Chairman's Statement

Overview

Despite broadly benign economic conditions, the environment in which our airlines operated was as ever difficult in 2018. Competition was intense, fuel prices increased and the US dollar strengthened. However, our transformation programme remains on track and had a positive impact. We focused on finding new sources of revenue, building our network and strengthening the Hong Kong hub, delivering more value to our customers and improving productivity and efficiency.

The Cathay Pacific Group reported an attributable profit of HK$2,345 million for 2018. This compares to a loss of HK$1,259 million for 2017. The profit per share was HK59.6 cents in 2018 compared to a loss per share of HK32.0 cents in 2017. The Cathay Pacific Group reported an attributable profit of HK$2,608 million in the second half of 2018, compared to an attributable loss of HK$263 million in the first half of 2018 and an attributable profit of HK$792 million in the second half of 2017. Cathay Pacific and Cathay Dragon reported an attributable profit of HK$1,145 million in the second half of 2018, compared to an attributable loss of HK$904 million in the first half of 2018 and an attributable loss of HK$1,538 million in the second half of 2017.

Overcapacity in passenger markets resulted in intense competition with other airlines, particularly those from Mainland China. This put pressure on market yields on key routes particularly in the second half of the year. But the passenger business benefited from capacity growth, a focus on customer service and improved revenue management. Load factors were sustained and yield improved despite competitive pressures. The cargo business was strong. Capacity, yield and load factors increased.

Fuel prices increased for 10 months, before falling somewhat in the last two months of the year. The strength of the US dollar adversely affected net income in the latter half of the year.

In 2017, we built the foundations for our transformation programme. In 2018, we restructured our operations outside Hong Kong, benefited from a series of productivity improvements, increased our digital capabilities and concentrated on global business services. We improved inflight dining, passenger comfort, the way in which we contact passengers and our loyalty programmes. We extended our network and improved our service delivery training.

But for the adverse effect of a weaker Renminbi, the contribution from subsidiary and associated companies was satisfactory.

At the end of 2018, Cathay Pacific acquired from DHL International the 40% shareholding in Air Hong Kong that it did not already own, with the result that Air Hong Kong became a wholly owned subsidiary. At the same time, a new 15-year block space agreement between Air Hong Kong and DHL International commenced.

Business performance

Passenger revenue in 2018 was HK$73,119 million, an increase of 10.1% compared to 2017. Capacity increased by 3.5%, reflecting the introduction of new routes and increased frequencies on existing routes. The load factor decreased by 0.3 percentage points, to 84.1%. Yield increased by 6.7% to HK55.8 cents, reflecting improved premium class passenger demand, fuel surcharges and revenue management initiatives.

We introduced passenger services to 10 destinations in 2018 – Nanning, Jinan, Brussels, Copenhagen (seasonal), Dublin, Washington D.C., Davao City, Medan, Cape Town (seasonal) and Tokushima (seasonal). We introduced a passenger service to Seattle in March 2019 and will introduce a service to Komatsu in April 2019. We increased frequencies to other destinations in response to demand. We stopped flying to Kota Kinabalu and Dusseldorf.

The cargo business benefited from robust demand in 2018. Group revenue increased by 18.5% to HK$28,316 million. Capacity of Cathay Pacific and Cathay Dragon increased by 2.6%. The load factor increased by 1.0 percentage point to 68.8%. Tonnage carried increased by 4.7%. Yield rose by 14.7% to HK$2.03, reflecting an increase in high-value specialist cargo shipments and higher fuel surcharges.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK$7,545 million (or 31.1%) compared with 2017. Prices rose and we flew more. However, our fuel unit consumption rates fell by 1.3% reflecting our continued investment in more fuel efficient aircraft. Fuel hedging losses were also reduced. After taking hedging losses into account, fuel costs increased by HK$2,757 million or 8.9% compared to 2017. The net cost of fuel is the Group's most significant cost, accounting for 30.9% of operating costs in 2018 (compared to 30.7% in 2017).

Underlying costs per ATK (without fuel) only increased slightly. This reflected a focus on productivity and efficiency.

Congestion at Hong Kong International Airport and air traffic constraints in Greater China imposed costs on the Group. We are doing more to improve the reliability of our operations.

We took delivery of our first eight Airbus A350-1000 aircraft in 2018. We will have a total of 20 aircraft of this type in service by the end of 2021. We retired six aircraft – three Airbus A330-300 aircraft, one Boeing 747-400BCF aircraft, one Boeing 777-200 aircraft and one Boeing 777-300ER aircraft.

Data security incident

In October, we announced that we had discovered unauthorised access to some of the passenger data of Cathay Pacific and Cathay Dragon. Upon discovery, we took immediate action to contain the event and to commence a thorough investigation. We have to date found no evidence that any personal information has been misused. The information systems affected were separate from our flight operations systems. There was no impact on flight safety. We contacted affected passengers and notified the Hong Kong police and relevant authorities.

Prospects

The business environment is expected to remain challenging in 2019, with the forecast strength of the US dollar and uncertainty due to geopolitical discord and global trade tensions dampening passenger and cargo demand. Competition will remain intense, especially in economy class on long haul routes. Operational constraints will impose additional costs. These factors will affect both the passenger and the cargo business.

We remain confident in the ability of our transformation programme to enable us to deliver sustainable long-term performance. In 2019, we will continue to reorganise our nine core business processes, to benefit from associated underlying structural initiatives and to build a culture of continuous improvement. We will compete hard by extending our route network to destinations not currently served from Hong Kong, by increasing frequencies on our most popular routes and by operating more fuel-efficient aircraft. We will focus upon, and continue to invest in, customer service and productivity.

Our teams of professionals have shown great determination and commitment during this past year. I would like to thank them for their professionalism and hard work. Together, we are taking the required action to make Cathay Pacific and Cathay Dragon better airlines and stronger businesses. As a Group, our commitment to Hong Kong and its people remains unwavering, which has been the case for more than seven decades. We will continue to invest significantly to develop and strengthen Hong Kong's position as Asia's largest and most popular international aviation hub.

John Slosar
Chairman
Hong Kong, 13th March 2019

OPERATIONAL EXCELLENCE

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

Review of Operations

Despite broadly benign economic conditions, the environment in which our airlines operated was as ever difficult in 2018. Competition was intense, fuel prices increased and the US dollar strengthened. However, our transformation programme remains on track and had a positive impact. We focused on finding new sources of revenue, building our network and strengthening the Hong Kong hub, delivering more value to our customers and improving productivity and efficiency.

Overcapacity in passenger markets resulted in intense competition with other airlines, particularly those from Mainland China. This put pressure on market yields on key routes particularly in the second half of the year. But the passenger business benefited from capacity growth, a focus on customer service and improved revenue management. Load factors were sustained and yield improved despite competitive pressures. The cargo business was strong. Capacity, yield and load factors increased.

Transformation

In 2017, we laid the foundations. We put in place a more efficient head office organisation and reduced our Hong Kong headcount. We formed a central Digital team to improve our use of technology and analyse data, a Lean team which focuses on business process improvement and a Global Business Services team which focuses on shared efficiency.

In 2018, we started restructuring our operations outside Hong Kong, benefited from a series of productivity improvements, increased our digital capabilities and concentrated on developing a shared service capability. We improved inflight dining, passenger comfort, the way in which we contact passengers and our loyalty programmes. We extended our network at a record rate and improved our service delivery training. We also increased our ancillary sources of revenue.

The Digital team is introducing machine learning, block chain technology and robotic process automation. It is pooling business information and making it accessible and easy to analyse. This improves access to up to date operational data, which in turn improves decision making. The Digital team has updated our digital marketing capability. The Lean team has improved many processes across the business, including the engineering department's inventory management practices and reducing catering waste. The Global Business Services team has centralised certain areas of the finance and human resources functions.

We also broke down our airlines' activities into nine processes, as part of an effort to obtain stronger cooperation across business functions and this will form the basis for continuous improvement.

Business units have proposed more than 800 transformation initiatives. The majority are expected to provide financial or other benefits in 2019. These initiatives include improvements to sourcing, increasing the productivity of line maintenance outside Hong Kong and the development of new sources of revenue. We are improving our global contact centres and our integrated operations control units. Our SAP system is improving our financial analysis and our ability to control spending. Our crew management programme is improving productivity and lifestyles.

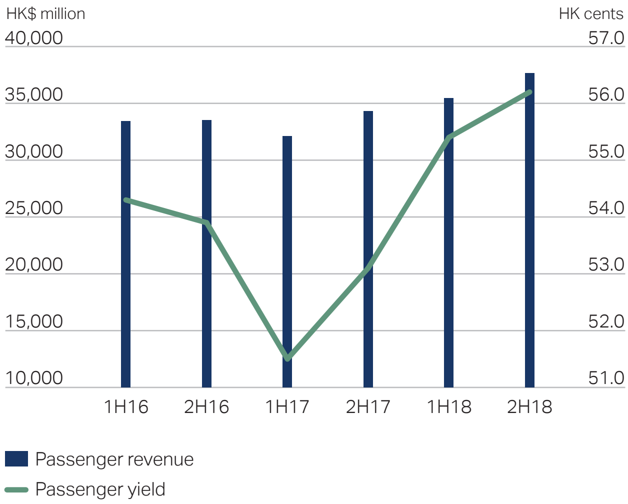
In the last year of the transformation programme, we will concentrate on changing the way we work. Reviewing the nine processes will help us do this. Redesigning them will improve productivity.

While the primary goal of the transformation programme is to ensure our business returns to sustainable financial health, the transformation intentions are of course broader and deeper. How we build a winning team and how we create a business that can compete and win beyond 2019 is dependent on the success with which we anticipate and react to changing customer expectations; and providing a proposition to our customers that makes us more attractive than competitive alternatives.

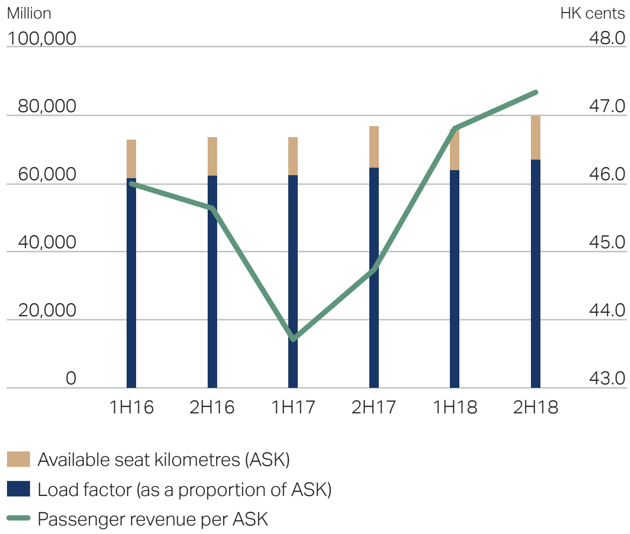
Passenger services

Cathay Pacific and Cathay Dragon carried 35.5 million passengers in 2018, an increase of 1.9% compared to 2017. Revenue increased by 10.1% to HK$73,119 million. The load factor decreased by 0.3 percentage points to 84.1%. Capacity increased by 3.5%, reflecting the introduction of 10 new routes (including to Brussels, Dublin, Davao City and Washington D.C.) and increased frequencies on other routes. Yield increased by 6.7% to HK55.8 cents. Intense competition with other airlines, particularly those from Mainland China, increased fuel costs and a progressive strengthening of the US dollar adversely affected passenger performance. Premium class demand was robust. Economy class demand was adversely affected by intense competition. But yields increased, reflecting in part fuel surcharges. Overall, the passenger business benefited from capacity growth, a focus on customer service and improved revenue management. Load factors were sustained.

Passenger revenue and yield trend



Passenger capacity, load factor and efficiency



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

	ASK (million)			Load factor (%)			Yield*
	2018	2017	**Change**	**2018**	2017	**Change**	**Change**
Americas	**40,308**	40,407	**-0.2%**	**86.5**	85.0	**+1.5%pt**	**+3.4%**
Europe	**32,090**	28,957	**+10.8%**	**86.2**	87.5	**-1.3%pt**	**+6.8%**
North Asia	**31,533**	30,764	**+2.5%**	**80.7**	81.0	**-0.3%pt**	**+7.8%**
Southeast Asia	**20,919**	20,344	**+2.8%**	**83.2**	84.4	**-1.2%pt**	**+6.5%**
Southwest Pacific	**18,494**	17,863	**+3.5%**	**83.2**	84.7	**-1.5%pt**	**+0.8%**
South Asia, Middle East and Africa	**12,018**	11,803	**+1.8%**	**82.3**	82.6	**-0.3%pt**	**+9.5%**
Overall	**155,362**	150,138	**+3.5%**	**84.1**	84.4	**-0.3%pt**	**+5.7%**

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

Innovation

- We took delivery of our first eight Airbus A350-1000 aircraft in 2018. They have our latest cabins, seats and entertainment systems and inflight connectivity. We will take delivery of a further 12 aircraft of this type between 2019 and 2021.
- The Deck, Cathay Pacific's latest business class lounge at Hong Kong International Airport, opened in March 2018. We closed The Cabin in April 2018.
- Cathay Pacific and Cathay Dragon introduced more movie and audio content on their inflight entertainment systems. We introduced high definition movies on our Airbus A350 aircraft and in the new long-haul economy class cabins of Boeing 777-300 aircraft.
- We began installing Wi-Fi on our Boeing 777 aircraft in July 2018 and have installed it on 14 aircraft. By the end of 2020, all our long-haul aircraft will have Wi-Fi.
- We started to introduce a new business class dining service on long-haul flights in summer 2018. This has been very well received. The introduction will be completed in the middle of 2019.
- We introduced more self-service bag drop and bag tagging facilities at airports outside Hong Kong.
- We introduced the ability to bid for upgrades and to hold fares for 72 hours.
- We improved our Asia Miles reward programme, making it easier for members to earn more miles and obtain more rewards.

Awards

- In January 2018, Cathay Pacific was awarded TripAdvisor's Travellers' Choice status as a major airline in Asia Pacific.
- In February 2018, Cathay Pacific won Best First Class Sparkling at the Cellars in the Sky 2017 Awards by Business Traveller Magazine.
- In March 2018, Cathay Pacific won Best Economy Class at the IMA Italian Mission Awards 2018.
- In March 2018, Cathay Pacific won Best Entertainment (Asia and Australia region) at the APEX Regional Passenger Choice Awards.
- In September 2018, Cathay Pacific won Best Airline – Business Class at the TTG Travel Awards 2018.
- In November 2018, Cathay Pacific featured in the World's Top 10 Airlines 2019 on AirlineRatings.com.
- In November 2018, Cathay Dragon won Best Airline Economy Class at the Business Traveller China Awards. At the same awards, the Cathay Pacific Group's Marco Polo Club programme won Best Frequent Flyer Programme.
- In January 2019, Cathay Pacific and Cathay Dragon service teams won honours at the Customer Service Excellence Awards 2018 organised by the Hong Kong Association for Customer Excellence.

Home market – Hong Kong and Pearl River Delta

- Our weekly fanfares promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.
- Demand during the 2018 Chinese New Year holiday period was strong, particularly on short-haul routes.
- We sold premium class tickets on a promotional basis to leisure travellers.
- In February 2018, Cathay Pacific entered into a codeshare agreement with ferry operator Cotai Water Jet. The CX code has been placed on Cotai Water Jet services operating between Hong Kong International Airport and the Taipa Ferry Terminal in Macao, extending our reach into the Greater Bay Area.
- In November 2018, Cathay Pacific entered into a codeshare agreement with Chu Kong Passenger Transport Co., Ltd (CKS). The CX code has been placed on CKS high-speed ferry services operating between Hong Kong International Airport and seven ports in the Greater Bay Area.

Americas

- There was robust point of sale demand out of North America. Premium class demand on routes to North America was strong.
- In September 2018, Cathay Pacific introduced a four flights per week service to Washington D.C., initially using Airbus A350-1000 aircraft, which were subsequently replaced by (smaller) Airbus A350-900 aircraft.
- In March 2019, Cathay Pacific introduced a four flights per week service to Seattle. In July 2019, the service will become daily.

Europe

- We introduced new routes to Europe and increased frequencies to Tel Aviv.
- Premium class demand on routes to Europe was strong.
- In March 2018, Cathay Pacific introduced a four flights per week service to Brussels. In June 2018, Cathay Pacific introduced a four flights per week service to Dublin. In May 2018, Cathay Pacific introduced a three flights per week seasonal service to Copenhagen.
- In April 2018, Cathay Pacific's previously seasonal service to Barcelona became a year-round service.
- In October 2018, Cathay Pacific reduced the frequency of its service to Madrid from five to four flights per week for the winter season.
- In October 2018, Cathay Pacific reduced the frequency of its service to Paris from 11 to 10 flights per week for the winter season.
- From winter 2018, Cathay Pacific started to use Airbus A350-1000 aircraft on its Amsterdam, Madrid, Manchester and Tel Aviv routes.
- In March 2018, Cathay Pacific stopped flying to Dusseldorf.
- In July 2018, Cathay Pacific entered into a codeshare agreement with Brussels Airlines. The CX code has been placed on Brussels Airlines services to Berlin (Berlin-Tegel), Hamburg, Lyon (Lyon-Saint Exupery), Marseilles, Toulouse, Oslo and Prague.

North Asia

- Passenger traffic grew faster than (modest) capacity increases on Mainland China routes.
- Demand on North Asia routes was robust in 2018, particularly on routes to Japan.
- In January 2018, Cathay Dragon introduced a four flights per week service to Nanning.
- In March 2018, Cathay Dragon introduced a four flights per week service to Jinan.
- In March 2018, Cathay Dragon reintroduced its service to Tokyo Haneda which had been suspended in October 2017.
- In December 2018, Cathay Dragon introduced a two flights per week seasonal service to Tokushima in Japan.
- In April 2019, Cathay Pacific will introduce a two flights per week service to Komatsu in Japan.

- In March 2018, Cathay Dragon increased the frequency of its passenger services to Fukuoka from 11 flight per week to twice daily during the summer season.
- In October 2018, an additional direct daily flight to Tokyo Narita was introduced.
- In March 2018, Cathay Pacific entered into a codeshare agreement with Air Astana. The CX code has been placed on Air Astana's flights between Hong Kong and Almaty and on Air Astana's connecting services between Almaty and Astana. The CX code has also been placed on Air Astana's services between Bangkok and Almaty and between Seoul and Almaty. Air Astana's KC code has been placed on some Cathay Pacific flights to Melbourne, Perth, Singapore and Sydney.

Southeast Asia

- We relied less on group traffic, focused more on individual passengers and improved revenue management, all of which led to good yield growth.
- In October 2018, Cathay Dragon introduced passenger flights to Davao City in the Philippines and to Medan in Indonesia.
- In February 2018, Cathay Dragon introduced a business class cabin on its service to Danang.
- In January 2018, Cathay Dragon stopped flying to Kota Kinabalu.

Southwest Pacific

- Competition on Southwest Pacific routes was strong, reflecting increases in other airlines' capacity. Less reliance on transit passengers improved yield.
- Cathay Pacific's three flights per week seasonal route to Christchurch, first introduced in 2017, was reintroduced in November 2018.
- We increased the frequency of passenger services to Adelaide from five to six flights per week during winter 2018, using Airbus A330-300 aircraft.
- In October 2018, Cathay Pacific entered into a codeshare agreement with Qantas. The CX code has been placed on 13 routes on Qantas' domestic network. Qantas has placed its code on Cathay Pacific's and Cathay Dragon's services from Hong Kong to 10 cities in India, Myanmar, Sri Lanka and Vietnam, and on Cathay Pacific's services from Hong Kong to Perth and Cairns.

South Asia, Middle East and Africa

- Demand on Middle East routes was strong, reflecting robust bookings from Mainland China and Japan.
- In November 2018, Cathay Pacific introduced a three flights per week seasonal service to Cape Town, using Airbus A350-900 aircraft.
- We increased capacity on our Chennai, Delhi and Mumbai routes from winter 2018 by using Boeing 777-300ER aircraft instead of Airbus A330-300 aircraft on some services.

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. 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 11 million members and more than 700 partners worldwide, including 26 airlines, more than 150 hotel brands and more than 400 restaurants and shops.
- There was a 7% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in 2018.
- Marco Polo Club members are also members of Asia Miles.

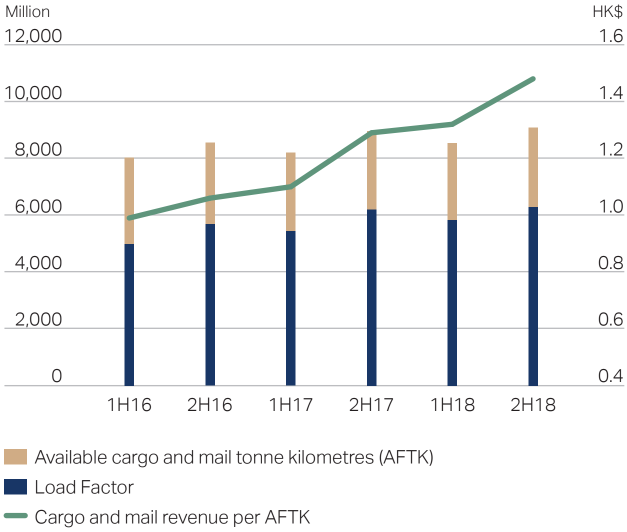
Cargo services

The cargo business benefited from robust demand in 2018. Revenue of Cathay Pacific and Cathay Dragon increased by 20.0% to HK$24,663 million. Capacity increased by 2.6%. The load factor increased by 1.0 percentage point to 68.8%.

Tonnage carried increased by 4.7%. Yield rose by 14.7% to HK$2.03, reflecting an increase in high-value specialist cargo shipments and higher fuel surcharges.

Cargo revenue and yield trend

Cargo capacity, load factor and efficiency



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

	AFTK (million)			Load factor (%)			Yield*
	2018	2017	**Change**	**2018**	2017	**Change**	**Change**
Cathay Pacific and Cathay Dragon	**17,616**	17,163	**+2.6%**	**68.8**	67.8	**+1.0%pt**	**+14.7%**

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

- Cargo demand was robust in 2018. Tonnage grew faster than capacity. Trans-shipments from the Indian sub-continent, Europe, Japan and Southeast Asia were strong.
- E-commerce shipments from Asia were strong. Exports of machinery and food from Europe and the Americas to Asia increased. We carried cargo to and from more places in Europe as we extended our passenger network.
- We have entered into more agreements to rent thermal containers, increasing our ability to transport high-value, temperature-sensitive pharmaceutical products.
- Yield increased everywhere, reflecting in part higher fuel surcharges. A progressive strengthening of the US dollar adversely affected performance in the latter half of the year.
- The load factor benefited from shipments of seasonal foods, pharmaceuticals, aircraft engines and auto parts.
- Growth in the second half of 2018 slowed. But the peak months at the end of the year were strong.
- We increased capacity on North American routes in the second half of the year in order to meet seasonal demand.

- We increased frequency on South Asia routes from 16 to 17 flights per week by adding one flight per week to Chennai.
- We suspended our twice weekly service to Calgary in summer 2018.

Fleet development

- At 31st December 2018, Cathay Pacific operated 154 aircraft, Cathay Dragon operated 48 aircraft and Air Hong Kong operated 10 aircraft (a total of 212 aircraft). There are 71 new aircraft on order for delivery up to 2024.
- We took delivery of eight Airbus A350-1000 aircraft in 2018 and expect to have 20 aircraft of this type in service by the end of 2021.
- We took delivery of two used Boeing 777-300 aircraft in the second half of 2018. One Boeing 777-300ER aircraft was returned to its lessor.
- Three Airbus A330-300 aircraft and one Boeing 747-400BCF aircraft were returned to their lessors in 2018.
- One Boeing 777-200 aircraft was donated to the Pima Air and Space Museum in Arizona, USA.
- We expect to take delivery of two Airbus A350-900 aircraft and four Airbus A350-1000 aircraft in 2019.
- Simplifying the number of sub-fleets will reduce cost and complexity.

Fleet profile*

	Number at 31st December 2018				Firm orders				Expiry of operating leases						
		Leased													
Aircraft type	Owned	Finance	Operating	**Total**	'19	'20	'21 and beyond	**Total**	'19	'20	'21	'22	'23	'24	'25 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	10	3	**33**					1	2					
A350-900	16	4	2	**22**	2	4		**6**							2
A350-1000	6	2		**8**	4[a]	3	5	**12**							
747-400BCF	1			**1**											
747-400ERF		6		**6**											
747-8F	3	11		**14**											
777-200	4			**4**											
777-300	14			**14**	3			**3**[b]							
777-300ER	20	10	22	**52**					1		6	4	2	3	6
777-9							21	**21**							
Total	84	43	27	**154**	9	7	26	**42**	2	2	6	4	2	3	8
Aircraft operated by Cathay Dragon:															
A320-200	5		10	**15**						4	3	3			
A321-200	2		6	**8**						1	2	2	1		
A321-200neo						9	23	**32**							
A330-300	18[c]		7	**25**					3	1	2				1
Total	25		23	**48**		9	23	**32**	3	6	7	5	1		1
Aircraft operated by Air Hong Kong:															
A300-600F			10	**10**					1	1		5	3		
Total			10	**10**					1	1		5	3		
Grand total	**109**	**43**	**60**	**212**	**9**	**16**	**49**	**74**	**6**	**9**	**13**	**14**	**6**	**3**	**9**

* *The table includes one parked Boeing 777-200 aircraft and does not reflect aircraft movements after 31st December 2018. The parked Boeing 777-200 aircraft was subsequently deregistered in March 2019.*

(a) *One aircraft has been delivered in February 2019 and a second aircraft delivered in March 2019.*

(b) *Three used Boeing 777-300 aircraft will be delivered in 2019.*

(c) *Eight of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.*

Review of other subsidiaries and associates

The share of profits from other subsidiaries and associates in 2018 decreased by 30.9% to HK$2,104 million from HK$3,044 million. The decline was mainly attributable to foreign exchange losses on US dollar loans resulting from the weakening of the Renminbi in the second half of the year. Set out below is a review of the performance and operations of subsidiaries and associates.

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

- Air Hong Kong principally operates express cargo services for DHL Express.
- At the end of 2018, Air Hong Kong operated 10 dry leased Airbus A300-600F freighters and two wet leased Airbus A330 passenger-to-freighter converted freighters. A Boeing 747-400BCF converted freighter dry leased from Cathay Pacific was returned to Cathay Pacific on 31st December 2018.
- 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 87% within 15 minutes.
- Compared with 2017, capacity decreased by 4.2% to 730 million available tonne kilometres. The load factor decreased by 0.8 percentage points to 66.1%. Revenue tonne kilometres decreased by 5.3% to 483 million.
- Air Hong Kong recorded an increase in profit for 2018 compared with 2017.
- In 2017, Air Hong Kong entered into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. The remainder were completed in 2018. In 2017, Cathay Pacific entered into an agreement with DHL International for Cathay Pacific to acquire from DHL International the 40% shareholding in Air Hong Kong that it did not already own. This agreement was completed at the end of 2018, with the result that Air Hong Kong is now a wholly owned subsidiary of Cathay Pacific. Air Hong Kong continues to operate an agreed freighter network to destinations in Asia for DHL International. It does so under a new block space agreement with DHL International for a 15-year term, which commenced on 1st January 2019.

Asia Miles Limited ("AML")

- AML, a wholly owned subsidiary, manages the Cathay Pacific Group's reward programme. It has more than 11 million members.
- In 2018, AML achieved an increase in profit compared with 2017, due to an increase in business volume.

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

- CPCS, a wholly owned subsidiary, operates the principal flight kitchen in Hong Kong.
- CPCS provides flight catering services to 52 international airlines in Hong Kong. It produced 30 million meals and handled 73,500 flights in 2018 (representing a daily average of 82,000 meals and 201 flights, a decrease of 1.2% and 1.0% respectively from 2017).
- Profits fell in 2018. Revenue decreased because of a decrease in business volume. Material costs were higher. Overheads and depreciation at CPCS' expanded facility increased.
- The profits of the flight kitchens outside Hong Kong increased compared to the previous year.

Cathay Pacific Services Limited ("CPSL")

- CPSL, a wholly owned subsidiary, operates the Group's cargo terminal at Hong Kong International Airport. The terminal's annual handling capacity is 2.6 million tonnes.
- At the end of 2018, CPSL provided cargo handling services to 17 airlines. One airline became a customer and one airline ceased to be a customer in 2018.
- CPSL handled 2.1 million tonnes of cargo in 2018, 53% of which were transshipments. Export and import shipments accounted for 30% and 17% respectively of the total.
- The financial results in 2018 deteriorated compared with those of 2017. There was a decrease in tonnage and a higher proportion of the tonnage comprised (less profitable) transshipments.

Hong Kong Airport Services Limited ("HAS")

- HAS, a wholly owned subsidiary, provides ramp and passenger handling services at Hong Kong International Airport. At the end of 2018, it provided ground handling services to 23 airlines, including Cathay Pacific and Cathay Dragon.
- In 2018, HAS had 44% and 4% market shares in ramp and passenger handling businesses respectively at Hong Kong International Airport. The number of flights handled under ramp handling business increased by 7.0% in 2018. The number of flights handled under passenger handling business decreased by 61.4%. The reduction in passenger handling business followed the transfer of Cathay Dragon's passenger handling business to Cathay Pacific in March 2018.
- The financial results in 2018 were worse than those in 2017. This reflected the loss of the Cathay Dragon passenger handling business.
- HAS' ramp handling licence at Hong Kong International Airport was renewed for 10 years from July 2018.

Air China Limited ("Air China")

- Air China, in which Cathay Pacific had a 18.13% interest at 31st December 2018, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China.
- At 31st December 2018, Air China operated 315 domestic and 122 international (including regional) routes to 42 countries and regions, including 66 overseas cities, three regional cities and 115 domestic cities.
- We are represented on the Board of Directors of Air China and equity account for our share of Air China's results.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, our 2018 results include Air China's results for the 12 months ended 30th September 2018, adjusted for any significant events or transactions in the period from 1st October 2018 to 31st December 2018.
- For the 12 months ended 30th September 2018, Air China's financial results declined compared to those for the 12 months ended 30th September 2017.

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

- Air China Cargo, in which Cathay Pacific owns an equity and an economic interest totalling 49%, is the leading provider of air cargo services in Mainland China. It has its headquarters in Beijing. Its main operating base is in Shanghai Pudong.
- At 31st December 2018, Air China Cargo operated 15 freighters. It flies to nine cities in Mainland China and 11 cities outside Mainland China. Taking into account its rights to carry cargo in the bellies of Air China's passenger aircraft, Air China Cargo has connections to more than 200 destinations.
- In 2018, Air China Cargo's financial results declined compared to those of 2017.

Data security incident

In October, we announced that we had discovered unauthorised access to some of the passenger data of Cathay Pacific and Cathay Dragon. Upon discovery, we took immediate action to contain the event and to commence a thorough investigation. We have to date found no evidence that any personal information has been misused. The information systems affected were separate from our flight operations systems. There was no impact on flight safety. We contacted affected passengers and notified the Hong Kong police and relevant authorities.

Antitrust proceedings

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances in line with accounting policy 20 set out on page 117.

CUSTOMER CENTRIC

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

Financial Review

The Cathay Pacific Group reported an attributable profit of HK$2,345 million for 2018. This compares to a loss of HK$1,259 million for 2017. The profit per share was HK59.6 cents in 2018 compared to a loss per share of HK32.0 cents in 2017. The Cathay Pacific Group reported an attributable profit of HK$2,608 million in the second half of 2018, compared to an attributable loss of HK$263 million in the first half of 2018 and an attributable profit of HK$792 million in the second half of 2017. Cathay Pacific and Cathay Dragon reported an attributable profit of HK$1,145 million in the second half of 2018, compared to an attributable loss of HK$904 million in the first half of 2018 and an attributable loss of HK$1,538 million in the second half of 2017.

Fuel prices increased for 10 months, before falling somewhat in the last two months of the year. The strength of the US dollar adversely affected net income in the latter half of the year.

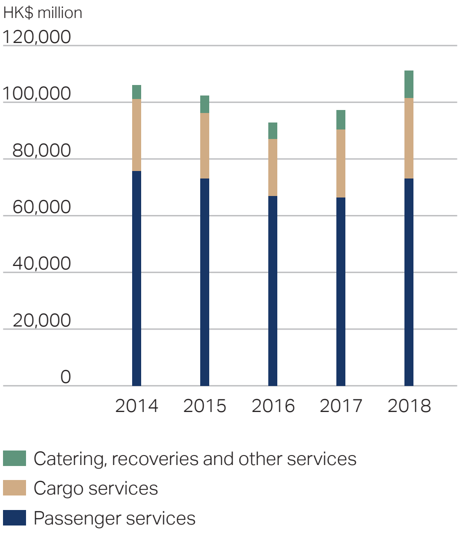
But for the adverse effect of a weaker Renminbi, the contribution from the Group's subsidiary and associated companies was satisfactory.

Revenue

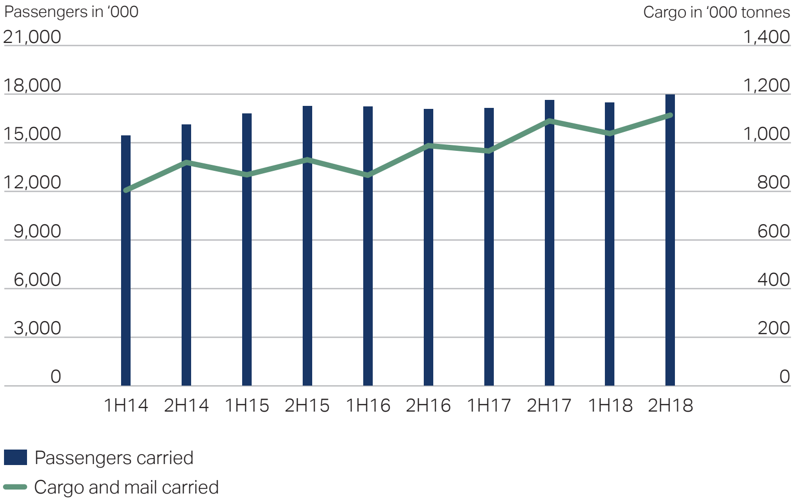
	Group			Cathay Pacific and Cathay Dragon		
	2018 HK$M	2017 HK$M	**Change**	**2018 HK$M**	2017 HK$M	**Change**
Passenger services	**73,119**	66,408	**+10.1%**	**73,119**	66,408	**+10.1%**
Cargo services	**28,316**	23,903	**+18.5%**	**24,663**	20,553	**+20.0%**
Catering, recoveries and other services	**9,625**	6,973	**+38.0%**	**8,730**	6,050	**+44.3%**
Total revenue	**111,060**	97,284	**+14.2%**	**106,512**	93,011	**+14.5%**

- Group revenue increased by 14.2% in 2018 compared with 2017.
- Before the adoption of HKFRS 15 Group passenger services revenue increased by 9.0% compared with a 3.5% increase in capacity, Group cargo services revenue increased by 18.1% compared with a 2.3% increase in capacity (with the combined cargo services revenue and capacity of Cathay Pacific and Cathay Dragon increasing by 19.6% and 2.6% respectively) and Group catering, recoveries and other services revenue increased by 21.9% (with the combined catering, recoveries and other services revenue of Cathay Pacific and Cathay Dragon increasing by 25.3%).

Revenue



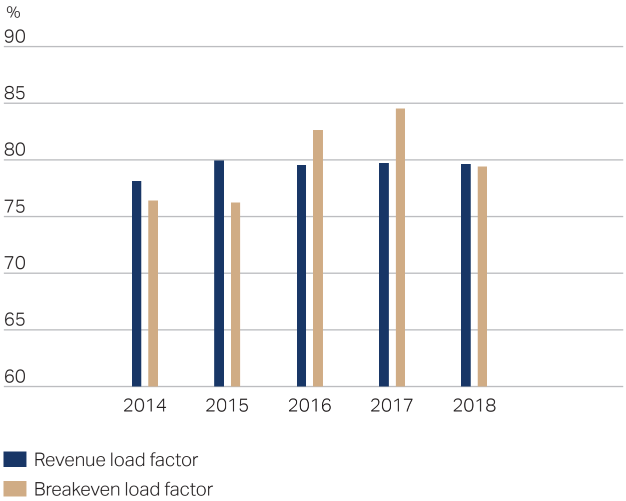
Cathay Pacific and Cathay Dragon: passengers and cargo carried



Cathay Pacific and Cathay Dragon

- Passenger revenue increased by 10.1% to HK$73,119 million. The number of revenue passengers carried increased by 1.9% to 35.5 million. Revenue passenger kilometres increased by 3.1%.
- The passenger load factor decreased by 0.3 percentage points to 84.1%. Available seat kilometres increased by 3.5%.
- Passenger yield increased by 6.7% to HK¢55.8.
- First and business class revenues increased by 7.0% and the load factor increased from 74.9% to 76.1%.
- Premium economy and economy class revenues increased by 2.9% and the load factor decreased from 86.0% to 85.5%.
- Cargo revenue increased by 20.0% to HK$24,663 million. There was a 2.6% increase in capacity.
- The cargo load factor increased by 1.0 percentage point. Cargo yield increased by 14.7% to HK$2.03.
- The revenue load factor decreased by 0.1 percentage point to 79.6%. The breakeven load factor was 79.4%.

Cathay Pacific and Cathay Dragon: revenue and breakeven load factor



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

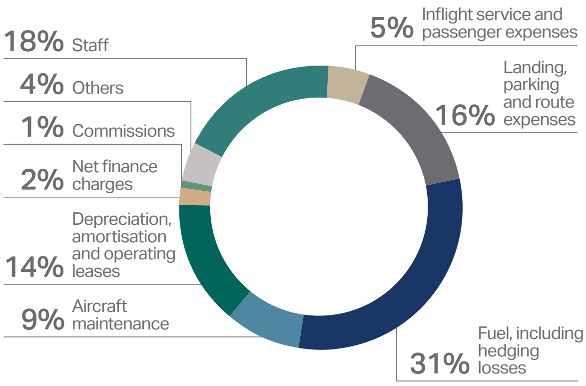
	HK$M
+ 1 percentage point in passenger load factor	867
+ 1 percentage point in cargo and mail load factor	358
+ HK¢1 in passenger yield	1,306
+ HK¢1 in cargo and mail yield	121

Operating expenses

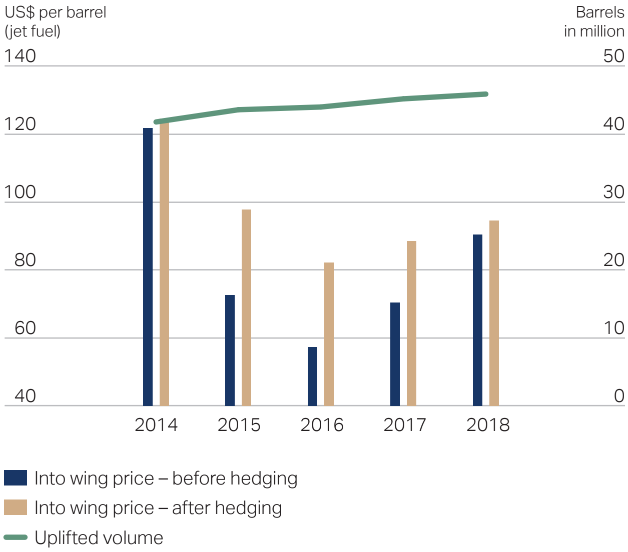
	Group			Cathay Pacific and Cathay Dragon		
	2018 HK$M	2017 HK$M	**Change**	**2018 HK$M**	2017 HK$M	**Change**
Staff	**20,211**	19,962	**+1.2%**	**17,987**	17,708	**+1.6%**
Inflight service and passenger expenses	**5,292**	4,996	**+5.9%**	**5,292**	4,996	**+5.9%**
Landing, parking and route expenses	**17,486**	15,225	**+14.9%**	**17,115**	14,830	**+15.4%**
Fuel, including hedging losses	**33,869**	31,112	**+8.9%**	**33,232**	30,619	**+8.5%**
Aircraft maintenance	**9,401**	9,607	**-2.1%**	**8,965**	9,221	**-2.8%**
Aircraft depreciation and operating leases	**12,743**	11,845	**+7.6%**	**12,414**	11,596	**+7.1%**
Other depreciation, amortisation and operating leases	**2,851**	2,795	**+2.0%**	**2,091**	1,986	**+5.3%**
Commissions	**862**	681	**+26.6%**	**862**	681	**+26.6%**
Others	**4,750**	3,340	**+42.2%**	**6,164**	4,877	**+26.4%**
Operating expenses	**107,465**	99,563	**+7.9%**	**104,122**	96,514	**+7.9%**
Net finance charges	**2,114**	1,761	**+20.0%**	**1,853**	1,527	**+21.4%**
Total operating expenses	**109,579**	101,324	**+8.1%**	**105,975**	98,041	**+8.1%**

- Before the adoption of HKFRS 15 the Group's total operating expenses increased by 6.3% (with the combined Cathay Pacific and Cathay Dragon operating expenses increasing by 6.2%).
- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon increased from HK$3.12 to HK$3.27.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon increased from HK$2.14 to HK$2.25.
- The underlying cost per ATK (without fuel), which excludes exceptional items and adjusts for the effect of foreign currency movements and the adoption of HKFRS 15, increased from HK$2.12 to HK$2.16, an increase of 1.9%. Excluding additional costs associated with expanding our Asia Miles programmme, developing ancillary cargo services and marketing new destinations, and additional staff expenses (mainly paying a discretionary bonus), our cost per ATK fell in 2018.

Group total operating expenses



Group fuel price and consumption



Operating results analysis

	1st half 2018 HK$M	**2nd half 2018 HK$M**	**Full year 2018 HK$M**	1st half 2017 HK$M	2nd half 2017 HK$M	Full year 2017 HK$M
Airlines' profit/(loss) before exceptional items	(844)	**1,539**	**695**	(3,033)	(1,156)	(4,189)
Exceptional items*	101	**(259)**	**(158)**	108	(119)	(11)
Taxation	(161)	**(135)**	**(296)**	160	(263)	(103)
Airlines' profit/(loss) after taxation	(904)	**1,145**	**241**	(2,765)	(1,538)	(4,303)
Share of profits from subsidiaries and associates	641	**1,463**	**2,104**	714	2,330	3,044
Profit/(loss) attributable to the shareholders of Cathay Pacific	(263)	**2,608**	**2,345**	(2,051)	792	(1,259)

* *Exceptional items in 2018 included a HK$101 million gain on the disposal of CO_2 emissions credits, redundancy costs of HK$201 million incurred in connection with the reorganisation of our outports and data security costs of HK$58 million. Exceptional items in 2017 included a European Commission airfreight fine of Euros 57.12 million (equivalent to approximately HK$498 million), redundancy costs of HK$224 million incurred in connection with the reorganisation of our head office, a mark to market impairment of CO_2 emissions credits of HK$119 million and gains on the disposal of TravelSky Technology Limited (of HK$586 million) and on the deemed partial disposal of Air China shares (of HK$244 million).*

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

	Reported HK$M	HKFRS 15 adoption HK$M	Currency movement HK$M	**Adjusted HK$M**	ATK unit * % change	Note
2017 Airlines' loss before tax	**(4,189)**			**(4,189)**		
Changes:						
– Passenger and Cargo revenue	**10,821**	(785)	(1,309)	**8,727**	+6.8%	1
– Other revenue	**2,680**	(1,150)	(14)	**1,516**	+21.4%	2
– Staff	**(302)**	–	(3)	**(305)**	-1.2%	3
– Inflight service and passenger expenses	**(296)**	(23)	7	**(312)**	+3.1%	4
– Landing, parking and route expenses	**(2,285)**	1,591	54	**(640)**	+1.3%	5
– Fuel, including hedging losses	**(2,613)**	–	145	**(2,468)**	+4.9%	6
– Aircraft maintenance	**256**	–	8	**264**	-5.7%	7
– Owning the assets **	**(1,249)**	–	35	**(1,214)**	+5.3%	8
– Other items (including commissions)	**(2,128)**	358	452	**(1,318)**	+17.0%	9
Sub-total	**695**	(9)	(625)	**61**		
– Net impact of HKFRS 15 adoption				**9**		
– Net impact of foreign currency movements				**625**		
2018 Airlines' profit before tax				**695**		

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

** *includes aircraft and other depreciation and operating lease payments and net finance charges.*

Notes:

1) *As per Review of Operations section for passenger and cargo services.*
2) *The growth principally reflects cargo flown under Atlas (5Y) operations together with lease back income, and an increase in Asia Miles activity. The associated costs are accounted for under owning the assets and other items respectively. Passenger and cargo ancillary revenue growth was satisfactory.*
3) *There was a reduction in our unit staff costs following the reorganisation of our head office in 2017 and the commencement of our outport reorganisation in 2018. The decline in unit staff costs includes payment of a one month discretionary bonus to all staff in 2018.*
4) *We spent more on customer services (lounges, business class dining, inflight entertainment and long haul connectivity).*
5) *Navigation, overflying, landing and parking charges increased due to greater long haul mix and inflationary pressure.*
6) *Fuel costs increased due to a 28.3% rise in the average into-plane fuel price and a 1.6% rise in consumption. This was partially offset by a 77.3% decrease in fuel hedging losses.*
7) *Benefits arose from fleet rationalisation and investment in new aircraft.*
8) *Higher depreciation and finance costs resulted from rising interest rates and acquiring more aircraft, together with Atlas lease rentals (see note 2). However, fuel consumption per RTK decreased by 1.9%, reflecting improved fuel efficiency of new aircraft.*
9) *In addition to incremental Asia Miles activity (see note 2), spending on digital enablement and marketing new destinations increased. So did sales commissions, reflecting increased yields, partly a reflection of increased fuel surcharges.*

Fuel expenditure and hedging

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

	2018 HK$M	2017 HK$M
Gross fuel cost	**32,424**	24,735
Fuel hedging losses	**1,445**	6,377
Fuel cost	**33,869**	31,112

Fuel consumption in 2018 was 45.8 million barrels (2017: 45.1 million barrels), an increase of 1.6% compared with an increase in capacity of 3.0%.

- The Group's fuel hedging cover at 31st December 2018 is set out in the chart below.

Fuel hedging cover

- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart above indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices.
- The Group does not speculate on oil prices but uses hedging to manage the risk of increases in oil prices and therefore its fuel costs. Hedging is not risk free.

Taxation

- The tax charge increased by HK$158 million to HK$466 million, principally due to a decrease in deferred tax assets as a result of a decrease in future tax credits.

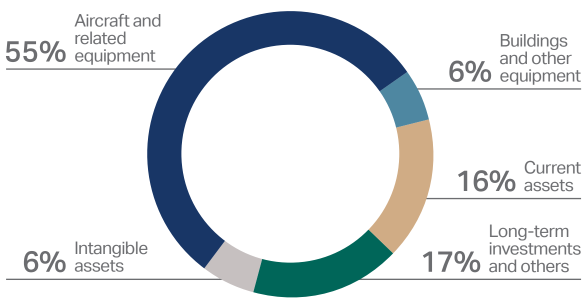
Dividends

- Dividends proposed for the year are HK$1,180 million.
- Dividend per share increased to HK$0.30 for 2018 (2017: HK$0.05).

Assets

- Total assets at 31st December 2018 were HK$190,294 million.
- During the year, additions to property, plant and equipment were HK$15,390 million, comprising HK$15,072 million in respect of aircraft and related equipment, HK$161 million in respect of buildings and HK$157 million in respect of other equipment.

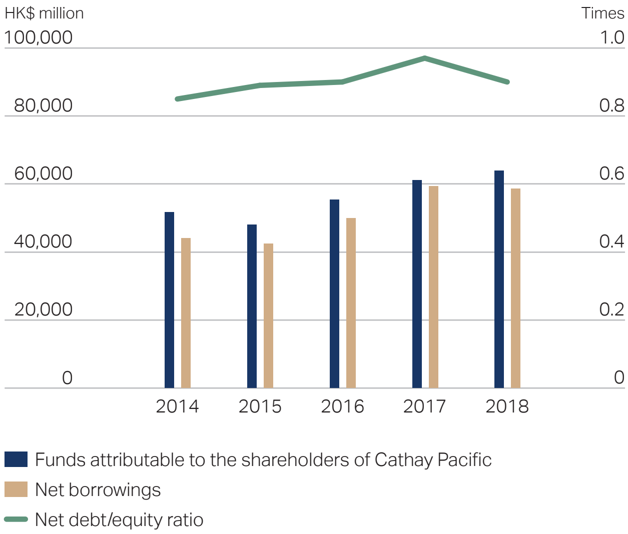
Total assets



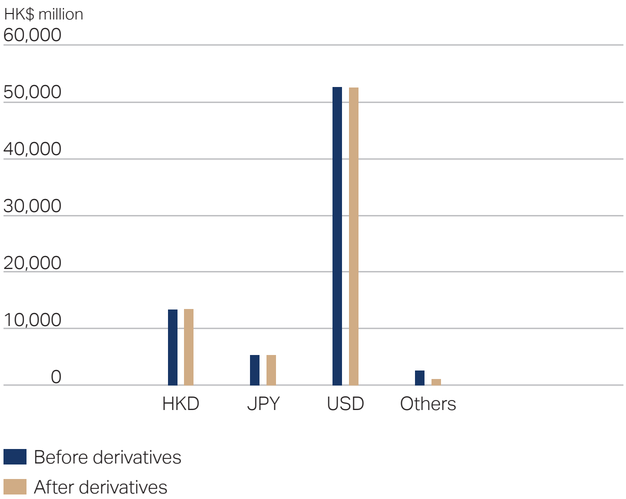
Borrowings and capital

- Borrowings decreased by 5.8% to HK$73,877 million which are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, and are fully repayable by 2030, with 52.1% currently at fixed rates of interest after taking into account derivative transactions.
- Liquid funds, 75.4% of which are denominated in United States dollars, decreased by 19.8% to HK$15,315 million.
- Net borrowings (after taking liquid funds and bank overdrafts into account) decreased by 1.2% to HK$58,581 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 4.6% to HK$63,936 million. This was due to an increase of HK$631 million taken to retained profit on initial application of HKFRS 15 as noted in accounting policy 1(b), the Group's profit contribution for the year, gains in the Group's share of associates' other comprehensive income, movements in the cash flow hedge reserves reflecting mark to market valuation gains, partly offset by the exchange losses on translation of foreign operations.
- The net debt/equity ratio decreased from 0.97 times to 0.92 times.

Net debt and equity

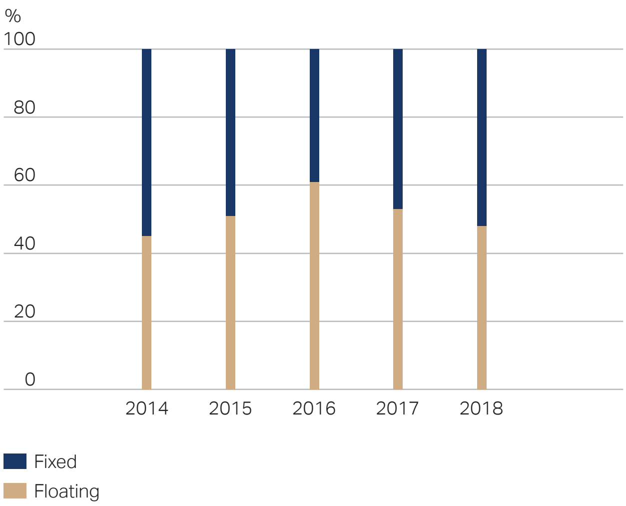


Borrowings before and after derivatives



Others include EUR and SGD.

Interest rate profile: borrowings (after derivatives)



Sustainable Development Review

Sustainable development

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

We operate an environmental management system which is based on ISO14001:2015 certification. The system is audited once a year externally and internally. Opportunities for improvement are identified during these audits.

We engage with the communities in which we operate and involve our employees in doing so. We prioritise our community activities but maintain flexibility in order to respond to specific local needs.

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

Performance updates – Cathay Pacific and Cathay Dragon

		2018	2017	Change
Environment				
GHG emissions	*Million tonnes of CO_2e*	**18.0**	17.7	**+1.7%**
GHG emissions per ATK	*Grammes of CO_2e*	**556**	564	**-1.4%**
Electricity consumption	*MWh*	**37,762**	40,923	**-7.7%**
Paper consumption (office)	*Tonnes*	**80**	181	**-55.8%**
Paper recycled (office and inflight)	*Tonnes*	**1,528**	1,804	**-15.3%**
Metal recycled (office and inflight)	*Kg*	**37,290**	39,634	**-5.9%**
Plastic recycled (office and inflight)	*Kg*	**39,624**	37,124	**+6.7%**
People				
Total workforce	*Number*	**26,623**	26,029	**+2.3%**
By location				
Hong Kong	*%*	**76.3**	73.8	**+2.5%pt**
Outport	*%*	**23.7**	26.2	**-2.5%pt**
By employment type				
Flight crew	*%*	**14.9**	15.1	**-0.2%pt**
Cabin crew	*%*	**47.8**	47.3	**+0.5%pt**
Ground staff	*%*	**37.3**	37.6	**-0.3%pt**
By gender				
Female	*%*	**59.7**	61.3	**-1.6%pt**
Male	*%*	**40.3**	38.7	**+1.6%pt**

Full indicator tables will be provided in Cathay Pacific's Sustainable Development Report at https://www.cathaypacific.com/cx/en_HK/about-us/environment/our-publications.html

Awards and Recognitions in 2018

- Cathay Pacific is a constituent of the FTSE4Good Index and the Hang Seng Corporate Sustainability Index. In 2018, we responded to the Carbon Disclosure Project climate change questionnaire and received a B rating.
- In 2018, Cathay Pacific was awarded the Best in Environmental, Social and Governance (ESG) and Best in Reporting in the large Market capitalisation category respectively at the BDO ESG Awards.

2018 Highlights

Environment

- Cathay Pacific participates in an International Civil Aviation Organization task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA Environment Committee, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In compliance with the European Union's Emissions Trading Scheme, our 2018 emissions data from intra-EU flights were reported on by an external auditor in January 2019 and our emissions report was submitted to the UK Environment Agency in February 2019.
- In 2018, all our Airbus A350-1000 aircraft were flown on their delivery flights from Toulouse using fuel containing biofuel.
- Cathay Pacific Catering Services (H.K.) Limited has been working with local non-profit organisations, Feeding Hong Kong and Food Angel, which provide surplus food to Hong Kong charities for distribution to people in need. Feeding Hong Kong collects unopened food items from inbound Cathay Pacific flights. Food Angel collects unused and surplus food from the CPCS kitchens. More than 280 tonnes of surplus food were donated in 2018.
- In March 2018, Cathay Pacific participated in WWF's annual Earth Hour activity. We switched off all non-essential lighting in our buildings and on billboards 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.
- Plastic straws, stirrers and cutlery and plastic bags have been eliminated at Cathay City. Single-use plastic straws and stirrers will be phased out in 2019 on all Cathay Pacific and Cathay Dragon flights and in all of our lounges.
- Our sustainable development report for 2018 will be published in June 2019. It will be available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/our-publications.html.
- Our new sustainable development website is available at sustainability.cathaypacific.com.

Contribution to the community

- We held a 24 hour hackathon in November 2018. It demonstrated our efforts to foster innovation and to do new things to improve services to passengers and operating efficiency.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Our passengers contributed HK$11.7 million in 2017 to help improve the lives of vulnerable children worldwide. Since its introduction in 1991, nearly HK$190 million has been raised through the programme.
- A percentage of the "Change for Good" donations are passed to the Cathay Pacific Wheelchair Bank, which raises funds to provide specially adapted wheelchairs for children with neuromuscular diseases.
- In June 2018, 13 Cathay Pacific staff went to Mainland China and in September 2018, 11 staff visited Nepal, in each case to see how "Change for Good" donations were being applied.
- We organised tours of our headquarters at Hong Kong International Airport for around 9,340 visitors in 2018.
- The Cathay Dragon aviation certificate programme is organised with the Hong Kong Air Cadet Corps and the Scout Association of Hong Kong. Participants gain first-hand knowledge of the Hong Kong aviation industry and are mentored by Cathay Dragon pilots. In 2018, Cathay Dragon pilots mentored 30 participants over nine months. To date, over 270 participants have graduated from the programme. About 40% of the graduates have started aviation-related careers.
- In October 2018, we arranged for a group of young Hong Kong people to do volunteer work in Cambodia.

Commitment to staff

- At 31st December 2018, the Cathay Pacific Group employed more than 32,400 people worldwide. Around 26,200 of these people are based in Hong Kong. Cathay Pacific and Cathay Dragon employed more than 26,600 permanent staff worldwide. Around 78% of these people are based in Hong Kong.
- Cathay Pacific and Cathay Dragon recruited more than 2,600 staff in 2018, including 1,245 cabin crew and 226 pilots.
- In 2018, 74 cadets graduated from the Cathay Pacific cadet pilot programme.
- 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.
- Regrettably there were two fatalities from among our employees in 2018. These occurred in Hong Kong when a commuter bus contracted by the Cathay Pacific Group collided with a stationary vehicle.

PRODUCTIVITY & VALUE FOCUSED

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

Directors and Officers

Executive Directors

SLOSAR, John Robert#, aged 62, has been a Director of the Company since July 2007 and its Chairman since March 2014. He was appointed Chief Operating Officer in July 2007 and Chief Executive of the Company in March 2011. He is also Chairman of PureCircle Limited and a Director of Air China Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.

HOGG, Rupert Bruce Grantham Trower#, aged 57, has been a Director of the Company since March 2014. He was appointed Director Cargo in September 2008, Director Sales and Marketing in August 2010, Chief Operating Officer in March 2014 and Chief Executive Officer in May 2017. He joined the Swire group in 1986 and has worked with the group in Hong Kong, Southeast Asia, Australia and the United Kingdom. He is also a Director of John Swire & Sons (H.K.) Limited and Chairman of Hong Kong Dragon Airlines Limited.

HUGHES, Gregory Thomas Forrest#, aged 57, has been a Director and Chief Operations and Service Delivery Officer of the Company since June 2017. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously a Director and Group Director Components & Engine Services of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1987 and has previously worked with the group in Hong Kong, Korea, Indonesia, Japan and Australia.

LOO, Kar Pui Paul#, aged 50, has been a Director and Chief Customer and Commercial Officer of the Company since June 2017. He was appointed Director Corporate Development in August 2015 and his responsibilities were extended to include information technology in June 2016. He joined the Company in 1991 and has worked with the Company in Hong Kong, Mainland China, Japan, the Middle East, the Philippines and Taiwan.

MURRAY, Martin James#, aged 52, has been Chief Financial Officer (formerly Finance Director) of the Company since November 2011. He is also a Director of Hong Kong Dragon Airlines Limited. He was previously Deputy Finance Director of Swire Pacific Limited. He joined the Swire group in 1995 and has worked with the group in Hong Kong, the United States, Singapore and Australia.

Non-Executive Directors

CAI, Jianjiang, aged 55, has been a Director of the Company since November 2009 and Deputy Chairman since March 2014. He is Chairman of China National Aviation Holding Company Limited and Air China Limited.

CHU, Kwok Leung Ivan#, aged 57, has been a Director of the Company since March 2011. He served as Chief Operating Officer from March 2011 to March 2014 and Chief Executive from March 2014 to April 2017. He is also a Director of John Swire & Sons (H.K.) Limited and Swire Pacific Limited and Chairman of John Swire & Sons (China) Limited. He is a member of the Chinese People's Political Consultative Conference Shanghai Committee. He joined the Swire group in 1984 and has worked with the group in Hong Kong, Mainland China, Taiwan, Thailand and Australia.

LOW, Mei Shuen Michelle#, aged 58, has been a Director of the Company since October 2017. She is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Swire Properties Limited. She joined the Swire group in 1987.

SONG, Zhiyong, aged 53, has been a Director of the Company since March 2014. He is Vice Chairman and President of Air China Limited.

SWIRE, Merlin Bingham#, aged 45, has been a Director of the Company since June 2010. He is also Chairman of John Swire & Sons (H.K.) Limited, Swire Pacific Limited and Swire Properties Limited. He is also Deputy Chairman and a shareholder of John Swire & Sons Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London. He is brother to Samuel Swire, a Non-Executive Director of the Company.

SWIRE, Samuel Compton#+, aged 39, has been a Director of the Company since January 2015. He is also Chairman of The China Navigation Company Pte. Ltd. He is also a Director and shareholder of John Swire & Sons Limited and a Director of Swire Pacific Limited. He joined the Swire group in 2003 and has worked with the group in Hong Kong, Singapore, Mainland China, Sri Lanka and London. He is brother to Merlin Swire, a Non-Executive Director of the Company.

XIAO, Feng*, aged 50, has been a Director of the Company since January 2017. He is Chief Financial Officer of Air China Limited.

ZHAO, Xiaohang, aged 57, has been a Director of the Company since June 2011. He is Vice President of Air China Limited, Chairman of Dalian Airlines Company Limited and a Director of China National Aviation Corporation (Group) Limited and China National Aviation Company Limited.

Independent Non-Executive Directors

CHAN, Bernard Charnwut+, aged 54, has been a Director of the Company since December 2018. He is President and an Executive Director of Asia Financial Holdings Limited and its wholly owned subsidiary, Asia Insurance Company, Limited and an advisor to Bangkok Bank (China) Company Limited. He is also an Independent Non-Executive Director of Chen Hsong Holdings Limited, China Resources Beer (Holdings) Company Limited and Yau Lee Holdings Limited and a Director of Bumrungrad Hospital Public Company Limited. He is the Convenor of the Non-Official Members of the Executive Council and a former member of the Legislative Council of the Hong Kong Special Administrative Region.

HARRISON, John Barrie*, aged 62, has been a Director of the Company since May 2015. He is an Independent Non-Executive Director of AIA Group Limited, Grosvenor Asia Pacific Limited and BW Group Limited and Vice Chairman of BW LPG Limited. He was Chairman and Chief Executive Officer of KPMG, China and Hong Kong and Chairman of KPMG Asia Pacific from 2003 to 2009 and was Deputy Chairman of KPMG International from 2008 until his retirement from KPMG in September 2010.

LEE, Irene Yun Lien+*, aged 65, has been a Director of the Company since January 2010. She is Chairman of Hysan Development Company Limited, an Independent Non-Executive Director of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited. She was a member of the Australian Government Takeovers Panel from March 2001 until March 2010.

TUNG, Lieh Cheung Andrew*, aged 55, has been a Director of the Company since May 2015. He is an Executive Director of Orient Overseas (International) Limited and Director and Co-Chief Executive Officer of Orient Overseas Container Line Limited. He is also an Independent Non-Executive Director of Standard Chartered Bank (Hong Kong) Limited.

Company Secretary

FU, Yat Hung David#, aged 55, has been Company Secretary since January 2006. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong. He is also a member of the Standing Committee on Company Law Reform and President of The Hong Kong Institute of Chartered Secretaries.

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

Directors' Report

We submit our report and the audited financial statements for the year ended 31st December 2018 which are on pages 58 to 117.

Principal activities

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

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

Consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries together with the Group's interests in joint ventures and associates. The financial performance of the Group for the year ended 31st December 2018 and the financial position of the Group and the Company at that date are set out in the financial statements on pages 58 to 117. Details of the joint ventures and associates are provided under note 9 to the financial statements.

Dividends

The Directors have declared a second interim dividend of HK$0.20 per share for the year ended 31st December 2018. Together with the first interim dividend of HK$0.10 per share paid on 3rd October 2018, this makes a total dividend for the year of HK$0.30 per share. This represents a total distribution for the year of HK$1,180 million. The second interim dividend will be paid on 9th May 2019 to shareholders registered at the close of business on the record date, being Thursday, 4th April 2019. Shares of the Company will be traded ex-dividend as from Tuesday, 2nd April 2019.

The Company's dividend policy is to distribute approximately half of its consolidated profit after tax, excluding non-cash exceptional items. The application of this policy and final declarations are however subject to consideration of other factors, such as the strength of the Company's own statement of financial position, the Company's own profits, trading conditions and the prevailing and forecast economic environment.

Closure of register of members

The register of members will be closed on Thursday, 4th April 2019, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 3rd April 2019.

To facilitate the processing of proxy voting for the annual general meeting to be held on 15th May 2019, the register of members will be closed from 10th May 2019 to 15th May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 9th May 2019.

Business review and performance

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

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statement of changes in equity on page 61 and in note 21 to the financial statements, respectively.

Accounting policies

The principal accounting policies are set out on pages 105 to 117.

Environmental, Social and Governance

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

Donations

During the year, the Company and its subsidiaries made charitable donations amounting to HK$8 million in direct payments and a further HK$7 million in the form of discounts on airline travel.

Property, plant and equipment

Movements of property, plant and equipment are shown in note 7 to the financial statements. Details of aircraft acquisitions are set out on page 15.

Bank and other borrowings

The net bank loans and other borrowings, including obligations under finance leases, of the Group are shown in note 11 to the financial statements.

Share capital

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

At 31st December 2018, 3,933,844,572 shares were in issue (31st December 2017: 3,933,844,572 shares). There has been no movement in share capital during the year.

Capital commitments and contingencies

The details of capital commitments and contingent liabilities of the Group at 31st December 2018 are set out in note 27 to the financial statements.

Agreement for services

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

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Paul Loo, Michelle Low, Martin Murray, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement (as defined below). Merlin Swire and Samuel Swire are also so interested as shareholders of Swire.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2018 are set out below and also given in note 26 to the financial statements.

Significant contracts

Contracts between the Group and Hong Kong Aircraft Engineering Company Limited ("HAECO") and its subsidiary, Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO"), for the maintenance and overhaul of aircraft and related equipment accounted for approximately 3.9% of the Group's operating expenses in 2018. HAECO is a subsidiary of Swire Pacific; all contracts have been concluded on normal commercial terms in the ordinary course of the business of both parties.

Continuing connected transactions

During the year ended 31st December 2018, the Group had the following continuing connected transactions, details of which are set out below:

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

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

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

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

For the year ended 31st December 2018, the fees payable by the Company to JSSHK under the JSSHK Services Agreement totalled HK$51 million and expenses of HK$154 million were reimbursed at cost.

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

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

For the year ended 31st December 2018 and under the HAECO Framework Agreement, the amounts payable by the Group to the HAECO group totalled HK$4,227 million; and the amounts payable by the HAECO group to the Group totalled HK$23 million.

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

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

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

For the year ended 31st December 2018 and under the Air China Framework Agreement, the amounts payable by the Group to the Air China group totalled HK$300 million; and the amounts payable by the Air China group to the Group totalled HK$495 million.

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

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

(b) on normal commercial terms or better; and

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

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

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

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

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

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

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

Major customers and suppliers

7% of sales and 34% of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 2% of sales were made to the Group's largest customer and 10% of purchases were made from the Group's largest supplier.

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

Directors

Bernard Chan was appointed as a Director with effect from 1st December 2018. All the other present Directors of the Company whose names are listed in the section of this annual report headed Directors and Officers served throughout the year. Peter Wong resigned as a Director with effect from 1st December 2018.

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

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

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, Cai Jianjiang, John Harrison, Irene Lee and Andrew Tung retire this year and, being eligible, offer themselves for re-election. Bernard Chan, having been appointed as a Director of the Company under Article 91 since the last annual general meeting, also retires and, being eligible, offers himself for election.

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

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

Directors' interests

At 31st December 2018, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that a Director held the following interests in the shares of Cathay Pacific Airways Limited and its associated corporation (within the meaning of Part XV of the SFO), Air China Limited:

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

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

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

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

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in competing business

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

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2018 or during the period from 1st January 2019 to the date of this Report are kept at the Company's registered office and made available for inspection by the members of the Company in accordance with Section 390(6) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

Permitted Indemnity

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

Substantial shareholders

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2018 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	No. of shares	Percentage of voting shares (%)	Type of interest (Note)
1. Air China Limited	2,949,997,987	74.99	Attributable interest (a)
2. China National Aviation Holding Company Limited	2,949,997,987	74.99	Attributable interest (b)
3. Swire Pacific Limited	2,949,997,987	74.99	Attributable interest (a)
4. John Swire & Sons Limited	2,949,997,987	74.99	Attributable interest (c)
5. Qatar Airways Group Q.C.S.C.	392,991,000	9.99	Beneficial interest (d)

Note: At 31st December 2018:

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

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

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

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

(c) Swire and its wholly owned subsidiary JSSHK are deemed to be interested in a total of 2,949,997,987 shares of the Company by virtue of the Swire group being interested in 55.10% of the equity of Swire Pacific and controlling 63.97% of the voting rights attached to shares in Swire Pacific.

(d) Qatar Airways Group Q.C.S.C. held a total of 392,991,000 shares of the Company as beneficial owner.

Public float

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

Auditors

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

By order of the Board

John Slosar

Chairman

Hong Kong, 13th March 2019

HIGH PERFORMANCE CULTURE

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

Corporate Governance Report

Governance Culture

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

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

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

Corporate Governance Statement

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

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

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

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

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

The Board of Directors

Role of the Board

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

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

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

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

Chairman and Chief Executive

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

John Slosar, the Chairman, is responsible for:

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

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

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

Board Composition

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

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

John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Paul Loo, Michelle Low and Martin Murray are directors and/or employees of the Swire group. Merlin Swire and Samuel Swire are shareholders, directors and employees of Swire.

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

The Board considers that four of the twelve Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Irene Lee has served as an Independent Non-Executive Director for more than nine years. The Directors are of the opinion that she remains independent, notwithstanding her length of tenure. Irene Lee continues to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that her tenure has had any impact on her independence.

The Board believes that her detailed knowledge and experience of the Group's business and her external experience continue to be of significant benefit to the Company, and that she maintains an independent view of its affairs.

Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. None of the Independent Non-Executive Directors holds cross-directorships or has significant links with other Directors through involvements in other companies or bodies.

The Independent Non-Executive Directors:

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

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

Appointment and Re-election

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

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

On 13th March 2019, the Board, having reviewed the Board's composition, nominated Cai Jianjiang, Bernard Chan, John Harrison, Irene Lee and Andrew Tung for recommendation to shareholders for election/re-election at the 2019 Annual General Meeting. The nominations were made in accordance with objective criteria (including gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders), with due regard for the benefits of diversity, as set out in the board diversity policy. The Board also took into account the respective contributions of Cai Jianjiang, Bernard Chan, John Harrison, Irene Lee and Andrew Tung to the Board and their firm commitment to their roles. The Board is satisfied with the independence of Bernard Chan, John Harrison, Irene Lee and Andrew Tung having regard to the criteria laid down in the Listing Rules. The particulars of the Directors standing for election/re-election are set out in the section of this annual report headed Directors and Officers and will also be set out in the circular to shareholders to be distributed with this annual report and posted on the Company's website.

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

Board Diversity

The Board has adopted a board diversity policy, which is available on the Company's website. The Board's composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's strategy, governance and business and contribute to the Board's effectiveness. A summary is set out in the table below:

Age	39-47 years (12%)	48-56 years (41%)	57-65 years (47%)
Gender	Male (88%)		Female (12%)
Ethnicity	Australian (6%)	British (29%)	Chinese (65%)
Years of service as Director	1-5 years (65%)	6-10 years (29%)	over 10 years (6%)
Skills, expertise and experience	company executive (65%)		accounting, banking and finance (35%)

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

Responsibilities of Directors

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

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

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

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

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

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

Board Processes

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

The dates of the 2018 Board meetings were determined in 2017 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met seven times in 2018. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 44. Average attendance at Board meetings was 92%. All Directors attended Board meetings in person or through electronic means of communication during the year.

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

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

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

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

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

A typical Board meeting would consist of:

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

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

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

The Chairman meets at least annually with the Independent Non-Executive Directors without the presence of other Directors.

	Meetings Attended/Held						Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	Finance Committee	Board Safety Review Committee	2018 Annual General Meeting	Type of Training (Note)
Executive Directors							
John Slosar – Chairman	7/7				2/2	√	a
Rupert Hogg	7/7			12/12	2/2	√	a
Gregory Hughes	7/7			11/12	2/2	√	a
Paul Loo	7/7			11/12	2/2	√	a
Martin Murray	7/7			11/12		√	a
Non-Executive Directors							
Cai Jianjiang	7/7				0/2	X	a
Ivan Chu	7/7				2/2	√	a
Michelle Low	7/7	4/5		9/12	2/2	√	a
Song Zhiyong	7/7				0/2	X	a
Merlin Swire	6/7				2/2	√	a
Samuel Swire	7/7		2/2		2/2	√	a
Xiao Feng	5/7	3/5		5/12	0/2	X	a
Zhao Xiaohang	6/7			5/12	0/2	X	a
Independent Non-Executive Directors							
Bernard Chan (appointed on 1st December 2018)	N/A				N/A	N/A	a
John Harrison	7/7	5/5			1/2	√	a
Irene Lee	7/7	5/5	2/2		2/2	√	a
Andrew Tung	5/7		1/2		2/2	√	a
Peter Wong (resigned on 30th November 2018)	3/7	2/5			0/2	X	a
Average attendance	92%	76%	83%	76%	66%	71%	

Note:

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

Continuous Professional Development

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

Directors' and Officers' Insurance

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

Conflicts of Interest

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

Delegation by the Board

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

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

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

Securities Transactions

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

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

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

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

Directors' interests at 31st December 2018 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the section of this annual report headed Directors' Report.

Board Safety Review Committee

The Board Safety Review Committee reviews and reports to the Board on safety issues. It met twice during the year and comprises its Chairman (Dr. David King) and all the Non-Executive Directors and Independent Non-Executive Directors of the Company. Five Executive Directors also attend as observers. Captain Timothy Jenkins succeeded Dr. David King as Chairman of the Board Safety Review Committee with effect from 1st February 2019.

Executive Committee

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

Management Committee

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

Finance Committee

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

Remuneration Committee

Full details of the remuneration of the Directors are provided in note 24 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors (Irene Lee, Bernard Chan and Samuel Swire). Two of the Committee Members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. Bernard Chan succeeded Andrew Tung as a member of the Remuneration Committee with effect from 1st December 2018. All the other members served for the whole of 2018.

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

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

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

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

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

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

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

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors at its meeting in October 2018. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 24 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

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

The following fee levels have been approved by the Board:

Fee	2018 HK$	2019 HK$
Director's Fee	575,000	575,000
Fee for Audit Committee Chairman	268,000	268,000
Fee for Audit Committee Member	186,000	186,000
Fee for Remuneration Committee Chairman	83,000	83,000
Fee for Remuneration Committee Member	60,000	60,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

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

Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 48 and 49.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal audit: The Internal Audit Department performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on page 50.

Audit Committee

The Audit Committee, consisting of five Non-Executive Directors (Irene Lee, Michelle Low, John Harrison, Andrew Tung and Xiao Feng), assists the Board in discharging its responsibilities for corporate governance and financial reporting. Three of the Committee members are Independent Non-Executive Directors, one of whom, Irene Lee, is Chairman. Andrew Tung succeeded Peter Wong as a member of the Audit Committee with effect from 1st December 2018. All the other members served for the whole of 2018.

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

The Audit Committee met five times in 2018. Regular attendees at the meetings are the Chief Financial Officer, the Head of Internal Audit and the external auditors. The Audit Committee meets at least twice a year with the external auditors without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit.

The work of the Committee during 2018 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2017 annual and 2018 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management policy and processes
- the approval of the 2019 annual Internal Audit programme and review of progress on the 2018 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on pages 50 and 51
- the Company's compliance with the CG Code
- the Company's fuel hedging policy and foreign currency exchange risk policy
- the Company's data incident in 2018

In 2019, the Committee has reviewed, and recommended to the Board for approval, the 2018 financial statements.

Risk Management Committee

Following a review of the corporate governance processes of the Company subsequent to the data incident in 2018, the Company proposes to establish a risk management committee, which will oversee the design, implementation and monitoring of the risk management and internal control systems of the Company. The responsibilities of the proposed committee will be separate from those of the Board Safety Review Committee.

Assessing the Effectiveness of Risk Management and Internal Control Systems

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

This assessment considers:

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

- the results of management's control self assessment exercise.

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

Sustainable Development Committee

The Sustainable Development Committee meets twice a year to evaluate and approve sustainable development direction and strategy for the Group. It is chaired by the Chief Executive Officer (Rupert Hogg) and comprises three other Executive Directors (Paul Loo, Gregory Hughes and Martin Murray), the Director Customer (Simon Large) and the Director People (Tom Owen).

Expenditure Control Committee

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

Company Secretary

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

Internal Audit Department

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

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

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

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

External Auditors

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

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

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors

- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity are not, and are not seen to be, compromised
- approval of audit and non-audit fees.

Auditors' Independence

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

Provision of Non-audit Services

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

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

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

In 2018 the total remuneration paid to the external auditors was HK$20 million, being HK$15 million for audit, HK$4 million for tax advice and HK$1 million for other professional services.

Inside Information

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

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

Joint Airline Safety Review Committee

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

Shareholders

Communication with Shareholders and Investors

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

The methods used to communicate with shareholders include the following:

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

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

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

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 9th May 2018. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 44.

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

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2017
- electing/re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue.

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

Dividend Policy

The Company has a policy on the payment of dividends, which is set out in the section of this annual report headed Directors' Report.

Shareholder engagement

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

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

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

Other information for shareholders

Key shareholder dates for 2019 are set out in the section of this annual report headed Corporate and Shareholder Information.

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

Independent Auditor's Report

KPMG

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Cathay Pacific Airways Limited and its subsidiaries (together "the Group") set out on pages 58 to 117, which comprise the consolidated statement of financial position as at 31st December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis of opinion

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

Key audit matters

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

Revenue recognition

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

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

Hedge accounting

Refer to accounting policy 10 and notes 10, 12, 15, 17, 21 and 28 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group enters into derivative financial instrument contracts in order to manage its exposure to fuel price risk, foreign currency risk and interest rate risk, which arise during the normal course of its business. These contracts gave rise to derivative financial assets of HK$2,359 million and derivative financial liabilities of HK$2,059 million as at 31st December 2018. Hedge accounting under HKFRSs is applied for a majority of these arrangements. We identified hedge accounting (including the valuation of hedging instruments) as a key audit matter because hedge accounting can be complex and the Group has entered into a large number of hedging contracts, necessitating a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date and because the valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and is subject to an inherent risk of error.	Our audit procedures to assess hedge accounting included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over derivative financial instruments and the related hedge accounting; • requesting written confirmations from contract counterparties for derivative financial instruments that existed at the reporting date on a sample basis; • inspecting management's hedge documentation and contracts, on a sample basis, for the purposes of considering whether the related accounting treatment was in accordance with the requirements of the prevailing accounting standards; • re-performing calculations of hedge effectiveness on a sample basis; • engaging our financial instruments valuation specialists to re-perform year end valuations of derivative financial instruments on a sample basis and compare these valuations with those recorded by the Group.

Assessment of provisions for taxation, litigation and claims

Refer to accounting policy 20 and notes 4, 17 and 27 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operates in various jurisdictions and, during the normal course of its business, has received queries from and has disputes with various taxation authorities. The Group is also the subject of legal actions and regulatory enquiries in certain jurisdictions as outlined in note 27(d) to the consolidated financial statements. Provisions for taxation, litigation and claims represented management's best estimates of the amounts likely to be required to settle these matters. The amount recorded at 31st December 2018 totalled HK$1,973 million, of which HK$1,193 million was recorded as taxation in the consolidated statement of financial position, and the remaining HK$780 million was included within the balance of other payables in note 17 to the consolidated financial statements. We identified the assessment of provisions for taxation, litigation and claims as a key audit matter because the estimates on which these provisions are based involve a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions and because determining the level of provisions may be subject to a degree of management bias.	Our audit procedures to assess the provisions for taxation, litigation and claims included the following: • engaging our internal tax specialists in Hong Kong and the relevant overseas jurisdictions to assess the Group's provisions for potential exposure to each material tax dispute by discussing with management to understand the dispute and reviewing correspondence with the relevant tax authorities to understand the relevant associated risks; • discussing the status and potential exposures in respect of significant litigation, claims and regulatory enquiries with the Group's internal legal counsel and obtaining letters regarding the progress of litigation and claims from the Group's external legal counsel, including their views on the likely outcome of each litigation or claim and the magnitude of potential exposure; • challenging the assumptions and critical judgements made by management which impacted their estimations of the provisions required, considering judgements previously made by the taxation authorities in the relevant jurisdictions and any relevant opinions given by third party advisors and assessing whether there was an indication of management bias; • performing a retrospective review of provisions for taxation, litigation and claims to evaluate whether the judgement and decisions made by management in estimating provisions in the prior year indicated possible management bias.

Assessing the carrying value of aircraft and related equipment

Refer to accounting policy 5 and note 7 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The carrying value of the Group's aircraft and related equipment as at 31st December 2018 was HK$105,598 million and the related depreciation charge for the year ended 31st December 2018 was HK$8,164 million. Estimated useful lives, residual values and the carrying value of aircraft and related equipment are reviewed annually taking into consideration factors such as changes in fleet composition, current and forecast market values and technical factors which may affect the useful life expectancy of the assets and, therefore, could have a material impact on any impairment charges or the depreciation charge for the year. We identified the assessment of the carrying value of aircraft and related equipment as a key audit matter because of its significance to the consolidated financial statements and because applying the Group's accounting policies in this area involves a significant degree of judgement by management in considering the nature, timing and likelihood of changes to the factors noted above, which may affect the carrying value of the Group's aircraft and related equipment, the depreciation charge and any impairment charges for the current and future years.	Our audit procedures to assess the carrying value of aircraft and related equipment included the following: • assessing the estimated useful lives and residual values of aircraft and related equipment with reference to the Group's historical experience and future operating plans including future acquisitions and retirement of aircraft, policies adopted by other comparable airlines and our knowledge of the airline industry; • challenging any changes to the estimated useful lives and residual values of aircraft by considering external information such as third party quotations, recent sales data for similar aircraft or actual sales agreements the Group entered into which might lead to an adjustment to the remaining useful lives or residual values; • discussing indicators of possible impairment of aircraft and related equipment with management of the Group and, where such indicators were identified, assessing whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards; • challenging the assumptions and critical judgements used by management in their impairment assessments by comparing management's past estimates and plans to the current year's estimates and plans taking into account recent developments in the airline industry and market conditions.

Assessing aircraft maintenance provisions

Refer to accounting policy 6 and note 12 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group operated 60 aircraft held under external operating leases as at 31st December 2018. Under the terms of the operating lease arrangements, the Group is contractually committed to return the aircraft to the lessors in a certain condition agreed with the lessors at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts at the end of each reporting period and accrues such costs over the lease term. The calculation of such costs includes a number of variable factors and assumptions, including the anticipated utilisation of the aircraft, cost of maintenance and the lifespan of the life-limited parts. Provisions for aircraft maintenance costs totalled HK$3,666 million as at 31st December 2018 and are included within other long-term payables and trade and other payables in the consolidated statement of financial position. We have identified assessing aircraft maintenance provisions as a key audit matter because of the inherent level of complex and subjective management judgements required in assessing the variable factors and assumptions in order to quantify the provision amounts.	Our audit procedures to assess aircraft maintenance provisions included the following: • assessing the design, implementation and operating effectiveness of management's key internal controls over accounting for maintenance provisions for aircraft held under operating leases; • evaluating the provisioning model, methodology and key assumptions adopted by management in estimating the provisions and any changes therein by reviewing the terms of the operating leases and comparing assumptions to contract terms and the Group's maintenance cost experience; • obtaining information about the utilisation pattern and expected useful lives of life-limited parts of the aircraft from personnel responsible for aircraft engineering, and considering the consistency of the provisions with the engineering department's assessment of the condition of aircraft; • performing a retrospective review of aircraft maintenance provisions to evaluate whether the judgement and decisions made by management in estimating the provisions in the prior year indicated possible management bias.

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

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

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
13th March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2018

	Note	2018 HK$M	2017 HK$M	2018 US$M	2017 US$M
Revenue					
Passenger services		**73,119**	66,408	**9,374**	8,514
Cargo services		**28,316**	23,903	**3,630**	3,064
Catering, recoveries and other services		**9,625**	6,973	**1,234**	894
Total revenue		**111,060**	97,284	**14,238**	12,472
Expenses					
Staff		**(20,211)**	(19,962)	**(2,591)**	(2,559)
Inflight service and passenger expenses		**(5,292)**	(4,996)	**(678)**	(640)
Landing, parking and route expenses		**(17,486)**	(15,225)	**(2,242)**	(1,952)
Fuel, including hedging losses		**(33,869)**	(31,112)	**(4,342)**	(3,989)
Aircraft maintenance		**(9,401)**	(9,607)	**(1,205)**	(1,232)
Aircraft depreciation and operating leases		**(12,743)**	(11,845)	**(1,634)**	(1,519)
Other depreciation, amortisation and operating leases		**(2,851)**	(2,795)	**(365)**	(358)
Commissions		**(862)**	(681)	**(111)**	(87)
Others		**(4,750)**	(3,340)	**(609)**	(428)
Operating expenses		**(107,465)**	(99,563)	**(13,777)**	(12,764)
Operating profit/(loss) before non-recurring items		**3,595**	(2,279)	**461**	(292)
Gain on disposal of a long-term investment		**–**	586	**–**	75
Gain on deemed partial disposal of an associate		**–**	244	**–**	31
Operating profit/(loss)	*2*	**3,595**	(1,449)	**461**	(186)
Finance charges		**(2,457)**	(2,223)	**(315)**	(285)
Finance income		**343**	462	**44**	59
Net finance charges	*3*	**(2,114)**	(1,761)	**(271)**	(226)
Share of profits of associates		**1,762**	2,630	**226**	337
Profit/(loss) before taxation		**3,243**	(580)	**416**	(75)
Taxation	*4*	**(466)**	(308)	**(60)**	(39)
Profit/(loss) for the year		**2,777**	(888)	**356**	(114)
Non-controlling interests		**(432)**	(371)	**(55)**	(47)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**2,345**	(1,259)	**301**	(161)
Earnings/(loss) per share (basic and diluted)	*5*	**59.6¢**	(32.0)¢	**7.6¢**	(4.1)¢
Profit/(loss) for the year		**2,777**	(888)	**356**	(114)
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Defined benefit plans		**(270)**	702	**(35)**	90
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges		**1,586**	4,352	**203**	558
Revaluation of available-for-sale financial assets		**–**	(403)	**–**	(51)
Share of other comprehensive income of associates		**628**	470	**81**	60
Exchange differences on translation of foreign operations		**(1,495)**	1,874	**(192)**	240
Other comprehensive income for the year, net of taxation	*6*	**449**	6,995	**57**	897
Total comprehensive income for the year		**3,226**	6,107	**413**	783
Total comprehensive income attributable to					
Shareholders of Cathay Pacific		**2,794**	5,736	**358**	736
Non-controlling interests		**432**	371	**55**	47
		3,226	6,107	**413**	783

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

The notes on pages 62 to 104 and the principal accounting policies on pages 105 to 117 form part of these financial statements.

Consolidated Statement of Financial Position

at 31st December 2018

	Note	2018 HK$M	2017 HK$M	2018 US$M	2017 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment	7	**117,124**	111,182	**15,016**	14,254
Intangible assets	8	**11,174**	11,221	**1,432**	1,438
Investments in associates	9	**27,570**	28,144	**3,534**	3,608
Other long-term receivables and investments	10	**4,015**	4,068	**515**	522
Deferred tax assets	14	**793**	928	**102**	119
		160,676	155,543	**20,599**	19,941
Long-term liabilities	11	**(60,183)**	(69,506)	**(7,716)**	(8,911)
Other long-term payables	12	**(4,649)**	(3,502)	**(596)**	(449)
Deferred tax liabilities	14	**(13,178)**	(12,820)	**(1,689)**	(1,644)
		(78,010)	(85,828)	**(10,001)**	(11,004)
Net non-current assets		**82,666**	69,715	**10,598**	8,937
Current assets and liabilities					
Stock		**1,828**	1,515	**234**	194
Trade, other receivables and other assets	15	**12,475**	11,361	**1,599**	1,457
Assets held for sale		**–**	865	**–**	111
Liquid funds	16	**15,315**	19,094	**1,964**	2,448
		29,618	32,835	**3,797**	4,210
Current portion of long-term liabilities	11	**(13,694)**	(8,888)	**(1,756)**	(1,139)
Trade and other payables	17	**(19,408)**	(17,057)	**(2,488)**	(2,187)
Unearned transportation revenue		**(14,030)**	(13,961)	**(1,799)**	(1,790)
Bank overdrafts – unsecured		**(19)**	–	**(2)**	–
Taxation		**(1,193)**	(1,372)	**(153)**	(176)
Dividend payable to non-controlling interests		**(1)**	–	**–**	–
		(48,345)	(41,278)	**(6,198)**	(5,292)
Net current liabilities		**(18,727)**	(8,443)	**(2,401)**	(1,082)
Total assets less current liabilities		**141,949**	147,100	**18,198**	18,859
Net assets		**63,939**	61,272	**8,197**	7,855
CAPITAL AND RESERVES					
Share capital	19	**17,106**	17,106	**2,193**	2,193
Other reserves	21	**46,830**	43,995	**6,004**	5,640
Funds attributable to the shareholders of Cathay Pacific		**63,936**	61,101	**8,197**	7,833
Non-controlling interests		**3**	171	**–**	22
Total equity		**63,939**	61,272	**8,197**	7,855

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

The notes on pages 62 to 104 and the principal accounting policies on pages 105 to 117 form part of these financial statements.

John Slosar
Director
Hong Kong, 13th March 2019

Irene Lee
Director

Consolidated Statement of Cash Flows

for the year ended 31st December 2018

	Note	**2018 HK$M**	2017 HK$M	**2018 US$M**	2017 US$M
Operating activities					
Cash generated from operations	22	**17,737**	6,415	**2,274**	822
Interest received		**248**	237	**32**	30
Interest paid		**(1,956)**	(1,546)	**(251)**	(198)
Tax paid		**(1,504)**	(783)	**(193)**	(100)
Net cash inflow from operating activities		**14,525**	4,323	**1,862**	554
Investing activities					
Net decrease/(increase) in liquid funds other than cash and cash equivalents		**4,639**	(1,557)	**595**	(200)
Proceeds from sales of property, plant and equipment		**71**	1,371	**9**	176
Proceeds from sales of intangible assets		**196**	–	**25**	–
Proceeds from sales of assets held for sale		**865**	8	**111**	1
Proceeds from disposal of a long-term investment		**–**	635	**–**	81
Net decrease in other long-term receivables and investments		**–**	460	**–**	59
Payments for property, plant and equipment and intangible assets		**(15,991)**	(16,926)	**(2,050)**	(2,170)
Dividends received from associates		**467**	371	**60**	48
Proceeds from disposal of an associate		**–**	2	**–**	–
Net repayments of loans to associates		**1,121**	–	**144**	–
Net cash outflow from investing activities		**(8,632)**	(15,636)	**(1,106)**	(2,005)
Financing activities					
Purchase of non-controlling interests		**(36)**	–	**(5)**	–
New financing	11	**11,237**	19,277	**1,441**	2,471
Net cash benefit from financing arrangements	14	**1,029**	1,619	**132**	208
Loan and finance lease repayments	11	**(16,198)**	(12,152)	**(2,077)**	(1,558)
Dividends paid – to the shareholders of Cathay Pacific		**(590)**	–	**(76)**	–
– to non-controlling interests		**(564)**	(453)	**(72)**	(58)
Net cash (outflow)/inflow from financing activities		**(5,122)**	8,291	**(657)**	1,063
Increase/(decrease) in cash and cash equivalents		**771**	(3,022)	**99**	(388)
Cash and cash equivalents at 1st January		**6,914**	9,778	**886**	1,254
Effect of exchange differences		**(32)**	158	**(4)**	20
Cash and cash equivalents at 31st December	23	**7,653**	6,914	**981**	886

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

The notes on pages 62 to 104 and the principal accounting policies on pages 105 to 117 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2018

	Attributable to the shareholders of Cathay Pacific								
	Share capital HK$M	Retained profit HK$M	Investment revaluation reserve (recycling) HK$M	Investment revaluation reserve (non-recycling) HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M	Non-controlling interests HK$M	Total equity HK$M
Balance at 31st December 2017	**17,106**	**44,115**	**505**	**–**	**(1,503)**	**878**	**61,101**	**171**	**61,272**
Impact on initial application of HKFRS 9	**–**	**725**	**(505)**	**(181)**	**–**	**(39)**	**–**	**–**	**–**
Impact on initial application of HKFRS 15	**–**	**631**	**–**	**–**	**–**	**–**	**631**	**–**	**631**
Adjusted balance at 1st January 2018	**17,106**	**45,471**	**–**	**(181)**	**(1,503)**	**839**	**61,732**	**171**	**61,903**
Profit for the year	**–**	**2,345**	**–**	**–**	**–**	**–**	**2,345**	**432**	**2,777**
Other comprehensive income	**–**	**(270)**	**–**	**–**	**1,586**	**(867)**	**449**	**–**	**449**
Total comprehensive income for the year	**–**	**2,075**	**–**	**–**	**1,586**	**(867)**	**2,794**	**432**	**3,226**
2017 interim dividend	**–**	**(197)**	**–**	**–**	**–**	**–**	**(197)**	**–**	**(197)**
2018 first interim dividend	**–**	**(393)**	**–**	**–**	**–**	**–**	**(393)**	**–**	**(393)**
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(564)**	**(564)**
Purchase of non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(36)**	**(36)**
At 31st December 2018	**17,106**	**46,956**	**–**	**(181)**	**83**	**(28)**	**63,936**	**3**	**63,939**
At 1st January 2017	17,106	44,672	908	–	(5,855)	(1,466)	55,365	161	55,526
(Loss)/profit for the year	–	(1,259)	–	–	–	–	(1,259)	371	(888)
Other comprehensive income	–	702	(403)	–	4,352	2,344	6,995	–	6,995
Total comprehensive income for the year	–	(557)	(403)	–	4,352	2,344	5,736	371	6,107
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	(361)	(361)
At 31st December 2017	17,106	44,115	505	–	(1,503)	878	61,101	171	61,272

The notes on pages 62 to 104 and the principal accounting policies on pages 105 to 117 form part of these financial statements.

1. Segment information

(a) Segment results

	Airline business		Non-airline business		Unallocated		Total	
	2018 HK$M	2017* HK$M	**2018 HK$M**	2017* HK$M	**2018 HK$M**	2017 HK$M	**2018 HK$M**	2017* HK$M
Profit or loss								
Disaggregated by timing of revenue recognition:								
– point in time	**109,834**	95,926	**1,209**	1,342			**111,043**	97,268
– over time	**13**	13	**4**	3			**17**	16
Sales to external customers	**109,847**	95,939	**1,213**	1,345			**111,060**	97,284
Inter-segment sales	**10**	9	**3,651**	3,703			**3,661**	3,712
Segment revenue	**109,857**	95,948	**4,864**	5,048			**114,721**	100,996
Segment profit/(loss)	**3,680**	(1,507)	**(85)**	58			**3,595**	(1,449)
Net finance charges	**(1,860)**	(1,571)	**(254)**	(190)			**(2,114)**	(1,761)
	1,820	(3,078)	**(339)**	(132)			**1,481**	(3,210)
Share of profits of associates					**1,762**	2,630	**1,762**	2,630
Profit/(loss) before taxation							**3,243**	(580)
Taxation	**(501)**	(296)	**35**	(12)			**(466)**	(308)
Profit/(loss) for the year							**2,777**	(888)
Other segment information								
Depreciation and amortisation	**9,209**	8,722	**593**	632			**9,802**	9,354
Purchase of property, plant and equipment and intangible assets	**15,862**	16,094	**129**	762			**15,991**	16,856

* *The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18.*

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

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

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

1. Segment information *(continued)*

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts such that the Group does not disclose the amount of the transaction price allocated to the remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

(b) Geographical information

	2018 HK$M	2017 HK$M
Revenue by origin of sale:		
North Asia		
– Hong Kong and Mainland China	**56,994**	49,946
– Japan, Korea and Taiwan	**10,882**	9,748
Americas	**14,167**	11,926
Europe	**10,592**	8,450
Southeast Asia	**8,072**	7,595
Southwest Pacific	**5,455**	5,429
South Asia, Middle East and Africa	**4,898**	4,190
	111,060	97,284

Analysis of net assets by geographical segment:

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

2. Operating profit/(loss)

	2018 HK$M	2017 HK$M
Operating profit/(loss) has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
– leased	**2,015**	2,015
– owned	**7,234**	6,809
Amortisation of intangible assets	**553**	530
Operating lease rentals		
– land and buildings	**1,107**	1,090
– aircraft and related equipment	**4,579**	4,126
– others	**106**	70
Provision for impairment of assets held for sale	**–**	1
Loss on disposal of property, plant and equipment, net	**82**	175
Impairment of intangible assets	**–**	119
Gain on disposal of intangible assets	**(101)**	–
Gain on disposal of a long-term investment	**–**	(586)
Cost of stock expensed	**1,859**	2,293
Exchange differences, net	**438**	57
Auditors' remuneration	**15**	15
Dividend income from unlisted equity investments	**(42)**	(29)

3. Net finance charges

	2018 HK$M	2017 HK$M
Net interest charges comprise:		
– obligations under finance leases stated at amortised cost	**656**	539
– bank loans and overdrafts		
– wholly repayable within five years	**585**	372
– not wholly repayable within five years	**948**	697
– other loans		
– wholly repayable within five years	**119**	133
– other long-term receivables	**–**	(5)
	2,308	1,736
Income from liquid funds:		
– funds with investment managers and other liquid investments at fair value through profit or loss	**(101)**	(79)
– bank deposits and others	**(242)**	(180)
	(343)	(259)
Fair value change:		
– (gain)/loss on obligations under finance leases designated as at fair value through profit or loss	**(75)**	216
– loss on financial derivatives	**224**	68
	149	284
	2,114	1,761

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

Included in the fair value change in respect of financial derivatives is net loss from derivatives that are classified as held for trading of HK$71 million (2017: net gain of HK$200 million).

4. Taxation

	2018 HK$M	2017 HK$M
Current tax expenses		
– Hong Kong profits tax	**350**	419
– overseas tax	**225**	201
– under-provisions for prior years	**28**	114
Deferred tax credit		
– origination and reversal of temporary differences (note 14)	**(137)**	(426)
	466	308

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 27(c) to the financial statements).

4. Taxation *(continued)*

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

	2018 HK$M	2017 HK$M
Profit/(loss) before taxation	**3,243**	(580)
Notional tax calculated at Hong Kong profits tax rate of 16.5% (2017: 16.5%)	**(535)**	96
Expenses not deductible for tax purposes	**(198)**	(318)
Income not subject to tax	**36**	126
Effect of changes in effective tax rate and jurisdictional differences	**395**	(25)
Tax under-provisions arising from prior years	**(28)**	(114)
Tax losses not recognised	**(136)**	(73)
Tax charge	**(466)**	(308)

Further information on deferred taxation is shown in note 14 to the financial statements.

5. Earnings/(loss) per share (basic and diluted)

Earnings/(loss) per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$2,345 million (2017: a loss of HK$1,259 million) by the daily weighted average number of shares in issue throughout the year of 3,934 million (2017: 3,934 million) shares. Diluted earnings per share is the same as basic earnings per share as there were no dilutive potential shares in issue throughout the year.

6. Other comprehensive income

	2018 HK$M	2017 HK$M
Defined benefit plans		
– remeasurement (loss)/gain recognised during the year (note 13)	**(311)**	796
– deferred taxation (note 14)	**41**	(94)
Cash flow hedges		
– gain/(loss) recognised during the year	**428**	(1,200)
– loss transferred to profit or loss (note 21)	**1,366**	6,160
– deferred taxation (note 14)	**(208)**	(608)
Revaluation of available-for-sale financial assets (recycling)		
– gain recognised during the year	**–**	172
– reclassified to profit or loss upon disposal	**–**	(575)
Share of other comprehensive income of associates		
– recognised during the year	**628**	363
– reclassified to profit or loss upon deemed partial disposal	**–**	107
Exchange differences on translation of foreign operations		
– (loss)/gain recognised during the year	**(1,495)**	1,898
– reclassified to profit or loss upon deemed partial disposal of an associate	**–**	(24)
Other comprehensive income for the year	**449**	6,995

7. Property, plant and equipment

	Aircraft and related equipment		Other equipment	Buildings		
	Owned HK$M	Leased HK$M	Owned HK$M	Owned HK$M	Under construction HK$M	Total HK$M
Cost						
At 1st January 2018	**110,301**	**43,711**	**5,424**	**15,141**	**35**	**174,612**
Exchange difference	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Additions	**12,936**	**2,136**	**157**	**129**	**32**	**15,390**
Disposals	**(2,311)**	**–**	**(167)**	**(92)**	**(32)**	**(2,602)**
Transfers	**1,321**	**(1,321)**	**–**	**13**	**(13)**	**–**
At 31st December 2018	**122,247**	**44,526**	**5,413**	**15,191**	**22**	**187,399**
At 1st January 2017	100,598	45,153	4,777	12,502	2,431	165,461
Exchange difference	–	–	1	–	–	1
Additions	13,995	915	437	443	130	15,920
Disposals	(5,195)	–	(89)	–	–	(5,284)
Reclassification to assets held for sale	(994)	(460)	(32)	–	–	(1,486)
Transfers	1,897	(1,897)	330	2,196	(2,526)	–
At 31st December 2017	110,301	43,711	5,424	15,141	35	174,612
Accumulated depreciation and impairment						
At 1st January 2018	**42,944**	**12,237**	**3,165**	**5,084**	**–**	**63,430**
Charge for the year	**6,149**	**2,015**	**360**	**725**	**–**	**9,249**
Disposals	**(2,170)**	**–**	**(166)**	**(68)**	**–**	**(2,404)**
Transfers	**847**	**(847)**	**–**	**–**	**–**	**–**
At 31st December 2018	**47,770**	**13,405**	**3,359**	**5,741**	**–**	**70,275**
At 1st January 2017	40,575	11,189	2,881	4,360	–	59,005
Charge for the year	5,704	2,015	381	724	–	8,824
Disposals	(3,693)	–	(85)	–	–	(3,778)
Reclassification to assets held for sale	(437)	(172)	(12)	–	–	(621)
Transfers	795	(795)	–	–	–	–
At 31st December 2017	42,944	12,237	3,165	5,084	–	63,430
Net book value						
At 31st December 2018	**74,477**	**31,121**	**2,054**	**9,450**	**22**	**117,124**
At 31st December 2017	67,357	31,474	2,259	10,057	35	111,182

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

(a) Finance leased assets

Certain aircraft are subject to leases with purchase options to be exercised at the end of the respective leases. The remaining lease terms range from 1 to 11 years. Some of the rent payments are on a floating basis which are generally linked to market rates of interest. All leases permit subleasing rights subject to appropriate consent from lessors. Early repayment penalties would be payable on some of the leases should they be terminated prior to their specified expiry dates.

(b) Operating leased assets

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

Under the operating lease arrangements for aircraft, the lease rentals are partially fixed and partially floating and subleasing is not allowed. At 31st December 2018, 10 Airbus A330-300s (2017: 13), no Boeing 747-400BCF (2017: one), 22 Boeing 777-300ERs (2017: 23), 10 Airbus A320-200s (2017: 10), six Airbus A321-200s (2017: six), two Airbus A350-900s (2017: two) and 10 Airbus A300-600Fs (2017: seven) held under operating leases, most with purchase options, were not capitalised.

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

The future minimum lease payments payable under operating leases committed at 31st December 2018 for each of the following periods are as follows:

	2018 HK$M	2017 HK$M
Aircraft and related equipment:		
– within one year	**3,469**	3,441
– after one year but within two years	**3,109**	3,170
– after two years but within five years	**6,017**	7,013
– after five years	**3,055**	4,403
	15,650	18,027
Land, buildings and other equipment:		
– within one year	**858**	975
– after one year but within two years	**485**	703
– after two years but within five years	**932**	955
– after five years	**2,033**	2,205
	4,308	4,838
	19,958	22,865

(c) Advance payments are made to manufacturers for aircraft and related equipment to be delivered in future years. As at the year end, advance payments included in owned aircraft and related equipment amounted to HK$3,560 million (2017: HK$3,147 million) for the Group. No depreciation is provided on these advance payments.

(d) Security, including charges over the assets concerned and relevant insurance policies, is provided to the leasing companies or other parties that provide the underlying finance. Further information is provided in note 11 to the financial statements.

8. Intangible assets

	Goodwill HK$M	Computer software HK$M	Others HK$M	Total HK$M
Cost				
At 1st January 2018	**7,666**	**6,227**	**253**	**14,146**
Additions	**–**	**601**	**–**	**601**
Disposals	**–**	**–**	**(214)**	**(214)**
At 31st December 2018	**7,666**	**6,828**	**39**	**14,533**
At 1st January 2017	7,666	5,304	253	13,223
Additions	–	936	–	936
Disposals	–	(13)	–	(13)
At 31st December 2017	7,666	6,227	253	14,146
Accumulated amortisation and impairment				
At 1st January 2018	**–**	**2,793**	**132**	**2,925**
Charge for the year	**–**	**549**	**4**	**553**
Disposals	**–**	**–**	**(119)**	**(119)**
At 31st December 2018	**–**	**3,342**	**17**	**3,359**
At 1st January 2017	–	2,280	9	2,289
Charge for the year	–	526	4	530
Disposals	–	(13)	–	(13)
Impairment	–	–	119	119
At 31st December 2017	–	2,793	132	2,925
Net book value				
At 31st December 2018	**7,666**	**3,486**	**22**	**11,174**
At 31st December 2017	7,666	3,434	121	11,221

The carrying amount of goodwill allocated to the airline operations is HK$7,627 million (2017: HK$7,627 million). In accordance with HKAS 36 "Impairment of Assets" the Group completed its annual impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their total recoverable amounts to their total carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on three-year financial budgets approved by the Board and business plans covering years four to ten. A ten-year forecast is considered appropriate for the airline operations to take into account expected growth plans, inflationary pressures and modest productivity improvements. Cash flows beyond the ten-year period are extrapolated with an estimated general annual growth rate of 1.5% to 3.0%. (2017: 1.0% to 3.0% were used on cash flows beyond the three-year period) which does not exceed the long-term average growth rate for the business in which the CGU operates. The discount rate used of 8.2% (2017: 7.9%) is pre-tax and reflects the specific risks related to the relevant segments. Management believes that any reasonably foreseeable change in any of the above key assumptions would not cause the carrying amount of goodwill to exceed the recoverable amount.

9. Investments in associates

	2018 HK$M	2017 HK$M
Share of net assets		
– listed in Hong Kong	**20,821**	20,151
– unlisted	**3,115**	2,999
Goodwill	**3,337**	3,519
	27,273	26,669
Loans due from associates	**297**	1,475
	27,570	28,144

At 31st December 2017, included in the loans due from associates was a loan of HK$1,177 million which was unsecured, interest-free and repayable before 23rd March 2019. The loan has been repaid in full during the year ended 31st December 2018.

At 31st December 2018, the market value of the shares in an associate, Air China, listed in Hong Kong is HK$17,962 million (2017: HK$24,968 million).

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

	2018 HK$M	2017 HK$M
Gross amounts of the associate's		
– current assets	**28,740**	34,824
– non-current assets	**246,280**	252,235
– current liabilities	**(82,479)**	(81,206)
– non-current liabilities	**(77,043)**	(92,613)
Revenue	**154,285**	147,380
Profit from continuing operations	**7,895**	11,126
Other comprehensive income	**4,119**	1,247
Total comprehensive income	**12,014**	12,373
Dividend received from the associate	**374**	321
Reconciled to the Group's interests in the associate		
– gross amounts of net assets of the associate	**115,498**	113,240
– Group's share of net assets of the associate at effective interest (2018: 18.13%; 2017: 18.13%)	**20,940**	20,530
– effect of cross shareholding and others	**(119)**	(379)
– goodwill	**3,337**	3,519
	24,158	23,670

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

The Group's 2018 results include Air China's results for the 12 months ended 30th September 2018 and any significant events or transactions for the period from 1st October 2018 to 31st December 2018. Air China's most recently available accounts were drawn up to 30th September 2018 (2017: 30th September 2017).

9. Investments in associates *(continued)*

Aggregate information of associates that are not individually material is summarised as below:

	2018 HK$M	2017 HK$M
Aggregate carrying amount of individually immaterial associates	**3,412**	4,474
Aggregate amounts of the Group's share of those associates		
– profit from continuing operations	**369**	728
– other comprehensive income	**(215)**	268
– total comprehensive income	**154**	996

Principal associates are listed on page 104.

10. Other long-term receivables and investments

	2018 HK$M	2017 HK$M
Unlisted equity investments		
– classified as available-for-sale under HKAS 39	**–**	722
– designated at fair value through other comprehensive income (non-recycling)	**23**	–
– measured at fair value through profit or loss	**742**	–
Leasehold land rental prepayments	**1,173**	1,215
Loans and other receivables measured at amortised cost	**217**	246
Derivative financial assets – long-term portion	**1,860**	1,781
Retirement benefit assets (note 13)	**–**	104
	4,015	4,068

Available-for-sale financial assets were reclassified to equity investments designated at fair value through other comprehensive income (non-recycling) and those measured at fair value through profit or loss upon the initial application of HKFRS 9 at 1st January 2018 (refer to accounting policy 1a(i)).

Leasehold land is held under medium-term leases in Hong Kong with a total unamortised value of HK$1,216 million (2017: HK$1,258 million). The balance is included in above, except for HK$43 million (2017: HK$43 million) which is included in trade, other receivables and other assets.

At 31st December 2018, total derivative financial assets of the Group which did not qualify for hedge accounting amounted to HK$1,478 million (2017: HK$1,455 million). The balance is included in above, except for HK$8 million (2017: HK$12 million) which is included in trade, other receivables and other assets.

11. Long-term liabilities

		2018		2017	
	Note	**Current HK$M**	**Non-current HK$M**	Current HK$M	Non-current HK$M
Long-term loans	*(a)*	**9,734**	**40,952**	4,823	49,071
Obligations under finance leases	*(b)*	**3,960**	**19,231**	4,065	20,435
		13,694	**60,183**	8,888	69,506

11. Long-term liabilities *(continued)*

(a) Long-term loans

	2018 HK$M	2017 HK$M
Bank loans		
– secured	**34,772**	32,195
– unsecured	**12,623**	17,697
Other loans		
– unsecured	**3,291**	4,002
	50,686	53,894
Amount due within one year included in current liabilities	**(9,734)**	(4,823)
	40,952	49,071
Repayable as follows:		
Bank loans		
– within one year	**8,236**	4,131
– after one year but within two years	**10,128**	7,938
– after two years but within five years	**16,940**	25,613
– after five years	**12,091**	12,210
	47,395	49,892
Other loans		
– within one year	**1,498**	692
– after one year but within two years	**974**	1,498
– after two years but within five years	**819**	1,812
	3,291	4,002
Amount due within one year included in current liabilities	**(9,734)**	(4,823)
	40,952	49,071

At 31st December 2018, aircraft and related equipment of HK$51,626 million (2017: HK$46,961 million) are pledged as security for the secured bank loans.

Borrowings other than bank loans are repayable on various dates up to 2022 while bank loans are repayable up to 2030.

Long-term loans of the Group not wholly repayable within five years amounted to HK$30,799 million (2017: HK$30,846 million).

At 31st December 2018, the Group had long-term loans totalling HK$42,019 million (2017: HK$40,482 million) which were defeased by funds and other investments. Accordingly, these liabilities and the related funds, as well as related expenditure and income, have been defeased in the financial statements.

(b) Obligations under finance leases

The Group has commitments under finance lease agreements in respect of aircraft and related equipment expiring during the years 2019 to 2029. The reconciliation of future lease payments and their carrying values under these finance leases is as follows:

	2018 HK$M	2017 HK$M
Future payments	**25,951**	27,065
Interest charges relating to future periods	**(2,760)**	(2,565)
Present value of future payments	**23,191**	24,500
Amount due within one year included in current liabilities	**(3,960)**	(4,065)
	19,231	20,435

11. Long-term liabilities *(continued)*

The present value of future payments is repayable as follows:

	2018 HK$M	2017 HK$M
Within one year	**3,960**	4,065
After one year but within two years	**3,107**	3,781
After two years but within five years	**10,038**	9,081
After five years	**6,086**	7,573
	23,191	24,500

The future lease payment profile is disclosed in note 28(b) to the financial statements.

At 31st December 2018, the Group had financial liabilities designated as at fair value through profit or loss of HK$1,567 million (2017: HK$2,001 million).

(c) Reconciliation of long-term liabilities

	Long-term loans HK$M	Obligations under finance leases HK$M	Total HK$M
At 1st January 2018	**53,894**	**24,500**	**78,394**
Changes from financing cash flows			
– new financing	**8,523**	**2,714**	**11,237**
– loan and finance lease repayments	**(12,053)**	**(4,145)**	**(16,198)**
Other changes			
– exchange loss	**63**	**34**	**97**
– changes in fair values	**–**	**(73)**	**(73)**
– others	**259**	**161**	**420**
At 31st December 2018	**50,686**	**23,191**	**73,877**
At 1st January 2017	43,342	26,827	70,169
Changes from financing cash flows			
– new financing	18,098	1,179	19,277
– loan and finance lease repayments	(8,059)	(4,093)	(12,152)
Other changes			
– exchange loss	226	148	374
– changes in fair values	–	202	202
– others	287	237	524
At 31st December 2017	53,894	24,500	78,394

12. Other long-term payables

	2018 HK$M	2017 HK$M
Deferred liabilities	**3,335**	2,971
Derivative financial liabilities – long-term portion	**841**	531
Retirement benefit liabilities (note 13)	**473**	–
	4,649	3,502

12. Other long-term payables *(continued)*

Included in deferred liabilities above, the Group had a maintenance provision of HK$3,666 million (2017: HK$3,217 million) for returning the aircraft under operating leases to certain maintenance conditions. The movements during the year are as follows:

	2018 HK$M	2017 HK$M
At 1st January	**3,217**	2,204
Additional provision made	**853**	1,019
Provision utilised	**(404)**	(6)
At 31st December	**3,666**	3,217
Amount expected to be utilised within one year included in trade and other payables	**(481)**	(619)
	3,185	2,598

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

At 31st December 2018, there was insignificant balance of derivative financial liabilities of the Group which did not qualify for hedge accounting.

13. Retirement benefits

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

The Group operates the following principal schemes:

(a) Defined benefit retirement schemes

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

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

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

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

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

13. Retirement benefits *(continued)*

For the year ended 31st December 2018, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2018. For the year ended 31st December 2017, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated at 31st December 2017 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

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

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

The Group's obligations are 93.7% (2017: 101.3%) covered by the plan assets held by the trustees at 31st December 2018.

	2018 HK$M	2017 HK$M
Net expenses recognised in the profit or loss:		
Current service cost	**287**	326
Net interest cost/(income)	**6**	(1)
Total included in staff costs	**293**	325
Actual (loss)/return on plan assets	**(295)**	1,069

	2018 HK$M	2017 HK$M
Net liabilities/(assets) recognised in the statement of financial position:		
Present value of funded obligations	**7,547**	7,937
Fair value of plan assets	**(7,074)**	(8,041)
Retirement benefit liabilities/(assets) (notes 12 and 10)	**473**	(104)

	2018 HK$M	2017 HK$M
Movements in present value of funded obligations comprise:		
At 1st January	**7,937**	8,301
Remeasurements:		
– actuarial (gains)/losses arising from changes in financial assumptions	**(208)**	345
– experience losses/(gains)	**28**	(344)
Movements for the year		
– current service cost	**287**	326
– interest expense	**202**	271
– employee contributions	**2**	2
– benefits paid	**(671)**	(950)
– transfer	**(30)**	(14)
At 31st December	**7,547**	7,937

The weighted average duration of the defined benefit obligations is six years (2017: five years).

13. Retirement benefits *(continued)*

	2018 HK$M	2017 HK$M
Movements in fair value of plan assets comprise:		
At 1st January	**8,041**	7,758
Movements for the year		
– (loss)/return on plan assets excluding interest income	**(491)**	797
– interest income	**196**	272
– employee contributions	**2**	2
– employer contributions	**27**	176
– benefits paid	**(671)**	(950)
– transfer	**(30)**	(14)
At 31st December	**7,074**	8,041

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

	2018 HK$M	**%**	2017 HK$M	%
Fair value of plan assets comprises:				
Equities				
– Asia Pacific	**475**	**7**	1,009	13
– Europe	**417**	**6**	524	7
– Americas	**672**	**9**	998	12
– Emerging markets	**1,159**	**16**	1,026	13
Bonds				
– Global	**1,820**	**26**	2,079	26
– Emerging markets	**109**	**1**	108	1
Absolute return funds	**1,460**	**21**	1,562	19
Cash	**962**	**14**	735	9
	7,074	**100**	8,041	100

At 31st December 2018, the prices of 96% of equities and 39% of bonds were quoted on active markets (31st December 2017: 96% and 54% respectively). The remainder of the prices were not quoted on active markets.

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

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

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

The contributions are calculated based upon funding recommendations arising from actuarial valuations. The Group expects to make contributions of HK$25 million to the schemes in 2019.

13. Retirement benefits *(continued)*

	2018		2017	
	SGRBS	**CPALRS**	SGRBS	CPALRS
The significant actuarial assumptions are:				
Discount rate	**3.34%**	**3.34%**	2.84%	2.84%
Expected rate of future salary increases	**5.00%**	**3.04%**	5.00%	3.04%

The sensitivity of the defined benefit obligations to changes in the actuarial assumptions are set out below. This shows how the defined benefit obligations at 31st December 2018 would have (increased)/decreased as a result of 0.5% change in the actuarial assumptions:

	Increase by 0.5%		Decrease by 0.5%	
	2018 HK$M	2017 HK$M	**2018 HK$M**	2017 HK$M
Discount rate	**195**	218	**(205)**	(225)
Expected rate of future salary increases	**(199)**	(215)	**192**	211

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

(b) Defined contribution retirement schemes

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

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

Under the terms of these schemes, other than the Company's contributions, staff may elect to contribute from 0% to 10% of their monthly salaries. During the year, there were no benefits forfeited in accordance with the schemes' rules (2017: nil) which have been applied towards the contributions payable by the Company.

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

Contributions to defined contribution retirement schemes charged to the profit or loss were HK$1,271 million (2017: HK$1,216 million).

14. Deferred taxation

	2018 HK$M	2017 HK$M
Deferred tax assets:		
– provisions	**(83)**	(76)
– tax losses	**(2,944)**	(2,919)
– cash flow hedges	**(3)**	(211)
– retirement benefits	**(55)**	7
Deferred tax liabilities:		
– accelerated tax depreciation	**4,419**	4,536
– investments in associates	**1,125**	1,021
Provision in respect of certain lease arrangements	**9,926**	9,534
	12,385	11,892

14. Deferred taxation *(continued)*

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

	2018 HK$M	2017 HK$M
Net deferred tax asset recognised in the statement of financial position	**(793)**	(928)
Net deferred tax liability recognised in the statement of financial position	**13,178**	12,820
	12,385	11,892

	2018 HK$M	2017 HK$M
Movements in deferred taxation comprise:		
At 1st January	**11,892**	10,643
Impact on initial application of HKFRS 15	**71**	–
Movements for the year		
– (credited)/charged to profit or loss		
– deferred tax credit (note 4)	**(137)**	(426)
– operating expenses	**83**	68
– (credited)/charged to other comprehensive income		
– transferred to cash flow hedge reserve (note 6)	**208**	608
– transferred to retained profit (note 6)	**(41)**	94
– initial cash benefit from lease arrangements	**1,029**	1,619
Current portion of provision in respect of certain lease arrangements included under current liabilities – taxation	**(720)**	(714)
At 31st December	**12,385**	11,892

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$14,373 million (2017: HK$13,683 million) to carry forward against future taxable profits. These amounts are analysed as follows:

	2018 HK$M	2017 HK$M
No expiry date	**4,282**	3,019
Expiring beyond 2021	**10,091**	10,664
	14,373	13,683

The provision in respect of certain lease arrangements equates to payments which are expected to be made during the years 2019 to 2029 (2017: 2018 to 2028) as follows:

	2018 HK$M	2017 HK$M
After one year but within five years	**4,204**	3,447
After five years but within 10 years	**4,906**	4,802
After 10 years	**816**	1,285
	9,926	9,534

15. Trade, other receivables and other assets

	2018 HK$M	2017 HK$M
Trade debtors, net of loss allowances	**6,559**	6,131
Derivative financial assets – current portion	**499**	32
Other receivables and prepayments	**5,343**	5,139
Due from associates and other related companies	**74**	59
	12,475	11,361

	2018 HK$M	2017 HK$M
Analysis of trade debtors (net of loss allowances) by invoice date:		
Within one month	**5,009**	4,880
One to three months	**1,166**	573
More than three months	**384**	678
	6,559	6,131

	2018 HK$M	2017 HK$M
Analysis of trade debtors (net of loss allowances) by age:		
Current	**5,519**	5,643
Within three months overdue	**816**	303
More than three months overdue	**224**	185
	6,559	6,131

Prior to 1st January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31st December 2017, the overdue trade debtors were not impaired and related to a number of independent customers for whom there was no recent history of default.

The movement in the expected credit loss allowance in respect of trade debtors during the year was as follows:

	2018 HK$M	2017 HK$M
At 1st January	**45**	49
Amounts written off	**–**	(4)
Impairment losses recognised	**38**	–
At 31st December	**83**	45

16. Liquid funds

	2018 HK$M	2017 HK$M
Short-term deposits and bank balances (note 23)	**7,672**	6,914
Short-term deposits maturing beyond three months when placed	**2,488**	7,128
Funds with investment managers		
– debt securities listed outside Hong Kong	**4,963**	4,815
– bank deposits	**27**	75
Other liquid investments		
– debt securities listed outside Hong Kong	**5**	4
– bank deposits	**160**	158
	15,315	19,094

Included in other liquid investments are bank deposits of HK$160 million (2017: HK$158 million) and debt securities of HK$5 million (2017: HK$4 million) which are pledged as part of long-term financing arrangements. The arrangements provide that these deposits and debt securities must be maintained at specified levels for the duration of the financing.

17. Trade and other payables

	2018 HK$M	2017 HK$M
Trade creditors	**6,801**	5,112
Derivative financial liabilities – current portion	**1,218**	3,058
Other payables	**11,017**	8,553
Due to associates	**179**	258
Due to other related companies	**193**	76
	19,408	17,057

	2018 HK$M	2017 HK$M
Analysis of trade creditors by invoice date:		
Within one month	**6,425**	5,002
One to three months	**337**	82
More than three months	**39**	28
	6,801	5,112

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

Included in other payables above, the Group had a provision of HK$780 million (2017: HK$696 million) for possible or actual taxation (other than income tax), litigation and claims. The movements during the year are as follows:

	2018 HK$M	2017 HK$M
At 1st January	**696**	1,126
Additional provision made/(amounts written back)	**160**	(98)
Provision utilised	**(76)**	(332)
At 31st December	**780**	696

18. Contract liabilities

The Group had the following contract liabilities recognised in the statement of financial position:

		At 31st December 2018 HK$M	At 31st December 2017 HK$M	Impact on initial application of HKFRS 15 HK$M	At 1st January 2018 HK$M
Passenger revenue	*(i)*	**9,149**	9,696	(586)	9,110
Passenger fuel and insurance surcharge	*(i)*	**1,804**	628	–	628
Loyalty programme	*(ii)*	**4,839**	4,225	–	4,225

The following table summarises the Group's revenue recognised during the year that was included in the contract liabilities at the beginning of the year:

		2018 HK$M
Passenger revenue	*(i)*	**9,110**
Passenger fuel and insurance surcharge	*(i)*	**628**
Loyalty programme	*(ii)*	**2,159**

(i) The Group typically receives ticket fares from passengers in advance of carriage. The value of unflown passenger sales is recognised as a contract liability under unearned transportation revenue until the transportation service is provided. The portion which represents passenger fuel and insurance surcharge received is recognised as a contract liability under other payables in note 17 to the financial statements.

(ii) The value attributable to the award of programme miles as part of initial sales transaction is deferred to unearned transportation revenue, until such time as the members redeem their programme miles.

19. Share capital

	2018		2017	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 1st January and at 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

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

20. Dividends

(a) Dividends payable to equity shareholders attributable to the year.

	2018 HK$M	2017 HK$M
First interim dividend declared and paid of HK$0.10 per share (2017: nil)	**393**	–
Second interim dividend proposed after the end of the reporting period of HK$0.20 per share (2017: HK$0.05 per share)	**787**	197
	1,180	197

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

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

	2018 HK$M	2017 HK$M
Interim dividend in respect of the previous financial year, approved and paid during the year, of HK$0.05 per share (2017: nil)	**197**	–

21. Reserves

	2018 HK$M	2017 HK$M
Retained profit	**46,956**	44,115
Investment revaluation reserve (recycling)	**–**	505
Investment revaluation reserve (non-recycling)	**(181)**	–
Cash flow hedge reserve	**83**	(1,503)
Others	**(28)**	878
	46,830	43,995

Prior to 1st January 2018, investment revaluation reserve (recycling) of the Group included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to investment revaluation reserve (non-recycling) and retained profit upon the initial application of HKFRS 9 at 1st January 2018 (refer to accounting policy 1a(i)).

Investment revaluation reserve (non-recycling) of the Group comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income that are held at the end of the reporting period.

Cash flow hedge reserve of the Group relates to the effective portion of the cumulative net change in the fair values of hedging instruments. Refer to note 28 to the financial statements for details of the Group's hedging instruments.

Other reserves of the Group comprise exchange gains arising from revaluation of foreign investments which amounted to HK$45 million (2017: HK$1,540 million) and share of associates' other negative reserves of HK$73 million (2017: HK$662 million).

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

	2018 HK$M	2017 HK$M
Revenue	**202**	430
Fuel	**(1,415)**	(6,322)
Net finance charge	**(153)**	(268)
Net loss transferred to profit or loss (note 6)	**(1,366)**	(6,160)

21. Reserves *(continued)*

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

	Total HK$M
2019	**361**
2020	**422**
2021	**(255)**
2022	**(356)**
2023	**(228)**
Beyond 2023	**(27)**
	(83)

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

	Retained profit HK$M	Investment revaluation reserve (recycling) HK$M	Investment revaluation reserve (non-recycling) HK$M	Cash flow hedge reserve HK$M	Others HK$M	Total HK$M
Company						
Balance at 31st December 2017	**35,004**	**505**	**–**	**(1,487)**	**(1)**	**34,021**
Impact on initial application of HKFRS 9	**614**	**(505)**	**(109)**	**–**	**–**	**–**
Impact on initial application of HKFRS 15	**491**	**–**	**–**	**–**	**–**	**491**
Adjusted balance at 1st January 2018	**36,109**	**–**	**(109)**	**(1,487)**	**(1)**	**34,512**
Profit for the year	**1,898**	**–**	**–**	**–**	**–**	**1,898**
Other comprehensive income	**(270)**	**–**	**–**	**1,579**	**1**	**1,310**
Total comprehensive income for the year	**1,628**	**–**	**–**	**1,579**	**1**	**3,208**
2017 interim dividend	**(197)**	**–**	**–**	**–**	**–**	**(197)**
2018 first interim dividend	**(393)**	**–**	**–**	**–**	**–**	**(393)**
At 31st December 2018	**37,147**	**–**	**(109)**	**92**	**–**	**37,130**
At 1st January 2017	36,184	404	–	(5,832)	(1)	30,755
Loss for the year	(1,848)	–	–	–	–	(1,848)
Other comprehensive income	668	101	–	4,345	–	5,114
Total comprehensive income for the year	(1,180)	101	–	4,345	–	3,266
At 31st December 2017	35,004	505	–	(1,487)	(1)	34,021

Distributable reserves of the Company at 31st December 2018 amounted to HK$37,147 million (2017: HK$35,004 million), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622).

Notes to the Financial Statements

Statement of Cash Flows

22. Reconciliation of operating profit/(loss) to cash generated from operations

	2018 HK$M	2017 HK$M
Operating profit/(loss)	**3,595**	(1,449)
Depreciation of property, plant and equipment	**9,249**	8,824
Amortisation of intangible assets	**553**	530
Provision for impairment of assets held for sale	**–**	1
Loss on disposal of property, plant and equipment, net	**82**	175
Impairment of intangible assets	**–**	119
Gain on disposal of intangible assets	**(101)**	–
Gain on disposal of a long-term investment	**–**	(586)
Gain on disposal of associates	**–**	(246)
Fair value gains on equity investments measured at fair value through profit or loss	**(43)**	–
Loss transferred from the cash flow hedge reserve and other items not involving cash flows	**1,691**	6,308
Increase in stock	**(313)**	(1)
Increase in trade debtors, other receivables and other assets and derivative financial assets	**(1,174)**	(2,270)
Increase/(decrease) in net amounts due to related companies and associates	**23**	(1)
Increase/(decrease) in trade creditors, other payables, derivative financial liabilities and deferred liabilities	**2,989**	(5,514)
Increase in unearned transportation revenue	**69**	1,035
Non-operating movements in debtors and creditors	**1,117**	(510)
Cash generated from operations	**17,737**	6,415

23. Analysis of cash and cash equivalents

	2018 HK$M	2017 HK$M
Short-term deposits and bank balances (note 16)	**7,672**	6,914
Bank overdrafts – unsecured	**(19)**	–
	7,653	6,914

24. Directors' remuneration

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

	Cash			Non-cash					
	Basic salary/ Fees (note i) HK$'000	Bonus (note ii) HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2018 Total HK$'000**	2017 Total HK$'000
Executive Directors									
Slosar, John	**1,462**	**–**	**3**	**106**	**–**	**36**	**392**	**1,999**	1,863
Hogg, Rupert	**3,366**	**–**	**502**	**741**	**–**	**–**	**4,450**	**9,059**	9,177
Chu, Ivan (up to April 2017)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	2,727
Hughes, Gregory (from June 2017)	**2,460**	**–**	**1,021**	**541**	**–**	**263**	**3,203**	**7,488**	4,199
Loo, Paul (from June 2017)	**2,951**	**–**	**1,534**	**283**	**–**	**28**	**–**	**4,796**	2,118
Murray, Martin	**2,618**	**–**	**726**	**576**	**–**	**116**	**3,411**	**7,447**	7,366
Yau, Algernon (up to May 2017)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	2,251
Non-Executive Directors									
Cai, Jianjiang	**575**	**–**	**–**	**–**	**–**	**–**	**–**	**575**	575
Chu, Ivan (from May 2017)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Cubbon, Martin (up to September 2017)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Low, Michelle (from October 2017)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Song, Zhiyong	**575**	**–**	**–**	**–**	**–**	**–**	**–**	**575**	575
Swire, Merlin	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Swire, Samuel	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	–
Xiao, Feng (from January 2017)	**761**	**–**	**–**	**–**	**–**	**–**	**–**	**761**	755
Zhao, Xiaohang	**575**	**–**	**–**	**–**	**–**	**–**	**–**	**575**	575
Independent Non-Executive Directors									
Chan, Bernard (from December 2018)	**53**	**–**	**–**	**–**	**–**	**–**	**–**	**53**	–
Harrison, John	**761**	**–**	**–**	**–**	**–**	**–**	**–**	**761**	755
Lee, Irene	**926**	**–**	**–**	**–**	**–**	**–**	**–**	**926**	915
Tung, Andrew	**646**	**–**	**–**	**–**	**–**	**–**	**–**	**646**	633
Wong, Peter (up to November 2018)	**698**	**–**	**–**	**–**	**–**	**–**	**–**	**698**	755
2018 Total	**18,427**	**–**	**3,786**	**2,247**	**–**	**443**	**11,456**	**36,359**	
2017 Total	17,254	996	3,401	3,252	–	200	10,136		35,239

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

(ii) Management bonus is related to services for 2017 and was paid in 2018. Other discretionary bonuses were paid in 2017 or 2018.

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

24. Directors' remuneration *(continued)*

(b) The five individuals whose emoluments were the highest in the Group for the year ended 31st December 2018 and 2017 are as follows:

	2018	2017
Number of individuals:		
Executive Directors	**3**	2
Senior managers	**2**	3
	5	5

Details of their emoluments are as follows:

	Cash			Non-cash					
	Basic salary HK$'000	Bonus HK$'000	Allowances & benefits HK$'000	Contributions to retirement schemes HK$'000	Bonus paid into retirement schemes HK$'000	Other benefits HK$'000	Housing benefits HK$'000	**2018 Total HK$'000**	2017 Total HK$'000
2018 Total	**12,243**	**1,433**	**7,842**	**2,693**	**962**	**663**	**11,064**	**36,900**	
2017 Total	12,767	2,794	4,688	3,200	2,116	512	9,667		35,744

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

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

HK$'000	**2018**	2017
6,001 – 6,500	**1**	1
6,501 – 7,000	**1**	2
7,001 – 7,500	**2**	1
9,001 – 9,500	**1**	1
	5	5

25. Employee information – Cathay Pacific and Cathay Dragon

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

	2018			2017		
HK$'000	**Director**	**Flight staff**	**Other staff**	Director	Flight staff	Other staff
0 – 1,000	**13**	**14,107**	**10,579**	12	13,584	10,470
1,001 – 1,500	**–**	**585**	**300**	–	832	370
1,501 – 2,000	**1**	**1,023**	**96**	1	716	149
2,001 – 2,500	**–**	**438**	**81**	2	532	71
2,501 – 3,000	**–**	**534**	**21**	1	599	26
3,001 – 3,500	**–**	**437**	**7**	–	360	12
3,501 – 4,000	**–**	**271**	**4**	–	215	3
4,001 – 4,500	**–**	**108**	**–**	1	79	3
4,501 – 5,000	**1**	**32**	**1**	–	13	1
5,001 – 5,500	**–**	**6**	**–**	–	1	1
5,501 – 6,000	**–**	**2**	**–**	–	–	1
6,001 – 6,500	**–**	**–**	**1**	–	–	1
6,501 – 7,000	**–**	**–**	**1**	–	–	2
7,001 – 7,500	**2**	**–**	**–**	1	–	–
9,001 – 9,500	**1**	**–**	**–**	1	–	–
	18	**17,543**	**11,091**	19	16,931	11,110

26. Related party transactions

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

	2018		2017	
	Associates HK$M	**Other related parties HK$M**	Associates HK$M	Other related parties HK$M
Revenue	**515**	**19**	358	11
Aircraft maintenance	**1,212**	**2,992**	1,070	2,278
Other operating expenses	**797**	**287**	717	235
Dividend income	**470**	**41**	371	26
Finance income	**35**	**–**	7	–
Property, plant and equipment purchase	**–**	**43**	–	31

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

(i) Under the HAECO Framework Agreement with HAECO and HXITM, the Group paid fees to, and received fees from, the HAECO group in respect of aircraft maintenance and related services. The amounts payable to the HAECO group for the year ended 31st December 2018 totalled HK$4,227 million (2017: HK$3,367 million). The amounts receivable from the HAECO group for the year ended 31st December 2018 totalled HK$23 million (2017: HK$27 million).

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

(ii) Under the Air China Framework Agreement with Air China dated 26th June 2008, the Group paid fees to, and received fees from, the Air China group in respect of transactions between the Group on the one hand and the Air China group on the other hand arising from joint venture arrangements for the operation of passenger air transportation, code sharing arrangements, interline arrangements, aircraft leasing, frequent flyer programmes, the provision of airline catering, ground support and engineering services and other services agreed to be provided and other transactions agreed to be undertaken under the Air China Framework Agreement. The amounts payable to the Air China group for the year ended 31st December 2018 totalled HK$300 million (2017: HK$260 million). The amounts receivable from the Air China group for the year ended 31st December 2018 totalled HK$495 million (2017: HK$349 million).

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

26. Related party transactions *(continued)*

(b) The Company has an agreement for services with JSSHK ("JSSHK Services Agreement"). Under the JSSHK Services Agreement, the Group paid fees and reimbursed costs to JSSHK in exchange for services provided. Service fees calculated at 2.5% of the Group's profit before taxation, results of associates, non-controlling interests, and any profits or losses on disposal of property, plant and equipment are paid annually. For the year ended 31st December 2018, service fees of HK$51 million (2017: nil) were paid and expenses of HK$154 million (2017: HK$169 million) were reimbursed at cost.

As directors and/or employees of the Swire group, John Slosar, Ivan Chu, Rupert Hogg, Gregory Hughes, Paul Loo, Michelle Low, Martin Murray, Merlin Swire and Samuel Swire are interested in the JSSHK Services Agreement. Merlin Swire and Samuel Swire are also so interested as shareholders of Swire.

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

(c) Amounts due from and due to associates and other related companies at 31st December 2018 are disclosed in notes 15 and 17 to the financial statements. These balances arising in the normal course of business are non-interest bearing and have no fixed repayment terms.

(d) Guarantees given by the Company in respect of bank loan facilities of an associate at 31st December 2018 are disclosed in note 27(b) to the financial statements.

(e) There were no material transactions with Directors except for those relating to shareholdings (as disclosed in the Directors' Report and the Corporate Governance Report). Remuneration of Directors is disclosed in note 24 to the financial statements.

27. Capital commitments and contingencies

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

	2018 HK$M	2017 HK$M
Authorised and contracted for	**73,896**	83,535
Authorised but not contracted for	**2,579**	7,338
	76,475	90,873

Operating lease commitments are shown in note 7(b) to the financial statements.

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

	2018 HK$M	2017 HK$M
Associates	**2,473**	3,176

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

(d) 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 117.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, the Company and a number of other international cargo carriers agreed cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on the Company. However, the European Commission's finding against the Company and the imposition of this fine was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to the Company in February 2016. The European Commission issued a new decision against the Company and the other airlines involved in the case in March 2017. A fine of Euros 57.12 million was imposed on the Company, which was paid by the Company in June 2017. The Company filed an appeal against this latest decision, to which the Commission filed a defence. In December 2017, the Company filed a Reply to this Defence. On 9th March 2018, the European Commission filed a rejoinder to the Company's Reply. No date has yet been fixed for an appeal hearing.

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

28. Financial risk management

In the normal course of business, the Group is exposed to credit, liquidity, currency, interest rate and fuel price volatility risks. These exposures are managed, sometimes with the use of derivative financial instruments, by the Treasury Department of Cathay Pacific in accordance with the policies approved by the Board.

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk for the Group arises from activities with treasury counterparties and trade debtors.

The Group's exposure to credit risk arising from treasury activities is limited. To manage credit risk in respect of treasury activities, derivative financial transactions, deposit placements and funds are only carried out with financial institutions which have high credit ratings and all counterparties are subject to prescribed trading limits which are regularly reviewed. Risk exposures are monitored regularly by reference to market values.

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

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group normally grants a credit term of 30 days to customers or follows the local industry standard with the debt in certain circumstances being partially protected by bank guarantees or other monetary collateral.

The Group measures loss allowances for trade debtors at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix based on the Group's historical credit loss experience. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer bases, the loss allowance based on past due status is assessed on a collective basis.

Expected loss rates are based on historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

At the reporting date there was no significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position and the amount of guarantees granted as disclosed in note 27(b) to the financial statements. Collateral and guarantees received in respect of credit terms granted at 31st December 2018 totalled HK$1,167 million (2017: HK$1,413 million).

The movement in the expected credit loss allowance in respect of trade debtors during the year is set out in note 15 to the financial statements.

28. Financial risk management *(continued)*

(b) Liquidity risk

The Group's policy is to monitor liquidity and compliance with lending covenants, so as to ensure sufficient liquid funds and funding lines from financial institutions are available to meet liquidity requirements. The analysis has been performed on the same basis as for 2017. The undiscounted payment profile of financial liabilities is outlined as follows:

	2018				
	Within one year HK$M	**After one year but within two years HK$M**	**After two years but within five years HK$M**	**After five years HK$M**	**Total HK$M**
Group					
Bank and other loans	**(11,370)**	**(12,524)**	**(20,273)**	**(13,129)**	**(57,296)**
Obligations under finance leases	**(4,604)**	**(3,637)**	**(11,060)**	**(6,652)**	**(25,953)**
Other long-term payables	**–**	**(614)**	**(2,272)**	**(449)**	**(3,335)**
Trade and other payables	**(18,190)**	**–**	**–**	**–**	**(18,190)**
Derivative financial liabilities, net	**(1,212)**	**(724)**	**(12)**	**(7)**	**(1,955)**
Total	**(35,376)**	**(17,499)**	**(33,617)**	**(20,237)**	**(106,729)**

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

(c) Market risk

(i) Foreign currency risk

The Group's revenue streams are denominated in a number of foreign currencies resulting in exposure to foreign exchange rate fluctuations. The Group's policy is to reduce foreign currency exposure on currencies other than US dollars. To manage this exposure, assets are, where possible, financed in those foreign currencies in which sales transactions are anticipated, thus establishing a natural hedge. In addition, the Group uses currency derivatives to reduce foreign currency exposure from highly probable sales transactions in foreign currencies. The use of foreign currency borrowings and currency derivatives to hedge highly probable sales transactions in foreign currencies is a key component of the financial risk management process, as the change in value of the highly probable sales transactions in foreign currencies is effectively mitigated by the exchange differences realised on the repayment of financial commitments.

Hedges of foreign currency risk in forecast transactions

The following table details the carrying amount of foreign currency borrowings and the notional amount of currency derivative contracts that have been designated as cash flow hedges of the Group's highly probable forecast transactions at the end of the reporting period:

28. Financial risk management *(continued)*

	2018 HK$M	2017 HK$M
Currency derivative contracts – outgoing currencies		
Renminbi	**6,204**	5,339
Euros	**1,371**	1,317
Australian dollars	**1,556**	2,026
New Taiwan dollars	**2,405**	2,336
Japanese yen	**975**	645
Pound sterling	**1,195**	1,204
Others	**3,516**	3,253
Foreign currency borrowings		
Japanese yen	**5,324**	5,047
Singapore dollars	**974**	992
Others	**33**	32

	2018 HK$M	2017 HK$M
Carrying amount of currency derivative contracts		
Asset	**506**	24
Liability	**(104)**	(591)

Forward exchange contract assets are included in the "Other long-term receivables and investments" (note 10) and "Trade, other receivables and other assets" (note 15), and forward exchange contract liabilities are included in the "Other long-term payables" (note 12) and "Trade and other payables" (note 17) line items in the consolidated statement of financial position respectively.

The foreign currency borrowings designated as hedging instruments to hedge sales transactions will mature over the next 10 years.

The Group considers the risk of movement in exchange rates between the Group's functional currency, which is Hong Kong dollars and the United States dollars to be insignificant under the existing currency peg. Correspondingly, the Group uses currency forward contracts to manage the fluctuation in exchange rates between foreign currencies and United States dollars. The currency forward contracts have a maturity of less than two years from the reporting date and have an average exchange rate between the respective foreign currency and United States dollars as follows:

	2018 USD to	2017 USD to
Renminbi	**6.80**	6.89
Euros	**0.83**	0.87
Australian dollars	**1.31**	1.31
New Taiwan dollars	**29.30**	30.22
Japanese yen	**107.14**	108.06
Pound sterling	**0.74**	0.77

The Group designates currency forward contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a currency forward contract but instead designates the currency forward contract in its entirety in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

28. Financial risk management *(continued)*

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the foreign currency borrowings and currency derivative contracts, and the highly probable forecast transactions based on their currency types, currency amounts and the timing of their respective cash flows.

The main sources of ineffectiveness in these hedging relationships are:

– the effect of the counterparty's and the Group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

– changes in the timing of the hedged transactions.

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2018 HK$M	2017 HK$M
Balance at 1st January	**1,153**	3,109
Effective portion of the cash flow hedge recognised in other comprehensive income	**781**	(1,794)
Amounts reclassified to profit or loss*	**(202)**	(430)
Related tax	**(44)**	268
Balance at 31st December**	**1,688**	1,153
Change in fair value of the derivative instruments during the year	**781**	(1,794)
Hedge ineffectiveness recognised in profit or loss	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**781**	(1,794)

* *Amounts reclassified to profit or loss are recognised in the "Passenger services revenue" and "Cargo services revenue" line items in the consolidated statement of profit or loss.*

** *At 31st December 2018, the Group had HK$764 million (net of deferred tax) in the hedging reserve from discontinued hedge (2017: HK$935 million, net of deferred tax).*

Exposure to currency risk

The currencies giving rise to a risk of translation in the Group's financial statements in 2018 are primarily United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen (2017: United States dollars, Euros, Australian dollars, Singapore dollars, Renminbi and Japanese yen).

At the reporting date, the exposure to these currencies in relation to recognised assets and liabilities was as follows:

	2018					
	USD HK$M	**EUR HK$M**	**AUD HK$M**	**SGD HK$M**	**RMB HK$M**	**JPY HK$M**
Group						
Loans due from associates	**293**	**–**	**–**	**–**	**–**	**–**
Trade debtors, other receivables and prepayments	**5,403**	**499**	**145**	**33**	**801**	**356**
Liquid funds	**11,547**	**128**	**26**	**27**	**668**	**26**
Long-term loans	**(35,640)**	**–**	**–**	**(974)**	**–**	**(1,313)**
Obligations under finance leases	**(16,942)**	**(1,599)**	**–**	**–**	**–**	**(4,011)**
Trade creditors and other payables	**(6,985)**	**(561)**	**(131)**	**(69)**	**(567)**	**(203)**
Currency derivatives at notional value	**28,954**	**(69)**	**(1,556)**	**(93)**	**(6,204)**	**(975)**
Net exposure	**(13,370)**	**(1,602)**	**(1,516)**	**(1,076)**	**(5,302)**	**(6,120)**

28. Financial risk management *(continued)*

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

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

Sensitivity analysis for foreign currency exposure

A five percent appreciation of the Hong Kong dollar against the following currencies at 31st December 2018 would have resulted in a change in profit or loss and other equity components by the amounts shown below. This represents the translation of financial assets and liabilities and the change in fair value of currency derivatives at the reporting date. It assumes that all other variables, in particular interest rates, remain constant. The analysis has been performed on the same basis as for 2017.

	2018	
	Net increase/(decrease) in profit or loss HK$M	**Net increase/(decrease) in other equity components HK$M**
United States dollars*	**2,026**	**(836)**
Euros	**3**	**60**
Australian dollars	**(2)**	**65**
Singapore dollars	**–**	**53**
Renminbi	**(43)**	**261**
Japanese yen	**(8)**	**309**
Net increase/(decrease)	**1,976**	**(88)**

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

* *Hong Kong dollars is pegged with United States dollars between the range of 7.75 to 7.85 (US$: HK$). The above analysis on five percent appreciation of Hong Kong dollars against United States dollars is for illustrative purpose only.*

28. Financial risk management *(continued)*

(ii) Interest rate risk

The Group's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates. Interest rate swaps are used to achieve an appropriate mix of fixed rate and floating rate exposure consistent with the Group's policy. Interest rate risk is measured by using sensitivity analysis on variable rate instruments.

Hedges of interest rate risk

The following table provides information on the interest rate swaps which have been designated as cash flow hedges of the interest rate risk inherent in the Group's variable rate financing liabilities at the end of the reporting period:

	2018 HK$M	2017 HK$M
Notional amount		
United States dollars	**28,175**	24,485
Hong Kong dollars	**4,118**	4,474
Others	**156**	226

	2018 HK$M	2017 HK$M
Carrying amount		
Asset	**375**	254
Liability	**(101)**	(79)

Interest rate swap assets are included in the "Other long-term receivables and investments" (note 10) and "Trade, other receivables and other assets" (note 15), and interest rate swap liabilities are included in the "Other long-term payables" (note 12) and "Trade and other payables" (note 17) line items in the consolidated statement of financial position respectively.

The swaps mature over the next nine years matching the maturity of the related financing liabilities and have fixed swap rates ranging from 1.60% to 4.29% (2017: 1.60% to 4.29%).

The Group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment dates, the notional amounts of the swaps and the outstanding principal amounts of the financing liabilities.

The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

28. Financial risk management *(continued)*

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2018 HK$M	2017 HK$M
Balance at 1st January	**(210)**	(539)
Effective portion of the cash flow hedge recognised in other comprehensive income	**101**	105
Amounts reclassified to profit or loss*	**153**	268
Related tax	**(33)**	(44)
Balance at 31st December**	**11**	(210)
Change in fair value of the derivative instruments during the year	**101**	105
Hedge ineffectiveness recognised in profit or loss	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**101**	105

* *Amounts reclassified to profit or loss are recognised in the "Finance charges" line item in the consolidated statement of profit or loss.*

** *The entire balance in the hedging reserve relates to continuing hedges.*

Interest rate profile

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

	2018 HK$M	2017 HK$M
Fixed rate instruments		
Loan due from an associate	**–**	1,177
Long-term loans	**(1,778)**	(2,490)
Obligations under finance leases	**(5,308)**	(5,929)
Interest rate and currency swaps	**(31,190)**	(28,788)
Net exposure	**(38,276)**	(36,030)

	2018 HK$M	2017 HK$M
Variable rate instruments		
Loan due from an associate	**293**	293
Liquid funds	**15,315**	19,094
Long-term loans	**(48,908)**	(51,404)
Obligations under finance leases	**(17,883)**	(18,571)
Interest rate and currency swaps	**32,630**	30,232
Net exposure	**(18,553)**	(20,356)

28. Financial risk management *(continued)*

Sensitivity analysis for interest rate exposure

An increase of 25 basis points in interest rates at the reporting date would have decreased profit or loss and increased other equity components for the year by the amounts shown below. These amounts represent the fair value change of interest rate swaps and financial liabilities designated as at fair value through profit or loss at the reporting date and the increase in net finance charges. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis as for 2017.

	2018		2017	
	Net decrease in profit or loss HK$M	**Net increase in other equity components HK$M**	Net decrease in profit or loss HK$M	Net increase in other equity components HK$M
Variable rate instruments	**(124)**	**97**	(132)	157

(iii) Fuel price risk

Jet fuel is a major component of the Group's operating expenses and the Group's results are significantly affected by the volatility in the price of jet fuel. The Group's policy is to reduce fuel price risk by hedging a percentage of its expected fuel consumption. Crude oil swaps which are economically equivalent to forward contracts are used to achieve the Group's desired hedging position.

Hedges of fuel price risk

The following table details the crude oil forward contracts that have been designated as cash flow hedges of the Group's highly probable forecast fuel purchase transactions at the end of the reporting period:

		2018	2017
Notional amount	*Barrel*	**23,286,402**	28,625,294
Carrying amount			
Asset	*HK$M*	**–**	80
Liability	*HK$M*	**(1,854)**	(2,908)

Crude oil forward contract assets are included in the "Other long–term receivables and investments" (note 10) and "Trade, other receivables and other assets" (note 15), and crude oil forward contract liabilities are included in the "Other long-term payables" (note 12) and "Trade and other payables" (note 17) line items in the consolidated statement of financial position respectively.

The crude oil forward contracts have a maturity of less than two years (2017: two years) from the reporting date and have an average strike price (Brent, US$/barrel) as follows:

	2018 US$/barrel	2017 US$/barrel
Within one year	**65.39**	80.73
After one year but within two years	**67.26**	65.95

The price risk of jet fuel purchases includes a crude oil price risk component, even though crude oil is not specified in any contractual arrangement. The Group considers the crude oil component to be a separately identifiable and reliably measureable component of jet fuel price. As such, crude oil forward contracts are designated as a hedge of the crude oil risk component of highly probable forecast fuel purchases for contracts entered into after 1st January 2018 following the adoption of HKFRS 9.

28. Financial risk management *(continued)*

For the highly probable jet fuel purchases on or after 1st January 2018, the Group seeks to hedge the crude oil risk component only and applies a hedge ratio of 1:1. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the crude oil derivatives which is not reflected in the fair value of the hedged cash flows attributable to the change in crude oil price. Prior to 1st January 2018, the entire price risk of jet fuel was designated as hedged item.

The following table provides a reconciliation of the hedging reserve in respect of fuel price risk and shows the effectiveness of the hedging relationships:

	2018 HK$M	2017 HK$M
Balance at 1st January	**(2,446)**	(8,425)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(454)**	489
Amounts reclassified to profit or loss*	**1,415**	6,322
Related tax	**(131)**	(832)
Balance at 31st December**	**(1,616)**	(2,446)
Change in fair value of the derivative instruments during the year	**(432)**	519
Hedge ineffectiveness recognised in profit or loss***	**(22)**	(30)
Effective portion of the cash flow hedge recognised in other comprehensive income	**(454)**	489

* *Amounts reclassified to profit or loss are recognised in the "Fuel, including hedging losses" line item in the consolidated statement of profit or loss.*

** *The entire balance in the hedging reserve relates to continuing hedges.*

*** *Hedge ineffectiveness is recognised in the "Others" line item in the consolidated statement of profit or loss.*

Sensitivity analysis for jet fuel price derivatives

An increase/(decrease) of five percent in the jet fuel price at the reporting date would have affected profit or loss and other equity components for the year by the amounts shown below. These amounts represent the change in fair value of fuel derivatives at the reporting date. This analysis assumes that all other variables remain constant and the analysis has been performed on the same basis as for 2017.

	2018		2017	
	Net increase in profit or loss HK$M	**Net increase/(decrease) in other equity components HK$M**	Net increase/(decrease) in profit or loss HK$M	Net increase/(decrease) in other equity components HK$M
Increase in jet fuel price by 5%	**2**	**433**	(41)	670
Decrease in jet fuel price by 5%	**21**	**(456)**	21	(649)

28. Financial risk management *(continued)*

(d) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31st December 2018 and 2017 except for the following financial instruments, for which their carrying amounts and fair values are shown below:

	2018		2017	
	Carrying amount HK$M	**Fair value HK$M**	Carrying amount HK$M	Fair value HK$M
Liabilities				
Long-term loans	**(50,686)**	**(52,496)**	(53,894)	(56,149)
Obligations under finance leases	**(23,191)**	**(24,073)**	(24,500)	(25,292)

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

(e) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at 31st December 2018 across three levels of the fair value hierarchy defined in HKFRS 13 "Fair Value Measurement" with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. Level 1 includes financial instruments with fair values measured using only unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes financial instruments with fair values measured using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value has been determined based on quotes from market makers or discounted cash flow valuation techniques in which all significant inputs are based on observable market data. The most significant inputs are market interest rates, exchange rates and fuel price. Level 3 includes financial instruments with fair values measured using discounted cash flow valuation techniques in which any significant input is not based on observable market data.

28. Financial risk management *(continued)*

	2018				2017			
	Level 1 HK$M	**Level 2 HK$M**	**Level 3 HK$M**	**Total HK$M**	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total HK$M
Recurring fair value measurement								
Assets								
Unlisted equity Investments at fair value	**–**	**–**	**765**	**765**	–	–	722	722
Liquid funds								
– funds with investment managers	**–**	**4,963**	**–**	**4,963**	–	4,815	–	4,815
– other liquid investments	**–**	**5**	**–**	**5**	–	4	–	4
Derivative financial assets	**–**	**2,359**	**–**	**2,359**	–	1,813	–	1,813
	–	**7,327**	**765**	**8,092**	–	6,632	722	7,354
Liabilities								
Obligations under finance leases designated as at fair value through profit or loss	**–**	**(1,567)**	**–**	**(1,567)**	–	(2,001)	–	(2,001)
Derivative financial liabilities	**–**	**(2,059)**	**–**	**(2,059)**	–	(3,589)	–	(3,589)
	–	**(3,626)**	**–**	**(3,626)**	–	(5,590)	–	(5,590)

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

The fair value of the unlisted equity investments in Level 3 is determined using a discounted cash flow valuation technique. The significant unobservable input used in the fair value measurement is the discount rate.

Information about Level 3 fair value measurements:

Significant unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value	Possible reasonable change	(Negative)/positive impact on fair value (HK$M)
Unlisted equity investments				
Discount rate	2018: 8.5% (2017: 9.0%)	The higher the discount rate, the lower the fair value	2018: +/- 0.5% (2017: +/- 0.5%)	2018: (17)/18 (2017: (19)/21)

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

	2018 HK$M	2017 HK$M
Unlisted equity investments at fair value		
At 1st January	**722**	631
Additions	**–**	6
Net unrealised gains recognised in other comprehensive income during the year	**–**	101
Changes in fair value recognised in profit or loss during the year	**43**	–
Impairment	**–**	(16)
At 31st December	**765**	722

28. Financial risk management *(continued)*

From 1st January 2018, any gain or loss arising from the remeasurement of the Group's equity investments held for strategic purposes are recognised in the investment revaluation reserve (non-recycling) in other comprehensive income. Upon disposal of the equity investments, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1st January 2018, any gains arising from the disposal of the equity investments were recognised in profit or loss as "Others".

Any gain or loss arising from the remeasurement of the Group's equity investments held for trading purposes are recognised in profit or loss as "Others".

(f) Offsetting financial assets and financial liabilities

	2018		
	Amount of financial assets/(liabilities) presented in the statement of financial position HK$M	**Financial instruments not offset in the statement of financial position HK$M**	**Net amount HK$M**
Group			
Derivative financial assets	**2,359**	**(479)**	**1,880**
Derivative financial liabilities	**(2,059)**	**479**	**(1,580)**
	300	**–**	**300**

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

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

29. Capital risk management

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

The Group regards the net debt/equity ratio as the key measurement of capital risk management. The definition of net debt/equity ratio is shown on page 123 and a ten year history is included on pages 118 and 119 of the annual report.

30. Company-level statement of financial position

	Note	2018 HK$M	2017 HK$M	2018 US$M	2017 US$M
ASSETS AND LIABILITIES					
Non-current assets and liabilities					
Property, plant and equipment		**99,520**	92,747	**12,759**	11,891
Intangible assets		**3,503**	3,551	**449**	455
Investments in subsidiaries		**34,815**	36,797	**4,463**	4,718
Investments in associates		**10,798**	10,798	**1,384**	1,384
Other long-term receivables and investments		**2,838**	2,947	**364**	378
		151,474	146,840	**19,419**	18,826
Long-term liabilities		**(59,935)**	(69,197)	**(7,684)**	(8,871)
Other long-term payables		**(3,101)**	(2,407)	**(397)**	(309)
Deferred tax liabilities		**(11,814)**	(11,393)	**(1,515)**	(1,461)
		(74,850)	(82,997)	**(9,596)**	(10,641)
Net non-current assets		**76,624**	63,843	**9,823**	8,185
Current assets and liabilities					
Stock		**1,626**	1,320	**208**	169
Trade, other receivables and other assets		**11,050**	9,977	**1,417**	1,279
Liquid funds		**9,150**	12,844	**1,173**	1,647
		21,826	24,141	**2,798**	3,095
Current portion of long-term liabilities		**(13,632)**	(8,489)	**(1,748)**	(1,088)
Trade and other payables		**(15,900)**	(13,899)	**(2,038)**	(1,782)
Unearned transportation revenue		**(13,780)**	(13,644)	**(1,767)**	(1,749)
Bank overdrafts – unsecured		**(19)**	–	**(2)**	–
Taxation		**(883)**	(825)	**(113)**	(106)
		(44,214)	(36,857)	**(5,668)**	(4,725)
Net current liabilities		**(22,388)**	(12,716)	**(2,870)**	(1,630)
Total assets less current liabilities		**129,086**	134,124	**16,549**	17,196
Net assets		**54,236**	51,127	**6,953**	6,555
CAPITAL AND RESERVES					
Share capital	*19*	**17,106**	17,106	**2,193**	2,193
Other reserves	*21*	**37,130**	34,021	**4,760**	4,362
Total equity		**54,236**	51,127	**6,953**	6,555

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

John Slosar
Director
Hong Kong, 13th March 2019

Irene Lee
Director

31. Impact of further new accounting standards

HKFRS 16 "Leases" is relevant to the Group and became 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 right-of-use assets separately from interest on lease liabilities in 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 Group will adopt HKFRS 16 using the modified retrospective approach and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January 2019 without restating the comparative information. The Group has a choice, on a lease-by-lease basis, to measure the right-of-use asset at either its carrying amount as if HKFRS 16 had been applied since the commencement of the lease, or an amount equal to the lease liability, adjusted for accruals or prepayments. In applying HKFRS 16 the Group will use one or more practical expedients, on a lease-by-lease basis, to leases previously classified as operating leases, including electing to not apply the retrospective treatment to leases for which the term ends within 12 months of initial application and excluding initial direct costs from the initial measurement of the right-of-use asset. Key judgements and estimates made in calculating the initial impact of adoption include assessing whether arrangements contain a lease, determining the lease term, lease return conditions and calculating the discount rate. The Group will apply HKFRS 16's low-value and short-term exemptions prospectively.

The Group has completed an assessment on the impact of HKFRS 16 which is expected to lead to a material increase in both assets and liabilities as well as a negative adjustment to the retained profit at 1st January 2019. Based on information currently available, excluding the impact from its associates' initial application of HKFRS 16, as well as the overall impact on deferred tax, the Group expects to recognise right-of-use assets and lease liabilities of approximately HK$17,000 million and HK$18,600 million respectively on 1st January 2019. The adoption of HKFRS 16 will have no impact on the Group's cash flows except to present part of cash outflows as financing instead of operating. Profit before tax and earnings per share are not expected to be significantly impacted. The actual impact upon the initial adoption of this standard however may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30th June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

Principal Subsidiaries and Associates

at 31st December 2018

Subsidiaries

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned	Issued and paid up share capital and debt securities
AHK Air Hong Kong Limited	Hong Kong	Cargo airline	100**	90,670,000 shares
Airline Property Limited	Hong Kong	Property investment	100	2 shares
Airline Stores Property Limited	Hong Kong	Property investment	100	2 shares
Airline Training Property Limited	Hong Kong	Property investment	100	2 shares
Asia Miles Limited	Hong Kong	Travel reward programme	100	2 shares
Cathay Holidays Limited	Hong Kong	Travel tour operator	100	40,000 shares
Cathay Pacific Aero Limited	Hong Kong	Financial services	100	1 share
Cathay Pacific Aircraft Lease Finance Limited	Hong Kong	Aircraft leasing facilitator	100	1 share
Cathay Pacific Aircraft Services Limited	Isle of Man	Aircraft acquisition facilitator	100	10,000 shares of US$1 each
Cathay Pacific Catering Services (H.K.) Limited	Hong Kong	Airline catering	100	600 shares
Cathay Pacific MTN Financing Limited	Cayman Islands	Financial services	100	1 share of US$1
Cathay Pacific Services Limited	Hong Kong	Cargo terminal	100	1 share
Deli Fresh Limited	Hong Kong	Food processing and catering	100	20 shares
Global Logistics System (HK) Company Limited	Hong Kong	Computer network for interchange of air cargo related information	95	100 shares
Guangzhou Guo Tai Information Processing Company Limited	People's Republic of China	Information processing	100*	Registered capital of HK$8,000,000 (wholly foreign owned enterprise)
Hong Kong Airport Services Limited	Hong Kong	Aircraft ramp handling	100	100 shares
Hong Kong Aviation and Airport Services Limited	Hong Kong	Property investment	100*	2 shares
Hong Kong Dragon Airlines Limited	Hong Kong	Operation of scheduled airline services	100	500,000,000 shares
Troon Limited	Bermuda	Financial services	100	12,000 shares of US$1 each
Vogue Laundry Service Limited	Hong Kong	Laundry and dry cleaning	100	3,700 shares

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

All shares are ordinary shares unless otherwise stated.

* *Shareholding held through subsidiaries.*

** *Shareholding held through subsidiary at 60%, another 40% held directly by Cathay Pacific.*

Principal Subsidiaries and Associates

Associates

	Place of incorporation/ establishment and operation	Principal activities	Percentage of issued capital owned
Air China Cargo Co., Ltd.	People's Republic of China	Cargo carriage service	25**
Air China Limited	People's Republic of China	Airline	18
Cebu Pacific Catering Services Inc.	Philippines	Airline catering	40*
China Pacific Catering Services Limited	Taiwan	Airline catering	49*
Ground Support Engineering Limited	Hong Kong	Airport ground engineering support and equipment maintenance	50*
HAECO ITM Limited	Hong Kong	Inventory technical management services	30
LSG Lufthansa Service Hong Kong Limited	Hong Kong	Airline catering	32*
Shanghai International Airport Services Co., Limited	People's Republic of China	Ground handling	25*
Vehicle Engineering Services Limited	Hong Kong	Repair and maintenance services for transportation companies	50*

* *Shareholding held through subsidiaries.*

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

Principal Accounting Policies

1. Basis of accounting

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") (which include all applicable Hong Kong Accounting Standards ("HKAS"), Hong Kong Financial Reporting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The measurement basis used is historical cost modified by the use of fair value for certain financial assets and liabilities as explained in accounting policies 8, 9, 10 and 12 below.

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

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

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

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

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and impacted by HKFRS 15 in relation to timing of revenue recognition and gross/net presentation of revenue. Details of the changes in accounting policies are discussed in note 1(a) for HKFRS 9 and note 1(b) for HKFRS 15.

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

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

Further details of these changes are set out in note 1(a) and note 1(b).

1. Basis of accounting *(continued)*

(a) HKFRS 9 "Financial Instruments"

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

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

The following table summarises the impact of transition to HKFRS 9 on retained profit and reserves at 1st January 2018.

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

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

(i) Classification of financial assets and financial liabilities

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

1. Basis of accounting *(continued)*

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

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

Under HKAS 39, equity investments not held for trading were classified as available-for-sale financial assets. These equity investments are classified as at fair value through profit or loss under HKFRS 9, unless they are eligible for and designated at fair value through other comprehensive income by the Group.

The Group classifies and measures financial assets and recognises gains and losses under HKFRS 9 in accordance with accounting policy 8.

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

(ii) Credit losses

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

The Group measures and recognises credit losses under HKFRS 9 in accordance with accounting policy 8.

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

(iii) Hedge accounting

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

The Group's hedge accounting policy is outlined in accounting policy 10.

1. Basis of accounting *(continued)*

(iv) Transition

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

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

(b) HKFRS 15 “Revenue from Contracts with Customers”

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

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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

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

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

1. Basis of accounting *(continued)*

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

(i) Timing of revenue recognition

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

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

As a result of this change in accounting policy, the Group has made adjustments to opening balances as at 1st January 2018 which increased retained profit by HK$631 million (being HK$586 million for the airlines, HK$116 million for the Group’s share of results of Air China Limited (“Air China”) and an offsetting tax impact of HK$71 million). In addition, the in-year positive impact on the airlines’ profit was HK$9 million.

(ii) Presentation of revenue

Passenger revenue

Flight related passenger ancillary income (e.g. change fees, extra legroom and seat choice income) of HK$727 million for the year ended 31st December 2018 which is not considered distinct from the travel component because it is not capable of being separable is reclassified as passenger revenue to bring the dependent elements of ticket-related revenue alongside the underlying performance obligations of the ticket. Such income was classified under other revenue for the year ended 31st December 2017.

Cargo revenue

Freight related cargo ancillary income (e.g. documentation administrative fees) of HK$81 million for the year ended 31st December 2018 which is not considered distinct from the carriage component because it is not capable of being separable is classified to cargo revenue to bring the dependent elements of freightage-related revenue alongside the underlying performance obligations of the cargo shipments. Such income was classified as other revenue for the year ended 31st December 2017.

Freight revenue for cargo transported by another carrier of HK$333 million where the Group is deemed under HKFRS 15 as the principal and not the agent in the provision of such services is grossed up under other revenue for the Group for the year ended 31st December 2018 (HK$358 million for Cathay Pacific and Cathay Dragon inclusive of HK$25 million for Air Hong Kong sectors).

Cargo handling revenue where the Group is deemed under HKFRS 15 as the principal and not the agent in the provision of such services is grossed up as other revenue of HK$1,591 million for the Group for the year ended 31st December 2018.

1. Basis of accounting *(continued)*

(iii) Disclosure of the estimated impact on the amounts reported in respect of the year ended 31st December 2018 as a result of the adoption of HKFRS 15 on 1st January 2018.

The following table summarises the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31st December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 if the superseded standard had continued to apply to 2018 instead of HKFRS 15. The table shows only those line items impacted by the adoption of HKFRS 15.

	Amounts reported in accordance with HKFRS 15 HK$M	Hypothetical amounts under HKAS 18 HK$M	Difference: Impact of adoption of HKFRS 15 HK$M
Revenue			
Passenger services	73,119	72,415	**704**
Cargo services	28,316	28,235	**81**
Catering, recoveries and other services	9,625	8,500	**1,125**
Expenses			
Inflight service and passenger expenses	(5,292)	(5,315)	**23**
Landing, parking and route expenses	(17,486)	(15,895)	**(1,591)**
Others	(4,750)	(4,417)	**(333)**

2. Basis of consolidation

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

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

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

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

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

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

3. Associates

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

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

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

4. Foreign currencies

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

(a) foreign currency denominated financial assets and liabilities.

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

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

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

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

5. Property, plant and equipment

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

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

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

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

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

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

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

6. Leased assets

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

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

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

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

7. Intangible assets

Intangible assets comprise goodwill arising on consolidation, acquisition of computer software licences and others. The accounting policy for goodwill is outlined in accounting policy 2 on pages 110.

Expenditure on computer software licences and others which gives rise to economic benefits is capitalised as part of intangible assets and is amortised on a straight line basis. The useful life of expenditure on computer software licences and others has been changed from not exceeding a period of four to fifteen years to four to twenty years. This change in accounting estimate is applied prospectively from 1st January 2018 and has no significant impact on the results and financial position of the Group.

8. Financial assets

Other long-term receivables, bank and security deposits, trade and other short-term receivables are stated at amortised cost less allowance for credit losses.

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

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

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

Investments are recognised or derecognised by the Group on the date when the purchase or sale of the assets occurs. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss, for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows:

8. Financial assets *(continued)*

(a) Policy applicable from 1st January 2018

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

i) amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

ii) fair value through other comprehensive income – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

iii) fair value through profit or loss, if the investment does not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

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

(b) Policy applicable prior to 1st January 2018

Where long-term investments held by the Group are designated as available-for-sale financial assets, these investments are stated at fair value. Any change in fair value is recognised in the investment revaluation reserve (recycling). On disposal or if there is evidence that the investment is impaired, the cumulative gain or loss on the investment is reclassified from the investment revaluation reserve to profit or loss.

Expected credit losses

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

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

Measurement of expected credit losses

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

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

8. Financial assets *(continued)*

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

i) 12-month expected credit losses: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

ii) lifetime expected credit losses: these are losses that are expected to result from all possible default events over the expected lives of the items to which the expected credit losses model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime expected credit losses. Expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date. For all other financial instruments, the Group recognises a loss allowance equal to 12-month expected credit losses unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime expected credit losses.

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

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

i) failure to make payments of principal or interest on their contractually due dates;

ii) an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

iii) an actual or expected significant deterioration in the operating results of the debtor; and

iv) existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

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

Write-off policy

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

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

Prior to 1st January 2018, impairment was recognised when the recoverability of the debt is in doubt resulting from financial difficulty of a customer or the debt in dispute.

9. Financial liabilities

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

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

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

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

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

10. Derivative financial instruments

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

All derivative financial instruments are recognised at fair value in the statement of financial position. Where derivative financial instruments are designated as hedging instruments in a cash flow hedge and hedge exposure to fluctuations in foreign exchange rates, interest rates or jet fuel prices, any fair value change is accounted for as follows:

(a) the effective portion of the fair value change is recognised in other comprehensive income and accumulated separately in equity and is included in profit or loss as an adjustment to revenue, net finance charges or fuel expense in the same period or periods during which the hedged transaction affects profit or loss.

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

Derivative financial instruments which do not qualify as hedging instruments are accounted for as held for trading financial instruments and any fair value change is recognised in profit or loss immediately.

11. Fair value measurement

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

12. Retirement benefits

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

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

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

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

13. Deferred taxation

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

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

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

14. Stock

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

15. Assets held for sale

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

16. Revenue recognition

Passenger and cargo sales are recognised as revenue when the transportation service is provided. The value of unflown passenger sales is recorded as a contract liability under unearned transportation revenue in the statement of financial position. Revenue is allocated between passenger services revenue and loyalty programme revenue based on their relative stand-alone selling prices. Income from catering and other services is recognised when the services are rendered. Interest income is recognised as it accrues while dividend income is recognised when the right to receive payment is established.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component as it is expected at contract inception that the period between the transfer of goods and services and customer payments will be one year or less.

Breakage on passenger revenue is recognised in proportion to the pattern of rights exercised by the customer as reflected by the point of flown to match the timing of revenue recognition with the underlying ticket performance obligations. This is based on historical experience. This estimation is made such that the revenue recognised from passenger ticket breakage is not expected to result in a significant reversal of cumulative revenue in the future. In the comparative period, ticket breakage was recognised when the likelihood of the customers exercising their remaining rights became remote.

Unearned transportation revenue is expected to be recognised within 12 months.

Contract costs

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission.

The Group recognises the incremental costs of obtaining contracts as an expense when incurred as the amortisation period of the asset that the Group otherwise would have recognised is one year or less from the initial recognition of the asset.

17. Maintenance and overhaul costs

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

18. Loyalty programme

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

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

19. Related parties

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

20. Provisions and contingent liabilities

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

Statistics

		2018	2017
Consolidated profit or loss summary	*HK$M*		
Passenger services		**73,119**	66,408
Cargo services		**28,316**	23,903
Catering, recoveries and other services		**9,625**	6,973
Revenue		**111,060**	97,284
Operating expenses		**(107,465)**	(99,563)
Operating profit/(loss)		**3,595**	(2,279)
Profit on disposal of investments		**–**	586
Gain on deemed disposal of an associate		**–**	244
Net finance charges		**(2,114)**	(1,761)
Share of profits of associates		**1,762**	2,630
Profit/(loss) before taxation		**3,243**	(580)
Taxation		**(466)**	(308)
Profit/(loss) for the year		**2,777**	(888)
Profit attributable to non-controlling interests		**(432)**	(371)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**2,345**	(1,259)
Dividends paid		**(590)**	–
Retained profit for the year		**1,755**	(1,259)
Consolidated statement of financial position summary	*HK$M*		
Property, plant and equipment and intangible assets		**128,298**	122,403
Long-term receivables and investments		**31,585**	32,212
Borrowings		**(73,877)**	(78,394)
Liquid funds less bank overdrafts		**15,296**	19,094
Net borrowings		**(58,581)**	(59,300)
Net current liabilities (excluding liquid funds, bank overdrafts and current portion of borrowings)		**(20,329)**	(18,649)
Other long-term payables		**(4,649)**	(3,502)
Deferred taxation		**(12,385)**	(11,892)
Net assets		**63,939**	61,272
Financed by:			
Funds attributable to the shareholders of Cathay Pacific		**63,936**	61,101
Non-controlling interests		**3**	171
Total equity		**63,939**	61,272
Per share			
Shareholders' funds	*HK$*	**16.25**	15.53
EBITDA	*HK$*	**3.85**	2.68
Earnings/(loss)	*HK cents*	**59.6**	(32.0)
Dividend	*HK$*	**0.30**	0.05
Ratios			
Profit/(loss) margin	*%*	**2.1**	(1.3)
Return on capital employed	*%*	**4.0**	0.8
Dividend cover	*Times*	**2.0**	(6.4)
Cash interest cover	*Times*	**10.4**	4.9
Gross debt/equity ratio	*Times*	**1.16**	1.28
Net debt/equity ratio	*Times*	**0.92**	0.97

Note:
The Group adopted HKFRS 9 and HKFRS 15 with effect from 1st January 2018, and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information in years earlier than 2018 is not restated and in accordance with the policies applicable in those years.

2016	2015	2014	2013	2012	2011	2010	2009
66,926	73,047	75,734	71,826	70,133	67,778	59,354	45,920
20,063	23,122	25,400	23,663	24,555	25,980	25,901	17,255
5,762	6,173	4,857	4,995	4,688	4,648	4,269	3,803
92,751	102,342	105,991	100,484	99,376	98,406	89,524	66,978
(93,276)	(95,678)	(101,556)	(96,724)	(97,763)	(93,125)	(78,672)	(62,583)
(525)	6,664	4,435	3,760	1,613	5,281	10,852	4,395
–	–	–	–	–	–	2,165	1,254
–	–	–	–	–	–	868	–
(1,301)	(1,164)	(1,158)	(1,019)	(884)	(744)	(978)	(847)
2,049	1,965	772	838	754	1,708	2,577	264
223	7,465	4,049	3,579	1,483	6,245	15,484	5,066
(497)	(1,157)	(599)	(675)	(409)	(779)	(1,441)	(275)
(274)	6,308	3,450	2,904	1,074	5,466	14,043	4,791
(301)	(308)	(300)	(284)	(212)	(169)	(185)	(170)
(575)	6,000	3,150	2,620	862	5,297	13,858	4,621
(1,259)	(2,046)	(1,022)	(551)	(1,338)	(3,777)	(1,691)	–
(1,834)	3,954	2,128	2,069	(476)	1,520	12,167	4,621
117,390	111,158	108,789	104,737	93,703	82,099	74,116	73,345
27,902	27,947	29,290	27,449	24,776	23,393	17,512	14,321
(70,169)	(63,105)	(65,096)	(67,052)	(59,546)	(43,335)	(39,629)	(42,642)
20,290	20,647	21,098	27,736	24,182	19,597	24,194	16,511
(49,879)	(42,458)	(43,998)	(39,316)	(35,364)	(23,738)	(15,435)	(26,131)
(21,727)	(23,961)	(22,478)	(19,110)	(15,711)	(16,685)	(14,022)	(12,864)
(7,517)	(15,838)	(10,487)	(1,318)	(3,205)	(3,650)	(1,700)	(1,086)
(10,643)	(8,781)	(9,263)	(9,429)	(8,061)	(6,651)	(5,842)	(5,255)
55,526	48,067	51,853	63,013	56,138	54,768	54,629	42,330
55,365	47,927	51,722	62,888	56,021	54,633	54,476	42,182
161	140	131	125	117	135	153	148
55,526	48,067	51,853	63,013	56,138	54,768	54,629	42,330
14.07	12.18	13.15	15.99	14.24	13.89	13.85	10.72
2.56	4.45	3.44	3.04	2.31	3.34	5.80	2.95
(14.6)	152.5	80.1	66.6	21.9	134.7	352.3	117.5
0.05	0.53	0.36	0.22	0.08	0.52	1.11	0.10
(0.6)	5.9	3.0	2.6	0.9	5.4	15.5	6.9
1.0	8.0	4.7	4.0	2.3	8.4	21.7	8.7
(2.9)	2.9	2.2	3.0	2.7	2.6	3.2	11.8
9.1	25.5	20.7	23.8	20.9	41.7	35.2	5.1
1.27	1.32	1.26	1.07	1.06	0.79	0.73	1.01
0.90	0.89	0.85	0.63	0.63	0.43	0.28	0.62

Statistics

		2018	2017
Cathay Pacific and Cathay Dragon operating summary			
Available tonne kilometres	*Million*	**32,387**	31,439
Revenue tonne kilometres	*Million*	**24,543**	23,679
Available seat kilometres	*Million*	**155,362**	150,138
Revenue passengers carried	*'000*	**35,468**	34,820
Revenue passenger kilometres	*Million*	**130,630**	126,663
Revenue load factor	*%*	**79.6**	79.7
Passenger load factor	*%*	**84.1**	84.4
Cargo and mail carried	*'000 tonnes*	**2,152**	2,056
Cargo and mail revenue tonne kilometres	*Million*	**12,122**	11,633
Cargo and mail load factor	*%*	**68.8**	67.8
Excess baggage carried	*Tonnes*	**2,329**	2,449
Kilometres flown	*Million*	**611**	596
Block hours	*'000 hours*	**877**	857
Aircraft departures	*'000*	**177**	175
Length of scheduled routes network	*'000 kilometres*	**715**	653
Number of destinations at year end	*Destinations*	**232**	200
Staff number at year end	*Number*	**26,623**	26,029
ATK per staff	*'000*	**1,217**	1,208
On-time performance			
Departure (within 15 minutes)	*%*	**72.7**	71.2
Average aircraft utilisation	*Hours per day*		
A320-200		**8.8**	9.3
A321-200		**10.1**	9.4
A330-300		**10.4**	10.7
A340-300		**–**	3.8
A350-900		**15.0**	14.1
A350-1000		**12.6**	–
747-400		**–**	–
747-200F/300SF		**–**	–
747-400F/BCF/ERF/8F		**12.8**	12.5
777-200/300		**8.6**	8.8
777-300ER		**15.6**	16.0
Fleet average		**12.3**	12.3
Fleet profile			
Aircraft operated by Cathay Pacific:			
A330-300		**33**	37
A340-300		**–**	–
A350-900		**22**	22
A350-1000		**8**	–
747-400		**–**	–
747-400F		**–**	–
747-400BCF		**1**	–
747-400ERF		**6**	6
747-8F		**14**	14
777-200		**4**	5
777-300		**14**	12
777-300ER		**52**	53
Total		**154**	149
Aircraft operated by Cathay Dragon:			
A320-200		**15**	15
A321-200		**8**	8
A330-300		**25**	24
Total		**48**	47

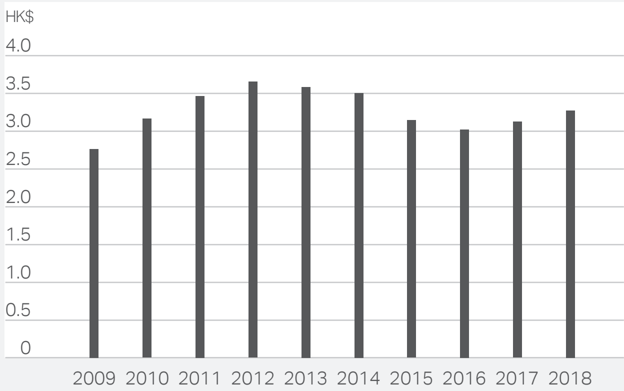
Note:
The Group adopted HKFRS 9 and HKFRS 15 with effect from 1st January 2018, and has changed its accounting policies in relation to financial instruments and revenue recognition. Under the transition methods chosen, the Group recognises the cumulative effect of the initial application of

	2016	2015	2014	2013	2012	2011	2010	2009
	30,462	30,048	28,440	26,259	26,250	26,383	24,461	22,249
	22,418	22,220	20,722	18,696	18,819	19,309	19,373	16,775
	146,086	142,680	134,711	127,215	129,595	126,340	115,748	111,167
	34,323	34,065	31,570	29,920	28,961	27,581	26,796	24,558
	123,478	122,330	112,257	104,571	103,837	101,536	96,588	89,440
	79.5	79.9	78.1	76.6	75.7	76.5	81.1	77.8
	84.5	85.7	83.3	82.2	80.1	80.4	83.4	80.5
	1,854	1,798	1,723	1,539	1,563	1,649	1,804	1,528
	10,675	10,586	10,044	8,750	8,942	9,648	10,175	8,256
	64.4	64.2	64.3	61.8	64.2	67.2	75.7	70.8
	2,471	2,596	2,699	2,599	2,711	3,103	4,053	3,883
	579	576	550	512	502	494	464	431
	826	823	789	735	715	695	652	605
	172	173	167	160	154	146	138	130
	636	620	586	576	602	568	535	481
	182	179	210	190	179	167	146	122
	26,674	26,833	25,755	24,572	23,844	23,015	21,592	20,907
	1,142	1,120	1,104	1,069	1,101	1,146	1,133	1,064
	72.1	64.7	70.1	75.5	77.4	82.0	80.9	86.8
	9.3	9.4	9.2	9.1	8.8	8.9	8.2	8.0
	9.4	9.8	9.9	8.8	8.9	8.4	8.6	7.8
	11.4	12.1	12.4	12.0	12.3	12.1	11.6	10.8
	8.3	8.5	11.6	13.3	12.7	13.0	13.8	12.2
	12.7	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	5.2	5.7	8.2	10.9	12.7	13.7	13.2	12.9
	–	–	–	–	–	–	–	5.4
	11.7	11.9	11.8	10.9	11.4	13.8	14.4	13.2
	9.4	8.6	8.8	8.3	8.4	8.2	8.0	8.1
	16.0	15.9	16.1	15.8	15.7	15.7	15.3	15.8
	12.2	12.2	12.2	11.8	12.0	12.3	12.0	11.2
	41	42	40	35	37	33	32	32
	4	7	11	11	11	13	15	15
	10	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	3	7	13	18	21	22	23
	–	4	5	6	6	6	6	6
	1	1	1	1	6	8	12	13
	6	6	6	6	6	6	6	6
	14	13	13	13	8	4	–	–
	5	5	5	5	5	5	5	5
	12	12	12	12	12	12	12	12
	53	53	47	38	29	24	18	14
	146	146	147	140	138	132	128	126
	15	15	15	15	15	11	11	9
	8	8	8	6	6	6	6	6
	20	19	18	20	17	15	14	14
	43	42	41	41	38	32	31	29

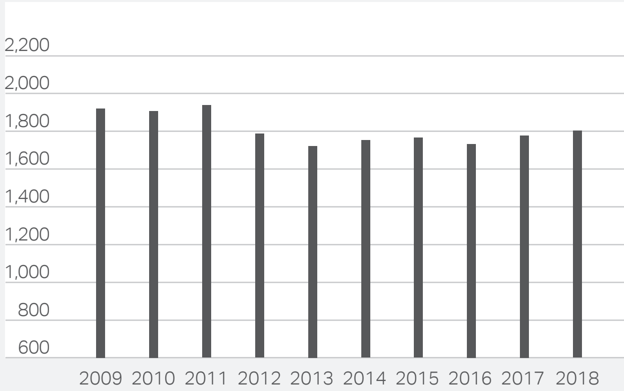
HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1st January 2018. Comparative information in years earlier than 2018 is not restated and in accordance with the policies applicable in those years.

Statistics

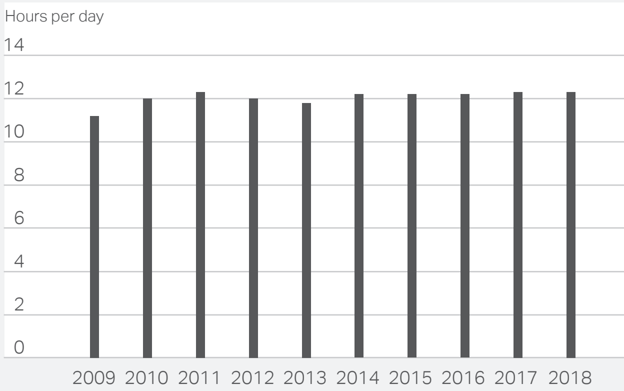
Cost per ATK (with fuel)



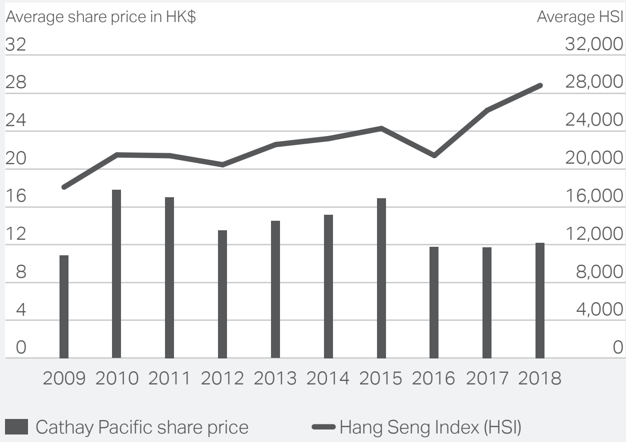
ATK per HK$'000 staff cost



Aircraft utilisation



Share price



		2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Productivity											
Cost per ATK (with fuel)	*HK$*	**3.27**	3.12	3.02	3.14	3.50	3.58	3.65	3.46	3.16	2.76
ATK per HK$'000 staff cost	*Unit*	**1,801**	1,775	1,730	1,764	1,750	1,720	1,785	1,936	1,905	1,919
Aircraft utilisation	*Hours per day*	**12.3**	12.3	12.2	12.2	12.2	11.8	12.0	12.3	12.0	11.2
Share prices	*HK$*										
High		**14.7**	13.4	14.0	20.6	17.7	16.8	15.9	23.1	24.1	14.7
Low		**9.9**	10.4	10.1	12.7	13.7	12.2	11.9	11.9	12.8	7.0
Year-end		**11.1**	12.1	10.2	13.4	16.9	16.4	14.2	13.3	21.5	14.5
Price ratios (Note)	*Times*										
Price/earnings		**18.6**	(37.8)	(69.8)	8.8	21.1	24.6	64.9	9.9	6.1	12.3
Market capitalisation/ funds attributable to the shareholders of Cathay Pacific		**0.7**	0.8	0.7	1.1	1.3	1.0	1.0	1.0	1.6	1.4
Price/cash flows		**2.5**	7.4	5.2	3.1	5.4	4.6	6.1	3.4	4.5	12.7

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

Glossary

Terms

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

Net borrowings Borrowings and bank overdrafts less liquid funds.

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

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

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

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

Revenue cargo and mail tonne kilometres ("RFTK") Amount of cargo and mail, measured in tonnes, carried on each sector multiplied by the sector distance.

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

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

EBITDA Earnings before interest, tax, depreciation and amortisation.

Recoveries Cost recoveries from incidental activities.

Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

Corporate and Shareholder Information

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Financial calendar

Year ended 31st December 2018	
Annual report available to shareholders	10th April 2019
Annual General Meeting	15th May 2019
Six months ending 30th June 2019	
Interim results announcement	August 2019
Interim dividend payable	October 2019

Disclaimer

This document may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely due to a number of factors, including changes in the economies and industries in which the Group operates (in particular in Hong Kong and Mainland China), macro-economic and geopolitical uncertainties, changes in the competitive environment, foreign exchange rates, interest rates and commodity prices, and the Group's ability to identify and manage risks to which it is subject. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.

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