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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

2019 Interim Results

Financial and Operational Highlights

Group Financial Statistics

| | | 2019 | 2018 | Change |
|--|---------------------|----------------------------|---------------|--------------------|
| | | Six months ended 30th June | | |
| Results | | | | |
| Revenue | <i>HK\$ million</i> | 53,547 | 53,078 | +0.9% |
| Profit/(loss) attributable to the shareholders of Cathay Pacific | <i>HK\$ million</i> | 1,347 | (263) | +1,610 |
| Earnings/(loss) per share | <i>HK cents</i> | 34.2 | (6.7) | +40.9 |
| Dividend per share | <i>HK\$</i> | 0.18 | 0.10 | +0.08 |
| Profit/(loss) margin | <i>%</i> | 2.5 | (0.5) | +3.0%pt |
| | | 30th June | 31st December | |
| Financial position* | | | | |
| Funds attributable to the shareholders of Cathay Pacific* | <i>HK\$ million</i> | 62,566 | 63,936 | -2.1% |
| Net borrowings* | <i>HK\$ million</i> | 78,213 | 58,581 | +33.5% |
| Shareholders' funds per share* | <i>HK\$</i> | 15.9 | 16.3 | -2.5% |
| Net debt/equity ratio* | <i>Times</i> | 1.25 | 0.92 | +0.33 times |

Operating Statistics – Cathay Pacific and Cathay Dragon

| | | 2019 | 2018 | Change |
|---|----------------------|----------------------------|--------|----------------|
| | | Six months ended 30th June | | |
| Available tonne kilometres (“ATK”) | <i>Million</i> | 16,318 | 15,747 | +3.6% |
| Available seat kilometres (“ASK”) | <i>Million</i> | 80,814 | 75,770 | +6.7% |
| Available cargo tonne kilometres (“AFTK”)** | <i>Million</i> | 8,635 | 8,542 | +1.1% |
| Revenue tonne kilometres (“RTK”) | <i>Million</i> | 11,950 | 11,899 | +0.4% |
| Passenger revenue per ASK | <i>HK cents</i> | 46.3 | 46.8 | -1.1% |
| Revenue passenger kilometres (“RPK”) | <i>Million</i> | 68,078 | 63,810 | +6.7% |
| Revenue passengers carried | <i>'000</i> | 18,261 | 17,485 | +4.4% |
| Passenger load factor | <i>%</i> | 84.2 | 84.2 | - |
| Passenger yield | <i>HK cents</i> | 54.9 | 55.4 | -0.9% |
| Cargo revenue per AFTK** | <i>HK\$</i> | 1.19 | 1.32 | -9.8% |
| Cargo revenue tonne kilometres (“RFTK”)** | <i>Million</i> | 5,477 | 5,831 | -6.1% |
| Cargo carried** | <i>'000 tonnes</i> | 979 | 1,038 | -5.7% |
| Cargo load factor** | <i>%</i> | 63.4 | 68.3 | -4.9%pt |
| Cargo yield** | <i>HK\$</i> | 1.88 | 1.93 | -2.6% |
| Cost per ATK (with fuel) | <i>HK\$</i> | 3.12 | 3.29 | -5.2% |
| Fuel consumption per million RTK | <i>Barrels</i> | 1,870 | 1,840 | +1.6% |
| Fuel consumption per million ATK | <i>Barrels</i> | 1,369 | 1,390 | -1.5% |
| Cost per ATK (without fuel) | <i>HK\$</i> | 2.23 | 2.29 | -2.6% |
| Underlying*** cost per ATK (without fuel) | <i>HK\$</i> | 2.27 | 2.29 | -0.9% |
| ATK per HK\$'000 staff cost | <i>Unit</i> | 1,805 | 1,783 | +1.2% |
| ATK per staff | <i>'000</i> | 604 | 603 | +0.2% |
| Aircraft utilisation | <i>Hours per day</i> | 12.0 | 12.2 | -1.6% |
| On-time performance | <i>%</i> | 74.2 | 74.1 | +0.1%pt |

* Shareholders' funds, net borrowings and net debt/equity ratio at 30th June 2019 are arrived at after taking account of the effect of HKFRS 16. Further details can be found in note 2 to the financial statements.

** Including mail. Mail is no longer referred to separately but mail services continue to be accounted for under cargo services.

*** Underlying costs exclude exceptional items and are adjusted for the effect of foreign currency movements and the adoption of HKFRS 16.

Chairman's Statement

We are in the final year of our three-year transformation programme, which is designed to make our businesses leaner, more agile and able to compete more effectively. Work on the programme continues and, as evidenced by our return to profitability in 2018, we are moving in the right direction. Our positive performance continued in the first half of 2019, but the operating environment for our airlines worsened as geopolitical and trade tensions intensified.

The Cathay Pacific Group reported an attributable profit of HK\$1,347 million for the first six months of 2019. This compares to an attributable loss of HK\$263 million in the first half of 2018. The earnings per share in the first half of 2019 were HK34.2 cents, compared to a loss per share of HK6.7 cents in the first half of 2018. Cathay Pacific and Cathay Dragon reported an attributable profit of HK\$615 million in the first half of 2019, compared to an attributable loss of HK\$904 million in the first half of 2018. Passenger revenue was satisfactory, but overall yield declined. Our cargo business was weaker, due in part to US-China trade tensions, with a decline in both volume and yield. We benefited from lower fuel prices but were adversely impacted by a stronger US dollar.

Business performance

The Group's passenger revenue increased by 5.6% to HK\$37,449 million in the first half of 2019. Capacity increased by 6.7%. The growth in revenue reflected the full impact of new routes introduced in 2018, the introduction of two new routes in 2019, increased frequencies on existing routes and the use of larger aircraft on popular routes. Load factor remained unchanged at 84.2%. Passengers carried increased by 4.4% to 18.3 million. Yield decreased by 0.9% to HK54.9 cents due to intense competition in premium classes and long haul economy class, and adverse foreign currency movements.

Cathay Pacific introduced a year-round service to Seattle in March and a summer seasonal service to Komatsu in April. These services have been well received and have helped to boost Hong Kong International Airport's status as Asia's largest international aviation hub.

Cargo revenue declined, reflecting weaker global trade brought about in part by US-China trade tensions. Volume and yield declined. The Group's cargo revenue in the first half of 2019 was HK\$11,498 million, a decrease of 11.4% compared to the same period in 2018. Flown cargo capacity of Cathay Pacific and Cathay Dragon increased by 1.1%, principally due to additional belly cargo space in newly acquired passenger aircraft. Facing weak demand, we rationalised freighter capacity and emphasised shipments of specialist cargo. Load factor decreased by 4.9 percentage points, to 63.4%. Tonnage carried decreased by 5.7% to 979 thousand tonnes. Yield decreased by 2.6% to HK\$1.88.

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK\$674 million (or 4.5%) compared with the first half of 2018, reflecting a 6.5% decrease in average into-plane fuel prices and a 2.0% increase in consumption. Fuel is the Group's most significant cost, accounting for 28.2% of total operating costs in the first half of 2019 (compared to 30.1% in the same period in 2018). Fuel hedging losses were reduced. After taking fuel hedging into account, fuel costs decreased by HK\$1,213 million (or 7.7%) compared with the first half of 2018. Fuel consumption per available tonne kilometre fell by 1.5%, reflecting the continued introduction of more fuel efficient aircraft.

There was a 2.6% decrease in non-fuel costs per available tonne kilometre, to HK\$2.23. Disregarding the effect of foreign currency movements, exceptional items and the impact of adopting a new accounting standard, the decrease was 0.9%. This reflected our focus on productivity and efficiency.

The contribution from our subsidiaries weakened. The contribution from associated companies improved.

In the first half of 2019 we took delivery of four new Airbus A350-1000 aircraft. At 30th June 2019, we had 67 new aircraft on order for delivery over the next five years. These new aircraft will further improve our fuel and operating efficiency. We continue to fit the latest economy seats in our Boeing 777 aircraft. These seats come with new, hi-definition screens for viewing our recently expanded inflight entertainment. Wi-Fi is being installed on all our Boeing 777 and Airbus A330 aircraft; it is already available on all A350 aircraft.

We continue to introduce our new, restaurant-style dining service in business class on long haul routes. In July we reopened our renovated lounge at Shanghai Pudong airport. We have improved our rebooking process during flight disruptions. We are further developing our service and customer care teams and improving service delivery training. A new crew pairing system will further increase efficiency. Cathay Pacific and Cathay Dragon crews now sign on for their flights under the same roof at Cathay Pacific City, which saves cost. We have completed the restructuring of our outport and integrated operations centre teams.

Prospects

Our airlines normally achieve better results in the second half of the year than in the first half and, despite headwinds and other uncertainty, we expect this to be the case in 2019. Geopolitical and trade tensions are expected to continue to affect the global economy and, in turn, demand for air travel and air freight. The protests in Hong Kong reduced inbound passenger traffic in July and are adversely impacting forward bookings. We expect the US dollar to remain strong. Fuel costs have recently weakened but we continue to expect fuel price volatility. Our transformation programme continues and we believe that we are on track to achieve our objective of sustainable long-term performance. The recent refreshment of our brand reflects our determination to challenge what is considered standard, to 'Move Beyond' and be the very best we can be for our customers and for our shareholders. I remain confident in our future.

Cathay Pacific has been Hong Kong's home airline for over seven decades and we remain resolutely committed to this wonderful city. Our story has always been one of innovation and ambition. We will continue to make significant investments in strengthening Hong Kong's standing as Asia's largest international aviation hub.

Our recent announcement of the completion of our acquisition of Hong Kong Express is the commencement of a new chapter. We intend to preserve what is unique and special about Hong Kong Express and to keep it as a low cost carrier, while at the same time broadening its network and maximising synergies with the rest of the Cathay Pacific group.

John Slosar

Chairman

Hong Kong, 7th August 2019

Review of Operations

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

| | Capacity | | | Load factor (%) | | | Yield |
|------------------------------------|---------------------|--------|---------------|-----------------|------|----------------|--------------|
| | ASK/AFTK (million)* | | | | | | |
| | 2019 | 2018 | Change | 2019 | 2018 | Change | Change |
| Passenger services | | | | | | | |
| Americas | 21,493 | 19,492 | +10.3% | 85.8 | 88.2 | -2.4%pt | -1.1% |
| Europe | 16,767 | 15,143 | +10.7% | 86.3 | 86.2 | +0.1%pt | -1.8% |
| North Asia | 16,108 | 15,588 | +3.3% | 80.4 | 80.4 | - | +0.2% |
| Southeast Asia | 10,709 | 10,362 | +3.3% | 83.3 | 83.2 | +0.1%pt | +0.1% |
| Southwest Pacific | 9,387 | 9,301 | +0.9% | 85.4 | 81.6 | +3.8%pt | -2.3% |
| South Asia, Middle East and Africa | 6,350 | 5,884 | +7.9% | 83.4 | 81.7 | +1.7%pt | +2.2% |
| Overall | 80,814 | 75,770 | +6.7% | 84.2 | 84.2 | - | -0.9% |
| Cargo services | 8,635 | 8,542 | +1.1% | 63.4 | 68.3 | -4.9%pt | -2.6% |

* Capacity is measured in available seat kilometres (“ASK”) for passenger services and available cargo tonne kilometres (“AFTK”) for cargo services.

Passenger Services

Home market – Hong Kong and Pearl River Delta

- Premium class demand was strong at the beginning of the year, particularly on long haul routes, but softened into the second quarter.
- Demand during Chinese New Year and the Easter holiday period was strong, particularly on short haul routes from Hong Kong.
- Our weekly “fanfares” promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market. There was a “super fanfare” promotion in April.

Americas

- Cathay Pacific introduced a four-times-weekly service to Seattle in March, using Airbus A350-900 aircraft. The service became daily in July.
- Demand on our routes to the Americas fell short of increases in capacity.

Europe

- Traffic volumes on our routes to Europe grew in line with capacity increases.
- From March, Cathay Pacific increased the frequency of its services to Frankfurt from daily to 10 times weekly.
- Cathay Pacific is increasing the frequency of its services to Madrid from five flights per week to daily between June and October 2019.
- Cathay Pacific is increasing the frequency of its services to Paris from 12 flights per week to twice daily between July and October 2019.
- Cathay Pacific expanded its codeshare agreement with the Lufthansa group so as to include three more routes to Europe. Cathay Pacific now places its code on Lufthansa’s daily flights between Hong Kong and Frankfurt and Munich, and on Swiss International Air Lines’ daily flights between Hong Kong and Zurich.

North Asia

- Demand for business and leisure travel to and from North Asia was firm. There was strong demand on the Taiwan routes from Hong Kong and Mainland China.
- Cathay Pacific introduced a two-times-weekly seasonal service to Komatsu in April. The service, which is operated by Airbus A330-300 aircraft, will continue until October.

- Cathay Dragon will introduce a winter seasonal service to Niigata in the fourth quarter of 2019. There will be two flights per week from October 2019 to March 2020.
- Cathay Dragon introduced a seasonal service to Tokushima in the fourth quarter of 2018, which has done well. The service will be reintroduced from November 2019 to March 2020.
- Cathay Dragon is increasing the frequency of its services to Nanning from four to five flights per week between March and October 2019.
- Cathay Dragon is increasing the frequency of its services to Chongqing from daily to eight flights per week between May and October 2019.

Southeast Asia

- Demand for travel to Southeast Asia destinations was robust. Load factors were strong, but there was pressure on yield.
- The routes introduced by Cathay Dragon in 2018 to Davao City and Medan have done well in 2019.

Southwest Pacific

- Southwest Pacific routes did well, helped by capacity reductions by other airlines.
- Competition put pressure on yield. But this was mostly offset by an increase in passenger numbers.
- Cathay Pacific will stop flying to Cairns in October 2019.

South Asia, Middle East and Africa

- Demand on South Asia, Middle East and Africa routes was strong, reflecting robust bookings from Hong Kong and Japan.
- Traffic on Indian routes was increased by capacity reductions by Indian carriers.
- Demand for travel to Colombo was affected by the bombings in April. Frequencies were reduced.
- From June, Cathay Pacific increased the frequency of its services to Hyderabad from four to five times weekly.
- From July, Cathay Pacific increased the frequency of its services to Dhaka from four to five times weekly.

Cargo Services

- There was good growth in Southeast Asia cargo shipments in the early part of 2019.
- We increased freighter services to Singapore from January 2019.
- In April 2019, we expanded our joint business agreement with Lufthansa Cargo, so as to start eastbound joint shipments from Europe to Hong Kong. Under the agreement, Hong Kong is directly connected to Frankfurt, Amsterdam, Barcelona, Brussels, Dublin, London (Gatwick and Heathrow), Madrid, Manchester, Milan, Munich, Paris, Rome and Zurich.
- In April, Cathay Pacific became the first airline to be awarded CEIV Fresh, IATA's accreditation for perishable cargo handling.

Fleet profile*

| Aircraft type | Number at 30th June 2019 | | | Total | Firm orders | | | Total | Expiry of operating leases** | | | | | | |
|---|--------------------------|-----------|-------------------|------------|------------------|-----------|----------------|------------------|------------------------------|----------|-----------|-----------|----------|----------|----------------|
| | Owned | Finance | Operating | | '19 | '20 | '21 and beyond | | '19 | '20 | '21 | '22 | '23 | '24 | '25 and beyond |
| Aircraft operated by Cathay Pacific: | | | | | | | | | | | | | | | |
| A330-300 | 20 | 10 | 3 | 33 | | | | 1 | 2 ^(a) | | | | | | |
| A350-900 | 16 | 4 | 2 | 22 | 2 ^(b) | 4 | | 6 | 2 | | | | | | |
| A350-1000 | 9 | 3 | | 12 | | 3 | 5 | 8 | | | | | | | |
| 747-400BCF | 1 | | | 1 | | | | | | | | | | | |
| 747-400ERF | | 6 | | 6 | | | | | | | | | | | |
| 747-8F | 3 | 11 | | 14 | | | | | | | | | | | |
| 777-200 | 3 | | | 3 | | | | | | | | | | | |
| 777-300 | 15 | | | 15 | 2 | | | 2 ^(c) | | | | | | | |
| 777-300ER | 22 | 8 | 22 ^(d) | 52 | | | | | 1 ^(d) | 6 | 4 | 2 | 3 | 6 | |
| 777-9 | | | | | | 21 | | 21 | | | | | | | |
| Total | 89 | 42 | 27 | 158 | 4 | 7 | 26 | 37 | 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 ^(e) | | 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 | 114 | 42 | 60 | 216 | 4 | 16 | 49 | 69 | 6 | 9 | 13 | 14 | 6 | 3 | 9 |

* The table does not reflect aircraft movements after 30th June 2019.

** With effect from 1st January 2019, leases previously classified as operating leases are accounted for in a similar manner to finance leases as a result of an accounting standard change (HKFRS 16; see note 2 to the financial statements). The majority of operating leases captured in the above table are within the scope of HKFRS 16.

*** Under the new block space agreement Air Hong Kong entered with DHL International which commenced on 1st January 2019, the 10 Airbus A300-600F freighters are considered operated by Air Hong Kong, even though the arrangement does not constitute a lease in accordance with HKFRS 16.

- (a) An extension was signed in July 2019 to extend the operating lease of one Airbus A330-300 aircraft to 2026.
- (b) One aircraft was delivered in July 2019 and a second aircraft was delivered in August 2019.
- (c) One used Boeing 777-300 aircraft has been delivered in July 2019 and a second aircraft will be delivered in second half of 2019.
- (d) The operating lease of one Boeing 777-300ER aircraft expired in July 2019. The aircraft was returned to its lessor.
- (e) Eight of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.

Financial Review

Revenue

| | Group | | | Cathay Pacific and Cathay Dragon | | |
|---|----------------------------|---------------|--------------|----------------------------------|---------------|--------------|
| | Six months ended 30th June | | | Six months ended 30th June | | |
| | 2019 HK\$M | 2018 HK\$M | Change | 2019 HK\$M | 2018 HK\$M | Change |
| Passenger services | 37,449 | 35,452 | +5.6% | 37,449 | 35,452 | +5.6% |
| Cargo services | 11,498 | 12,971 | -11.4% | 10,275 | 11,276 | -8.9% |
| Catering, recoveries and other services | 4,600 | 4,655 | -1.2% | 4,126 | 4,299 | -4.0% |
| Total revenue | 53,547 | 53,078 | +0.9% | 51,850 | 51,027 | +1.6% |

Group passenger services revenue increased by 5.6% compared with a 6.7% increase in capacity. Group cargo services revenue decreased by 11.4%, compared with a 1.1% increase in capacity. Group revenue from catering, recoveries and other services decreased by 1.2%.

Operating expenses

| | Group | | | Cathay Pacific and Cathay Dragon | | |
|---|----------------------------|---------------|--------------|----------------------------------|---------------|--------------|
| | Six months ended 30th June | | | Six months ended 30th June | | |
| | 2019 HK\$M | 2018 HK\$M | Change | 2019 HK\$M | 2018 HK\$M | Change |
| Staff | 10,133 | 9,935 | +2.0% | 9,042 | 8,834 | +2.4% |
| Inflight service and passenger expenses | 2,682 | 2,625 | +2.2% | 2,682 | 2,625 | +2.2% |
| Landing, parking and route expenses | 8,635 | 8,648 | -0.2% | 8,451 | 8,472 | -0.2% |
| Fuel, including hedging losses | 14,807 | 16,046 | -7.7% | 14,524 | 15,737 | -7.7% |
| Aircraft maintenance | 4,708 | 4,691 | +0.4% | 4,592 | 4,490 | +2.3% |
| Aircraft depreciation and rentals* | 5,944 | 6,362 | -6.6% | 5,945 | 6,212 | -4.3% |
| Other depreciation, amortisation and rentals* | 1,392 | 1,424 | -2.2% | 972 | 1,045 | -7.0% |
| Commissions | 503 | 398 | +26.4% | 503 | 398 | +26.4% |
| Others | 2,269 | 2,252 | +0.8% | 2,991 | 3,061 | -2.3% |
| Operating expenses | 51,073 | 52,381 | -2.5% | 49,702 | 50,874 | -2.3% |
| Net finance charges* | 1,420 | 1,010 | +40.6% | 1,241 | 896 | +38.5% |
| Total operating expenses | 52,493 | 53,391 | -1.7% | 50,943 | 51,770 | -1.6% |

* The adoption of HKFRS 16 has resulted in increased depreciation and finance charges, offset by a reduction in lease charges.

- The Group's total operating expenses decreased by 1.7% (combined Cathay Pacific and Cathay Dragon by 1.6%).
- The cost per ATK (with fuel) of Cathay Pacific and Cathay Dragon decreased from HK\$3.29 to HK\$3.12, a decrease of 5.2%.
- The cost per ATK (without fuel) of Cathay Pacific and Cathay Dragon decreased from HK\$2.29 to HK\$2.23, a decrease of 2.6%.
- 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 16, decreased from HK\$2.29 to HK\$2.27, a decrease of 0.9%.

Operating results analysis

| | Six months ended 30th June | | |
|---|----------------------------|---------------|-----------------|
| | 2019 HK\$M | 2018 HK\$M | Change HK\$M |
| Airlines' profit/(loss) before exceptional items | 966 | (844) | +1,810 |
| Exceptional items* | (59) | 101 | -160 |
| Taxation | (292) | (161) | -131 |
| Airlines' profit/(loss) after taxation | 615 | (904) | +1,519 |
| Share of profits from subsidiaries and associates | 732 | 641 | +91 |
| Profit/(loss) attributable to the shareholders of Cathay Pacific | 1,347 | (263) | +1,610 |

* Exceptional items in 2019 include data security costs of HK\$20 million and costs of HK\$39 million associated with the acquisition of Hong Kong Express (2018: a HK\$101 million gain on the disposal of CO2 emissions credits).

The movement in the airlines' profit/loss before exceptional items and taxation (isolating the effect of the adoption of HKFRS 16 and foreign currency movements) can be analysed as follows:

| | Reported HK\$M | HKFRS 16 adoption HK\$M | Currency movement HK\$M | Adjusted HK\$M | ATK unit* % change | Note |
|---|-------------------|-------------------------------|-------------------------------|-------------------|-----------------------|------|
| 2018 Airlines' loss before tax | (844) | | | (844) | | |
| Changes: | | | | | | |
| - Passenger and Cargo revenue | 996 | | 629 | 1,625 | -0.1% | 1 |
| - Catering, recoveries and other services | (173) | | 22 | (151) | -6.9% | 2 |
| - Staff | (208) | | (78) | (286) | -0.4% | 3 |
| - Inflight service and passenger expenses | (57) | | (38) | (95) | - | |
| - Landing, parking and route expenses | 21 | | (196) | (175) | -1.5% | 4 |
| - Fuel, including hedging losses | 1,213 | | 18 | 1,231 | -11.0% | 5 |
| - Aircraft maintenance | (102) | | (7) | (109) | -1.2% | 4 |
| - Owning the assets** | (5) | 39 | (6) | 28 | -3.8% | 6 |
| - Other items (including commissions) | 125 | (24) | (309) | (208) | +2.1% | 7 |
| 2019 Airlines' profit before tax | 966 | 15 | 35 | 1,016 | | |

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

** includes aircraft and other depreciation, rentals and net finance charges.

Notes:

- As per Review of Operations section for passenger and cargo services.
- Lower cargo ancillary contribution from Atlas operations, trucking and interline sectors and handling services. Lower aircraft lease income and related recoveries from Air Hong Kong and lower inflight recoveries; offset by a 24% increase in Asia Miles revenues.
- Reduction in unit staff costs following the reorganisation of our outports and increased productivity.
- Economies of scale from the introduction of larger aircraft and a change in economy class seat configuration.
- Fuel costs decreased due to a 6.5% fall in the average into-plane fuel price (partially offset by a 2.0% rise in absolute consumption) and a 82.5% decrease in fuel hedging losses.
- Increase in aircraft depreciation offset by a decrease in rentals from fewer leased aircraft and the cessation of the Atlas contract. Net finance costs increased as a result of more aircraft deliveries in the second half of 2018 and first half of 2019. Increases in interest charges as a result of higher interest rates were partially offset by gains on interest rate derivatives.
- Increased sales and marketing costs and Asia Miles costs partially offset by reductions in cargo costs in line with lower cargo volumes and lower IT costs.

Fuel expenditure and hedging

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

| | Six months ended 30th June | |
|---------------------|----------------------------|---------------|
| | 2019 HK\$M | 2018 HK\$M |
| Gross fuel cost | 14,693 | 15,393 |
| Fuel hedging losses | 114 | 653 |
| Fuel cost | 14,807 | 16,046 |

Fuel costs decreased due to a 6.5% fall in the average into-plane fuel price, partially offset by a 2.0% rise in consumption. Fuel hedging losses were reduced by 82.5%.

Financial position

- Additions to property, plant and equipment during the six months period to 30th June 2019 were HK\$7,614 million, comprising HK\$7,236 million in respect of aircraft and related equipment, HK\$262 million in respect of land and buildings and HK\$116 million in respect of other equipment. As a result of the adoption of HKFRS 16 (which changed the required accounting for operating leases to recognise right-of-use assets), right-of-use assets of HK\$17,350 million were brought onto the consolidated statement of financial position at 1st January 2019.
- Borrowings (which reflect the adoption of HKFRS 16) are mainly denominated in United States dollars, Hong Kong dollars and Japanese yen, and are fully repayable by 2033, with 54.1% currently at fixed rates of interest after taking into account derivative transactions. HKFRS 16 did not make a major change to the currency profile of borrowings. Excluding lease liabilities previously classified as operating leases, borrowings are fully repayable by 2030, with 48.0% at fixed rates of interest.
- Liquid funds, 87.5% of which are denominated in United States dollars, decreased by 18.2% to HK\$12,528 million. This was mainly due to HK\$2,250 million having been placed in escrow in connection with the acquisition of Hong Kong Express. The amount placed in escrow was classified as a non-current asset in the consolidated statement of financial position at 30th June 2019.
- Net borrowings (reflecting the adoption of HKFRS 16 and after taking liquid funds and bank overdrafts into account) increased by 33.5% to HK\$78,213 million. Disregarding the effect of adopting HKFRS 16, net borrowings increased by 4.2% to HK\$61,065 million.
- Funds attributable to the shareholders of Cathay Pacific decreased by 2.1% to HK\$62,566 million. This was due to retained net profits and other comprehensive income, less the 2018 dividend distribution, being more than offset by the impact to opening reserves on the initial application of HKFRS 16.
- Disregarding the effect of adopting HKFRS 16, the net debt/equity ratio increased from 0.92 times to 0.94 times. Taking into account the effect of adopting HKFRS 16, the net debt/equity ratio was 1.25 times at both 31st December 2018 and 30th June 2019.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2018 Annual Report.

Review of other subsidiaries and associates

- In the first half of 2019, on a 100% like for like basis, AHK Air Hong Kong Limited recorded a decrease of profit compared with the same period in 2018.
- Asia Miles Limited achieved an increase in profit in the first half of 2019 compared with the first half of 2018 due to an increase in business volume.
- Cathay Pacific Catering Services (H.K.) Limited's profit in the first half of 2019 decreased compared with the first half of 2018. Increases in labour and overhead costs more than offset an increase in revenue.
- The financial results of Cathay Pacific Services Limited in the first half of 2019 declined compared with the first half of 2018. This was mainly due to lower tonnage being handled.
- The financial results of Hong Kong Airport Services Limited for the first half of 2019 were worse than in the first half of 2018. This reflected the transfer of Cathay Dragon's passenger handling business to Cathay Pacific in March 2018.
- The Group's share of Air China Limited's ("Air China") results is based on its financial statements drawn up three months in arrear. Consequently the 2019 interim results include Air China's results for the six months ended 31st March 2019, adjusted for any significant events or transactions for the period from 1st April 2019 to 30th June 2019. For the six months ended 31st March 2019, Air China's financial results improved compared to those for the six months ended 31st March 2018.
- Air China Cargo Co., Ltd. ("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. In the first half of 2019, Air China Cargo's financial results declined from the same period last year due to intense competition in the air cargo market.

Corporate responsibility

- Our Sustainable Development Report for 2018 was published in July 2019. It is 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.
- 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 Sustainability and Environment Advisory Council, 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.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Since its introduction in 1991, more than HK\$190 million has been raised through the programme.
- In January, we inaugurated our new community engagement programmes "Cathay ChangeMakers" to pay tribute to individuals who have brought about positive changes to the community. Three ChangeMakers are recognised in 2019. By partnering with them, we further our contribution to the community in four major areas: children and youth development, diversity and inclusion, environmental protection and global cultural exchange.
- At 30th June 2019, the Cathay Pacific Group employed more than 32,800 people worldwide. Around 26,700 of these people are based in Hong Kong. Cathay Pacific employs around 22,700 people worldwide. Cathay Dragon employs more than 3,300 people. 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.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2019 - Unaudited

| | Note | 2019 HK\$M | 2018 HK\$M |
|---|------|-----------------|---------------|
| Revenue | | | |
| Passenger services | | 37,449 | 35,452 |
| Cargo services | | 11,498 | 12,971 |
| Catering, recoveries and other services | | 4,600 | 4,655 |
| Total revenue | | 53,547 | 53,078 |
| Expenses | | | |
| Staff | | (10,133) | (9,935) |
| Inflight service and passenger expenses | | (2,682) | (2,625) |
| Landing, parking and route expenses | | (8,635) | (8,648) |
| Fuel, including hedging losses | | (14,807) | (16,046) |
| Aircraft maintenance | | (4,708) | (4,691) |
| Aircraft depreciation and rentals | | (5,944) | (6,362) |
| Other depreciation, amortisation and rentals | | (1,392) | (1,424) |
| Commissions | | (503) | (398) |
| Others | | (2,269) | (2,252) |
| Operating expenses | | (51,073) | (52,381) |
| Operating profit | 4 | 2,474 | 697 |
| Finance charges | | (1,617) | (1,169) |
| Finance income | | 197 | 159 |
| Net finance charges | | (1,420) | (1,010) |
| Share of profits of associates | | 648 | 449 |
| Profit before taxation | | 1,702 | 136 |
| Taxation | 5 | (355) | (211) |
| Profit/(loss) for the period | | 1,347 | (75) |
| Non-controlling interests | | - | (188) |
| Profit/(loss) attributable to the shareholders of Cathay Pacific | | 1,347 | (263) |
| Earnings/(loss) per share (basic and diluted) | 6 | 34.2¢ | (6.7)¢ |
| Profit/(loss) for the period | | 1,347 | (75) |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Cash flow hedges | | 671 | 4,074 |
| Share of other comprehensive income of associates | | (258) | 63 |
| Exchange differences on translation of foreign operations | | (22) | (353) |
| Items that may not be reclassified subsequently to profit or loss: | | | |
| Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling) | | 25 | - |
| Other comprehensive income for the period, net of taxation | 7 | 416 | 3,784 |
| Total comprehensive income for the period | | 1,763 | 3,709 |
| Total comprehensive income attributable to | | | |
| Shareholders of Cathay Pacific | | 1,763 | 3,521 |
| Non-controlling interests | | - | 188 |
| | | 1,763 | 3,709 |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

Consolidated Statement of Financial Position

at 30th June 2019 - Unaudited

| | Note | 30th June 2019 HK\$M | 31st December 2018 HK\$M |
|--|------|-------------------------|-----------------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets and liabilities | | | |
| Property, plant and equipment | | 136,689 | 117,124 |
| Intangible assets | | 11,153 | 11,174 |
| Investments in associates | | 26,343 | 27,570 |
| Other long-term receivables and investments | | 4,874 | 4,015 |
| Deferred tax assets | | 706 | 793 |
| | | 179,765 | 160,676 |
| Long-term liabilities | | (71,952) | (60,183) |
| Other long-term payables | | (4,674) | (4,649) |
| Deferred tax liabilities | | (13,076) | (13,178) |
| | | (89,702) | (78,010) |
| Net non-current assets | | 90,063 | 82,666 |
| Current assets and liabilities | | | |
| Stock | | 1,737 | 1,828 |
| Trade, other receivables and other assets | 8 | 12,366 | 12,475 |
| Liquid funds | | 12,528 | 15,315 |
| | | 26,631 | 29,618 |
| Current portion of long-term liabilities | | (18,789) | (13,694) |
| Trade and other payables | 9 | (18,790) | (19,408) |
| Unearned transportation revenue | | (15,257) | (14,030) |
| Bank overdrafts - unsecured | | - | (19) |
| Taxation | | (1,289) | (1,193) |
| Dividend payable to non-controlling interests | | - | (1) |
| | | (54,125) | (48,345) |
| Net current liabilities | | (27,494) | (18,727) |
| Total assets less current liabilities | | 152,271 | 141,949 |
| Net assets | | 62,569 | 63,939 |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 | 17,106 | 17,106 |
| Other reserves | | 45,460 | 46,830 |
| Funds attributable to the shareholders of Cathay Pacific | | 62,566 | 63,936 |
| Non-controlling interests | | 3 | 3 |
| Total equity | | 62,569 | 63,939 |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2019 - Unaudited

| | 2019 HK\$M | 2018 HK\$M |
|---|----------------|----------------|
| Operating activities | | |
| Cash generated from operations | 11,425 | 9,308 |
| Interest received | 95 | 115 |
| Interest paid | (1,496) | (840) |
| Tax paid | (156) | (90) |
| Net cash inflow from operating activities | 9,868 | 8,493 |
| Investing activities | | |
| Net decrease in liquid funds other than cash and cash equivalents | 223 | 2,066 |
| Proceeds from sales of property, plant and equipment | 23 | 16 |
| Proceeds from sales of intangible assets | - | 196 |
| Net increase in other long-term receivables and investments | (2,252) | - |
| Payments for property, plant and equipment and intangible assets | (7,654) | (4,001) |
| Dividends received from associates | 14 | 20 |
| Net cash outflow from investing activities | (9,646) | (1,703) |
| Financing activities | | |
| New financing | 6,971 | 1,236 |
| Loan and lease repayments | (9,027) | (9,345) |
| Dividends paid - to the shareholders of Cathay Pacific | (787) | (197) |
| - to non-controlling interests | (1) | (180) |
| Net cash outflow from financing activities | (2,844) | (8,486) |
| Decrease in cash and cash equivalents | (2,622) | (1,696) |
| Cash and cash equivalents at 1st January | 7,653 | 6,914 |
| Effect of exchange differences | (9) | 10 |
| Cash and cash equivalents at 30th June | 5,022 | 5,228 |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 below.

The Group placed HK\$2,250 million in an escrow in connection with the acquisition of Hong Kong Express. This amount is not classified under liquid funds and is included in other long-term receivables and investments at 30th June 2019. This is reflected in the consolidated statement of cash flows as a net increase in other long-term receivables and investments for the six months ended 30th June 2019.

Notes:**1. Basis of preparation and accounting policies**

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 7th August 2019.

The financial information relating to the year ended 31st December 2018 that is included in this document as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the “Ordinance”)) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2018 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor’s report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2018 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies

The HKICPA has issued a new Hong Kong Financial Reporting Standard (“HKFRS”) and amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, “Leases”, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not early adopted any new standards or interpretations that are not yet effective for the current accounting period.

HKFRS 16, “Leases”

HKFRS 16 replaces HKAS 17 “Leases” and related interpretations where the distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the consolidated statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The standard does not significantly change the accounting of lessors.

2. Changes in accounting policies (continued)

HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group has applied HKFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained profit at 1st January 2019. Accordingly, the comparative information presented for 2018 has not been restated and is presented as previously reported under HKAS 17 and related interpretations.

The Group has chosen to apply the new definition of a lease to all contracts on transition to the new standard. The reclassifications and the adjustments arising from the new leasing rules for lessees are recognised in the opening balance of the consolidated statement of financial position at 1st January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessees at 1st January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities at 1st January 2019 was 3.92%.

A reconciliation between commitments under operating leases for future periods at 31st December 2018 and lease liabilities recognised at 1st January 2019 under HKFRS 16 is provided below:

| | HK\$M |
|---|----------------|
| Operating lease commitments disclosed at 31st December 2018 | 19,958 |
| Less: commitments relating to leases exempt from capitalisation: | |
| - leases with remaining lease term ending on or before 31st December 2019, short-term leases and leases of low-value assets | (301) |
| Less: adjustments for contracts reassessed based on the lease definition in HKFRS 16 | (4) |
| Add: adjustments as a result of a different treatment of extension and termination options | 1,500 |
| | 21,153 |
| Less: total future interest charges | (2,550) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate at 1st January 2019 | 18,603 |
| Add: obligations under finance leases recognised at 31st December 2018 | 23,191 |
| Lease liabilities recognised at 1st January 2019 | 41,794 |
| Of which are: | |
| Current lease liabilities | 7,293 |
| Non-current lease liabilities | 34,501 |
| | 41,794 |

2. Changes in accounting policies (continued)

The associated right-of-use assets for aircraft and other significant leases were measured on a modified retrospective basis as if the new rules had always been applied since the commencement dates of the leases, but discounted using the respective incremental borrowing rates at 1st January 2019. Other right-of-use assets were measured at the amount equal to the lease liabilities. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the consolidated statement of financial position at 1st January 2019:

| | At 31st December 2018 HK\$M | Impact of initial application of HKFRS 16 HK\$M | At 1st January 2019 HK\$M |
|---|-----------------------------------|--|---------------------------------|
| Assets | | | |
| Property, plant and equipment | 117,124 | 18,566 | 135,690 |
| Investments in associates | 27,570 | (1,219) | 26,351 |
| Other long-term receivables and investments | 4,015 | (1,173) | 2,842 |
| Deferred tax assets | 793 | (3) | 790 |
| Trade, other receivables and other assets | 12,475 | (187) | 12,288 |
| Liabilities | | | |
| Trade and other payables | (19,408) | 18 | (19,390) |
| Long-term liabilities | (73,877) | (18,603) | (92,480) |
| Deferred tax liabilities | (13,178) | 255 | (12,923) |
| Equity | | | |
| Other reserves | (46,830) | 2,346 | (44,484) |

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients permitted by the standard at the date of initial application of HKFRS 16:

- when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31st December 2019;
- the Group excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application of HKFRS 16; and
- the Group applied hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. Changes in accounting policies (continued)

(b) The Group's leasing activities and how these are accounted for

The Group leases various aircraft, offices, equipment, properties and motor vehicles. The Group also has the right to occupy space, including cargo/catering facilities, lounges and other concessionary space, in and around airports under different types of leasing arrangements. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Prior to 1st January 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made by lessees under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and;
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Generally, the Group uses its incremental borrowing rate as the discount rate.

Right-of-use assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2. Changes in accounting policies (continued)

The estimated effects of adopting HKFRS 16 on the financial statements for the six months ended 30th June 2019 are as follows:

| | Six months ended 30th June 2019 HK\$M |
|--|---|
| Estimated effect on consolidated statement of profit or loss and other comprehensive income*: | |
| Decrease/(increase) in expenses | |
| Lease charges | 2,023 |
| Depreciation of property, plant and equipment | (1,732) |
| Finance charges | (340) |
| Exchange differences, net | 24 |
| Taxation | 2 |
| Decrease in profit attributable to the shareholders of Cathay Pacific | (23) |
| Decrease in earnings per share (basic and diluted) | (0.6)¢ |
| | At 30th June 2019 HK\$M |
| Estimated effect on consolidated statement of financial position*: | |
| Increase/(decrease) in assets | |
| Property, plant and equipment | 17,062 |
| Investments in associates | (1,219) |
| Other long-term receivables and investments | (1,152) |
| Deferred tax assets | (2) |
| Trade, other receivables and other assets | (183) |
| | 14,506 |
| (Increase)/decrease in liabilities | |
| Trade and other payables | 17 |
| Long-term liabilities | (17,148) |
| Deferred tax liabilities | 256 |
| | (16,875) |
| Equity | |
| Decrease in other reserves | 2,369 |

* Excluding the impact on share of profits of associates for the six months ended 30th June 2019.

2. Changes in accounting policies (continued)

Six months ended
30th June 2019
HK\$M

| Estimated effect on consolidated statement of cash flows: | |
|--|----------------|
| Increase in cash generated from operations | 1,999 |
| Increase in interest paid | (340) |
| Increase in net cash inflow from operating activities | 1,659 |
| Increase in loan and lease repayments | (1,659) |
| Increase in net cash outflow from financing activities | (1,659) |

The adoption of HKFRS 16 caused a significant increase in the Group's total borrowings and hence the Group's adjusted net debt/equity ratio rose from 0.92 to 1.25 on 1st January 2019 when compared to its position at 31st December 2018.

The Group's net debt/equity ratio at the end of the current and previous reporting period under HKFRS 16 and HKAS 17 was as follows:

| | (Hypothetical) | | HKFRS 16 1st January 2019 HK\$M | HKAS 17 31st December 2018 HK\$M |
|---|--|---------------------------------------|--|---|
| | HKFRS 16 30th June 2019 HK\$M | HKAS 17 30th June 2019 HK\$M | | |
| Non-current liabilities: | | | | |
| Long-term loans | 39,287 | 39,287 | 40,952 | 40,952 |
| Lease liabilities | 32,665 | 19,055 | 34,501 | 19,231 |
| | 71,952 | 58,342 | 75,453 | 60,183 |
| Current liabilities: | | | | |
| Long-term loans | 12,115 | 12,115 | 9,734 | 9,734 |
| Lease liabilities | 6,674 | 3,136 | 7,293 | 3,960 |
| | 18,789 | 15,251 | 17,027 | 13,694 |
| Total borrowings | 90,741 | 73,593 | 92,480 | 73,877 |
| Liquid funds less bank overdrafts | (12,528) | (12,528) | (15,296) | (15,296) |
| Net borrowings | 78,213 | 61,065 | 77,184 | 58,581 |
| Funds attributable to the shareholders of Cathay Pacific | 62,566 | 64,935 | 61,590 | 63,936 |
| Adjusted net debt/equity ratio | 1.25 | 0.94 | 1.25 | 0.92 |

3. Segment information

(a) Segment results

| | Six months ended 30th June | | | | | | | |
|--------------------------------|----------------------------|---------------|----------------------|---------------|---------------|---------------|----------------|---------------|
| | Airline business | | Non-airline business | | Unallocated | | Total | |
| | 2019 HK\$M | 2018 HK\$M | 2019 HK\$M | 2018 HK\$M | 2019 HK\$M | 2018 HK\$M | 2019 HK\$M | 2018 HK\$M |
| Sales to external customers | 52,984 | 52,455 | 563 | 623 | | | 53,547 | 53,078 |
| Inter-segment sales | 5 | 4 | 1,753 | 1,841 | | | 1,758 | 1,845 |
| Segment revenue | 52,989 | 52,459 | 2,316 | 2,464 | | | 55,305 | 54,923 |
| Segment profit/(loss) | 2,546 | 707 | (72) | (10) | | | 2,474 | 697 |
| Net finance charges | (1,241) | (899) | (179) | (111) | | | (1,420) | (1,010) |
| | 1,305 | (192) | (251) | (121) | | | 1,054 | (313) |
| Share of profits of associates | | | | | 648 | 449 | 648 | 449 |
| Profit before taxation | | | | | | | 1,702 | 136 |
| Taxation | (357) | (245) | 2 | 34 | | | (355) | (211) |
| Profit/(loss) for the period | | | | | | | 1,347 | (75) |

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.

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

(b) Geographical information

| | Six months ended 30th June | |
|------------------------------------|----------------------------|---------------|
| | 2019 HK\$M | 2018 HK\$M |
| Revenue by origin of sale: | | |
| North Asia | | |
| - Hong Kong and Mainland China | 26,352 | 26,791 |
| - Japan, Korea and Taiwan | 5,113 | 5,175 |
| Americas | 7,463 | 6,927 |
| Europe | 5,317 | 5,108 |
| Southeast Asia | 3,924 | 4,022 |
| Southwest Pacific | 2,732 | 2,585 |
| South Asia, Middle East and Africa | 2,646 | 2,470 |
| | 53,547 | 53,078 |

A geographic analysis of segment results is not disclosed for the reasons set out in the 2018 Annual Report.

4. Operating profit

| | Six months ended 30th June | |
|---|----------------------------|---------------|
| | 2019 HK\$M | 2018 HK\$M |
| Operating profit has been arrived at after charging/(crediting): | | |
| Depreciation of property, plant and equipment | | |
| - leased | 2,730 | 998 |
| - owned | 3,810 | 3,613 |
| Amortisation of intangible assets | 278 | 263 |
| Operating lease rentals | | |
| - land and buildings | - | 566 |
| - aircraft and related equipment | - | 2,288 |
| - others | - | 58 |
| Expenses relating to short-term leases and leases of low-value assets | 113 | - |
| Loss on disposal of property, plant and equipment, net | 33 | 52 |
| Loss/(gain) on disposal of intangible assets | 9 | (101) |
| Cost of stock expensed | 1,157 | 1,090 |
| Exchange differences, net | 2 | 319 |
| Auditors' remuneration | 8 | 7 |
| Dividend income from unlisted investments | (45) | (41) |

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

5. Taxation

| | Six months ended 30th June | |
|---|----------------------------|---------------|
| | 2019 HK\$M | 2018 HK\$M |
| Current tax expenses | | |
| - Hong Kong profits tax | 73 | 90 |
| - overseas tax | 133 | 135 |
| - under/(over) provisions for prior years | 7 | (29) |
| Deferred tax | | |
| - origination and reversal of temporary differences | 142 | 15 |
| | 355 | 211 |

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 20(c) to the financial statements in the 2019 Interim Report).

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

6. 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\$1,347 million (2018: a loss of HK\$263 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2018: 3,934 million) shares.

7. Other comprehensive income

| | Six months ended 30th June | |
|---|----------------------------|---------------|
| | 2019 HK\$M | 2018 HK\$M |
| Cash flow hedges | | |
| - gain recognised during the period | 1,049 | 3,587 |
| - (gain)/loss transferred to profit or loss | (291) | 1,039 |
| - deferred taxation | (87) | (552) |
| Share of other comprehensive income of associates | (258) | 63 |
| Exchange differences on translation of foreign operations | | |
| - loss recognised during the period | (22) | (353) |
| Revaluation of equity investments designated at fair value through other comprehensive income (non-recycling) | | |
| - gain recognised during the period | 25 | - |
| Other comprehensive income for the period | 416 | 3,784 |

8. Trade, other receivables and other assets

| | 30th June 2019 HK\$M | 31st December 2018 HK\$M |
|---|-------------------------|-----------------------------|
| Trade debtors, net of loss allowances | 6,312 | 6,559 |
| Derivative financial assets - current portion | 623 | 499 |
| Other receivables and prepayments | 5,301 | 5,343 |
| Due from associates and other related companies | 130 | 74 |
| | 12,366 | 12,475 |

| | 30th June 2019 HK\$M | 31st December 2018 HK\$M |
|---|-------------------------|-----------------------------|
| Analysis of trade debtors (net of loss allowances) by invoice date: | | |
| Within one month | 5,687 | 5,009 |
| One to three months | 344 | 1,166 |
| More than three months | 281 | 384 |
| | 6,312 | 6,559 |

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

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

9. Trade and other payables

| | 30th June 2019 | 31st December 2018 |
|--|----------------|--------------------|
| | HK\$M | HK\$M |
| Trade creditors | 6,795 | 6,801 |
| Derivative financial liabilities – current portion | 437 | 1,218 |
| Other payables | 11,235 | 11,017 |
| Due to associates | 168 | 179 |
| Due to other related companies | 155 | 193 |
| | 18,790 | 19,408 |

| | 30th June 2019 | 31st December 2018 |
|--|----------------|--------------------|
| | HK\$M | HK\$M |
| Analysis of trade creditors by invoice date: | | |
| Within one month | 6,292 | 6,425 |
| One to three months | 426 | 337 |
| More than three months | 77 | 39 |
| | 6,795 | 6,801 |

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

The Group has initially applied HKFRS 16 at 1st January 2019. Under the transition methods chosen, comparative information in 2018 is not restated. See note 2 above.

10. Share capital

| | 30th June 2019 | | 31st December 2018 | |
|------------------------------|----------------------|---------------|--------------------|--------|
| | Number of shares | HK\$M | Number of shares | HK\$M |
| Issued and fully paid | | | | |
| At 30th June / 31st December | 3,933,844,572 | 17,106 | 3,933,844,572 | 17,106 |

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period (2018: nil). At 30th June 2019, 3,933,844,572 shares were in issue (31st December 2018: 3,933,844,572 shares).

11. Dividends

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

| | 2019 | 2018 |
|--|--------------|-------|
| | HK\$M | HK\$M |
| Interim dividend declared and paid after the interim period of HK\$0.18 per share (2018: HK\$0.10 per share) | 708 | 393 |

The interim dividend 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 interim period.

| | Six months ended 30th June | |
|---|----------------------------|-------|
| | 2019 | 2018 |
| | HK\$M | HK\$M |
| Interim dividend in respect of the previous financial year, approved and paid during the six months ended 30th June 2019, of HK\$0.20 per share (paid during the six months ended 30th June 2018: HK\$0.05 per share) | 787 | 197 |

The Directors have declared a first interim dividend of HK\$0.18 per share (2018: HK\$0.10 per share) for the year ending 31st December 2019. The interim dividend which totals HK\$708 million (2018: HK\$393 million) will be paid on 3rd October 2019 to shareholders registered at the close of business on the record date, being Friday, 6th September 2019. Shares of the Company will be traded ex-dividend as from Wednesday, 4th September 2019. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 6th September 2019, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 5th September 2019.

12. Corporate governance

Cathay Pacific is committed to maintaining a high standard of corporate governance. The Company complied with all the code provisions set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the accounting period covered by the interim report with the following exceptions which it believes do not benefit shareholders:

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

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

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

The 2019 interim results have been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2018 Annual Report and in the 2019 Interim Report.

13. Interim report

The 2019 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange’s website and the Company’s website (www.cathaypacific.com) on or before 22nd August 2019. Printed copies will be dispatched to shareholders who have elected to receive printed copies on 23rd August 2019.

14. Event after the reporting period

On 19th July 2019, Cathay Pacific completed the acquisition of 100% of the share capital of Hong Kong Express Airways Limited (Hong Kong Express), Hong Kong's only low cost carrier. Hong Kong Express currently operates a fleet of 24 modern Airbus A320, A320-neo and A321 aircraft (all held under leases) and provides scheduled air services to 27 destinations in Asia. The total consideration of HK\$4.93 billion, which comprises cash of HK\$2.25 billion and a novated loan note of HK\$2.68 billion, is subject to completion adjustments as previously announced. Completion accounts are being prepared.

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.

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

Executive Directors: John Slosar (Chairman), Rupert Hogg, Gregory Hughes, Paul Loo, Martin Murray;

Non-Executive Directors: Cai Jianjiang, Ivan Chu, Michelle Low, Song Zhiyong, Merlin Swire, Samuel Swire, Xiao Feng, Zhao Xiaohang;

Independent Non-Executive Directors: Bernard Chan, John Harrison, Robert Milton and Andrew Tung.

By Order of the Board

Cathay Pacific Airways Limited

John Slosar

Chairman

Hong Kong, 7th August 2019

Website: <http://www.cathaypacific.com>