



A Cathay Pacific Airbus A350-1000 flying over Hong Kong.



AVIATION DIVISION

Advancing World-Class Service

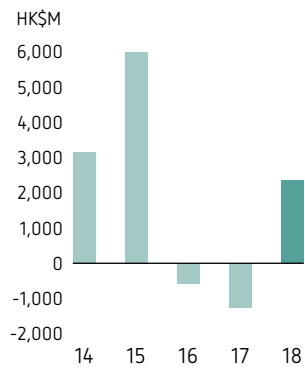
We aim to continue to improve our products and services on the ground and in the air, to expand our fleet by acquiring fuel efficient aircraft and to strengthen our aircraft engineering business.

AVIATION DIVISION

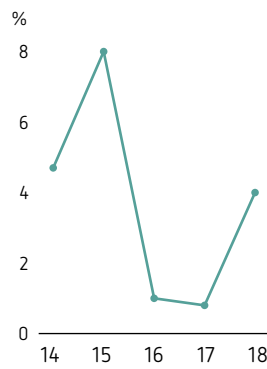
The Aviation Division comprises a significant investment in the Cathay Pacific group and the HAECO group.

Cathay Pacific group (100% Basis)

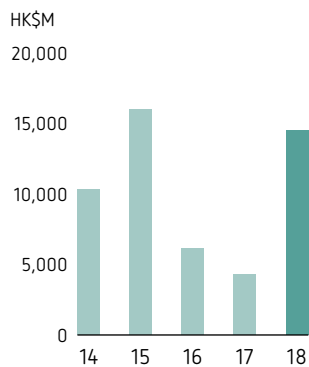
Profit/(Loss) Attributable to the Shareholders of Cathay Pacific



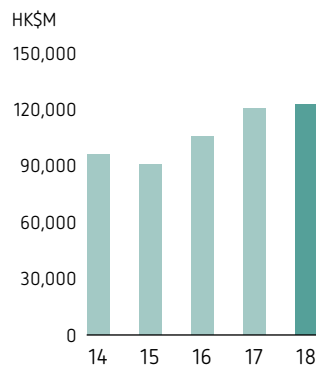
Return on Capital Employed



Net Cash Generated from Operating Activities

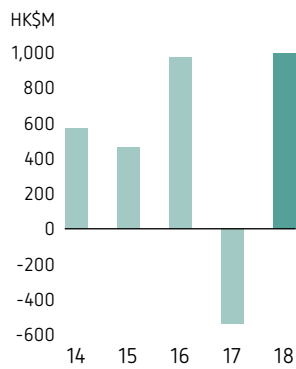


Capital Employed

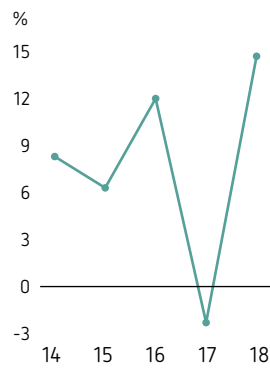


HAECO group (100% Basis)

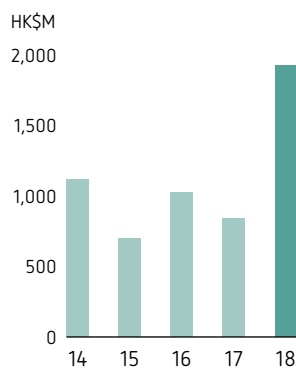
Profit/(Loss) Attributable to the Shareholders of HAECO



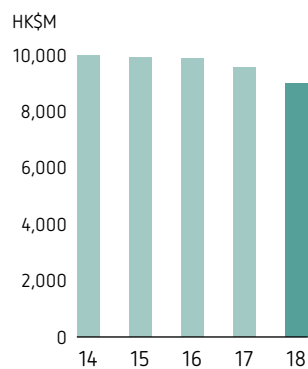
Return on Capital Employed



Net Cash Generated from Operating Activities



Capital Employed



The Cathay Pacific group

The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiaries Cathay Dragon and Air Hong Kong and an associate interest in Air China and Air China Cargo. Cathay Pacific also has interests in companies providing flight catering and passenger and ramp handling services, and owns and operates a cargo terminal at Hong Kong International Airport. It is listed on The Stock Exchange of Hong Kong Limited.

Cathay Pacific offers scheduled passenger and cargo services to 76 destinations in 33 countries and territories (225 and 53 respectively including code share agreements). At 31st December 2018, it operated 154 aircraft and had 39 new aircraft due for delivery up to 2024.

Cathay Dragon is a regional airline registered and based in Hong Kong and offers scheduled services to 49 destinations in Mainland China and elsewhere in Asia (57 including code share agreements). At 31st December 2018, it operated 48 aircraft and had 32 new aircraft due for delivery up to 2024.

Cathay Pacific owns 18.13% of Air China, the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. Cathay Pacific has a cargo joint venture in Mainland China, Air China Cargo, which operated 15 freighters at 31st December 2018 and also carries cargo in the bellies of Air China's passenger aircraft.

Air Hong Kong operates express cargo services for DHL Express to 12 Asian cities. At 31st December 2018, Air Hong Kong operated 10 freighters.

Cathay Pacific and its subsidiaries employ more than 32,400 people worldwide (around 26,200 of them in Hong Kong).

The HAECO group

The HAECO group provides aviation maintenance and repair services. Its primary activities are aircraft maintenance and modification work in Hong Kong (by HAECO Hong Kong), in Xiamen (by HAECO Xiamen) and in the USA (by HAECO Americas).

Engine overhaul work is performed by HAECO's 50% joint venture company Hong Kong Aero Engine Services Limited and by HAECO's subsidiary Taikoo Engine Services (Xiamen) Company Limited. The HAECO group has other subsidiaries and joint venture companies in Mainland China, which offer a range of aircraft engineering services and has a 70% interest in HAECO ITM Limited, an inventory technical management joint venture with Cathay Pacific in Hong Kong.

HAECO is a wholly-owned subsidiary of Swire Pacific.

STRATEGY

The strategic objective of Cathay Pacific (as a listed company in its own right) is sustainable growth in shareholder value over the long-term. The strategies employed by Cathay Pacific in order to achieve this objective (and the strategic objectives of HAECO) are these:

- The development and strengthening of Hong Kong as a centre for aviation services, including passenger, cargo and aircraft engineering services.
- The development and strengthening of the airline (Cathay Pacific and Cathay Dragon) and aircraft engineering (HAECO) brands.
- Developing the fleets of Cathay Pacific and Cathay Dragon (by investing in modern fuel efficient aircraft) with a view to their becoming two of the youngest, most fuel efficient fleets in the world.
- Maintaining and enhancing high standards of service to passenger, cargo and aircraft engineering customers.
- Strengthening the airlines' passenger and cargo networks and improving what they do on the ground and in the air.
- Continuing to build the strategic relationship with Air China.
- Increasing the range and depth of aircraft engineering services offered by HAECO.
- Endeavouring to minimise the impact of the airlines and of HAECO on the environment.

2018 PERFORMANCE

Financial Highlights

	2018 HK\$M	2017 HK\$M
HAECO group		
Revenue	14,892	14,546
Operating profit/(loss)	1,140	(90)
Swire Pacific share of attributable profit/(loss)	760	(406)
Cathay Pacific group		
Share of post-tax profits/(losses) from associated companies	1,056	(567)
Swire Pacific share of attributable profit/(loss)	1,781	(1,002)

Accounting for the Aviation Division

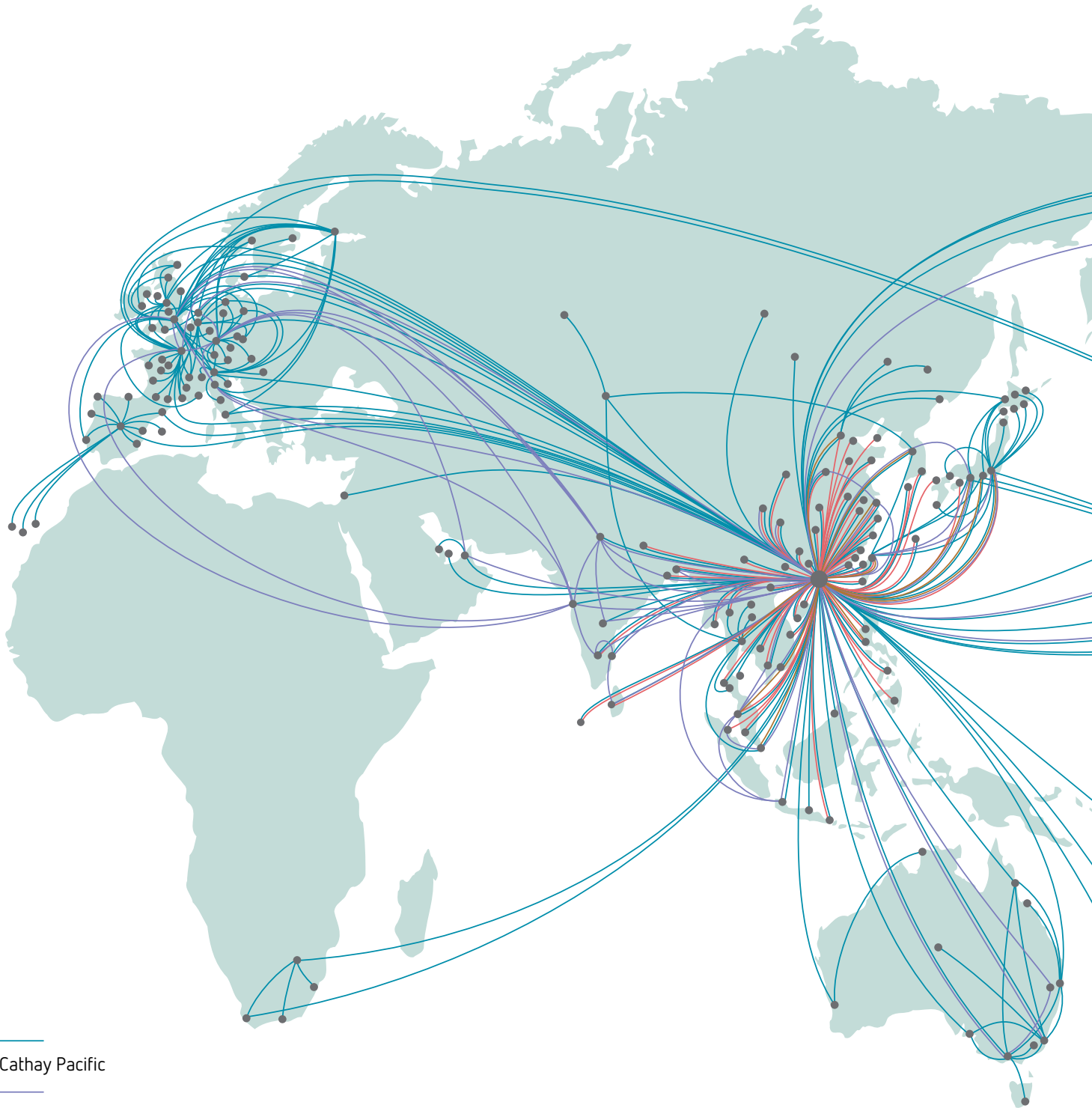
The Group accounts for its associate interest in the Cathay Pacific group using the equity method of accounting. The Group recognises its share of net profit or loss as a single line-item in the consolidated statement of profit or loss. For more information on the results and financial position of the Cathay Pacific group, please refer to the abridged financial statements on pages 218 and 219. The figures above do not include consolidation adjustments.

CATHAY PACIFIC GROUP

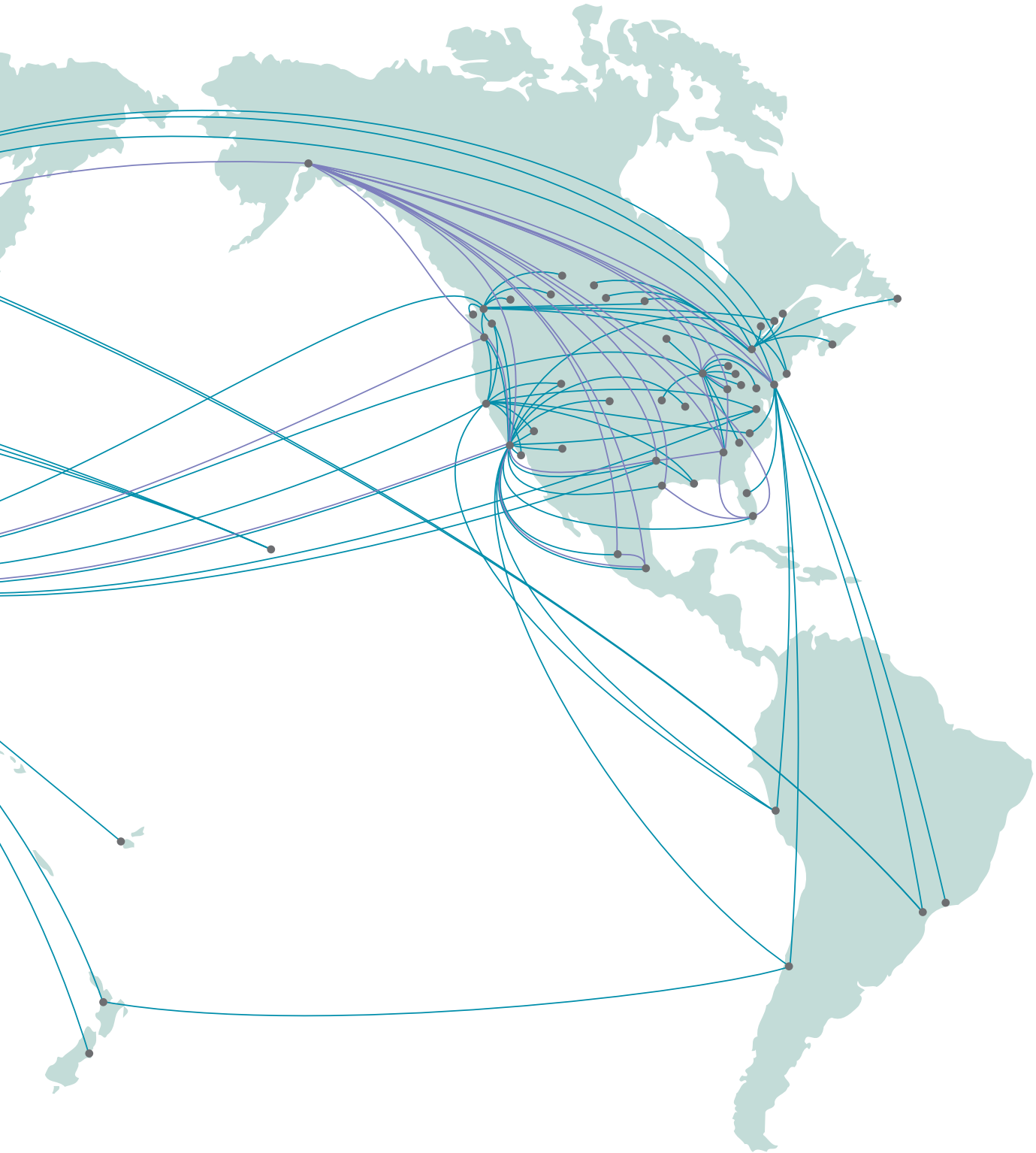
Cathay Pacific and Cathay Dragon – 2018 Performance

		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 and mail tonne kilometres (AFTK)	Million	17,616	17,163	+2.6%
Passenger revenue	HK\$M	73,119	66,408	+10.1%
Passenger revenue per ASK	HK¢	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¢	55.8	52.3	+6.7%
Cargo revenue – group	HK\$M	28,316	23,903	+18.5%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK\$M	24,663	20,553	+20.0%
Cargo and mail revenue per AFTK	HK\$	1.40	1.20	+16.7%
Cargo and mail carried	Tonnes '000	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%
Cost per ATK (without fuel)	HK\$	2.25	2.14	+5.1%
Aircraft utilisation	Hours per day	12.3	12.3	–
On-time performance	%	72.7	71.2	+1.5%pts
Average age of fleet	Years	9.9	9.3	+6.5%
Fuel consumption – group	Barrels (million)	45.8	45.1	+1.6%
Fuel consumption per million RTK	Barrels	1,830	1,866	-1.9%
Fuel consumption per million ATK	Barrels	1,387	1,405	-1.3%

Cathay Pacific group – Network Coverage



-  Cathay Pacific
-  Cathay Pacific Freighter
-  Cathay Dragon
-  Air Hong Kong



The Deck, at Hong Kong International Airport, is Cathay Pacific's latest lounge.



2018 AIRLINE INDUSTRY REVIEW

Despite broadly benign economic conditions, the environment in which Cathay Pacific's airlines operate was as ever difficult in 2018. Competition was intense, fuel prices increased and the US dollar strengthened.

2018 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK\$2,345 million in 2018, compared with a loss of HK\$1,259 million in 2017. The airlines' profit after tax was HK\$241 million (2017: loss of HK\$4,303 million), and the share of profits from subsidiaries and associates was HK\$2,104 million (2017: HK\$3,044 million).

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, Cathay Pacific built the foundations for its transformation programme. In 2018, it restructured its operations outside Hong Kong, benefited from a series of productivity improvements, increased its digital capabilities and concentrated on global business services. It improved inflight dining, passenger comfort, the way in which it contacts passengers and its loyalty programmes. It extended its network and improved its 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.

Passenger Services

Passenger revenue in 2018 was HK\$73,119 million, an increase of 10% compared to 2017. 35.5 million passengers were carried, an increase of 2% compared to the previous year.

Capacity increased by 4%, reflecting the introduction of 10 new routes (including to Brussels, Dublin, Davao City and Washington D.C.) and increased frequencies on other routes. The load factor decreased marginally, to 84.1%. Yield increased by 7%, to HK55.8 cents.

Increased competition with other airlines, 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 sound revenue management. Load factors were sustained.

Cargo Services

Cathay Pacific and Cathay Dragon

The cargo revenue of Cathay Pacific and Cathay Dragon in 2018 was HK\$24,663 million, an increase of 20% compared to 2017. The tonnage carried in 2018 increased by 5% (to 2.2 million tonnes) compared to 2017. The market was robust throughout the year.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 3% in 2018. The cargo load factor increased by 1.0 percentage point to 68.8%. Cargo yield increased by 15% to HK\$2.03, reflecting an increase in high-value specialist cargo shipments and higher fuel surcharges.

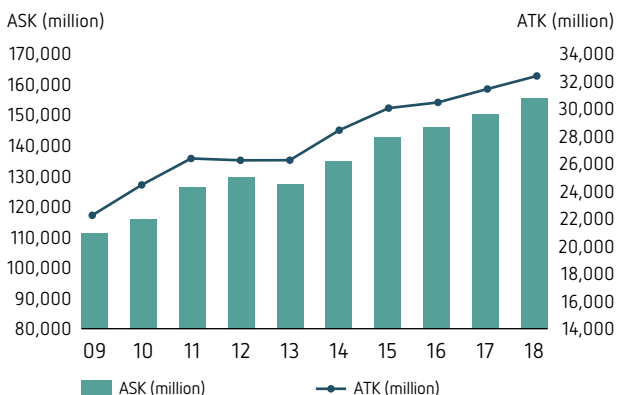
Air Hong Kong

Air Hong Kong experienced a marginal increase in profit for 2018 compared with 2017. Capacity (in terms of available tonne kilometres) decreased by 4% to 730 million. The load factor decreased by 0.8 percentage point to 66.1%.

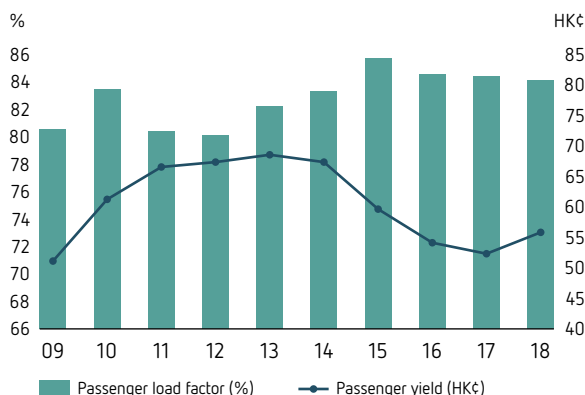
Operating Costs

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK\$7,545 million (or 31%) compared with 2017. Prices rose and the airlines flew more.

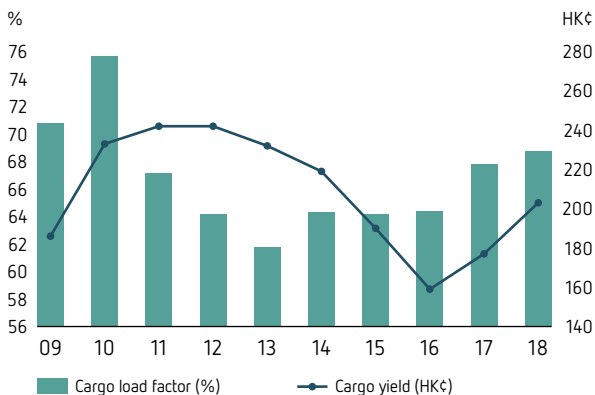
Capacity – Available Seat Kilometres and Available Tonne Kilometres



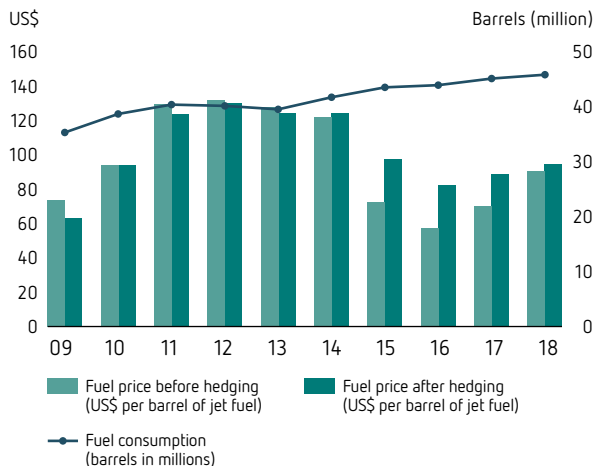
Passenger Services Load Factor and Yield



Cargo Services Load Factor and Yield



Fuel Price and Consumption



Fuel hedging losses were reduced. After taking hedging losses into account, the Cathay Pacific group's fuel costs increased by HK\$2,757 million (or 9%) compared to 2017. The net cost of fuel is the Cathay Pacific 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 Cathay Pacific group. Cathay Pacific is doing more to improve the reliability of its operations.

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.

Data Incident

In October 2018, Cathay Pacific announced that it had discovered unauthorised access to some of its passenger data and that of Cathay Dragon. Upon discovery, immediate action was taken to contain the event and to commence a thorough investigation. To date no evidence has been found that any personal information has been misused. The information systems affected were separate from flight operations systems. There was no impact on flight safety. Affected passengers were contacted and Hong Kong police and relevant authorities were notified.

Fleet Profile

At 31st December 2018, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 202, an increase of six since 31st December 2017.

Fleet profile*

Aircraft type	Number at 31st December 2018				Firm orders				Expiry of operating leases						
	Leased			Total	'19	'20	'21 and beyond	Total	'19	'20	'21	'22	'23	'24	'25 and beyond
	Owned	Finance	Operating												
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.



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Eight Airbus A350-1000 aircraft were delivered in 2018. This technologically advanced aircraft brings major advantages in fuel efficiency.

In 2018, Cathay Pacific took delivery of eight Airbus A350-1000 aircraft and expects to have 20 aircraft of this type in service by the end of 2021.

At 31st December 2018, the Cathay Pacific group had 71 new aircraft on order for delivery up to 2024. This includes an order for 32 Airbus A321-200neo aircraft. These aircraft are intended to replace and increase Cathay Dragon's existing narrow-body fleet.

Three Airbus A330-300 aircraft, one Boeing 747-400BCF and one Boeing 777-300ER 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.

Air China and Air China Cargo

The Cathay Pacific group's share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, the 2018 results include Air China's results for the 12 months ended 30th September 2018, adjusted for any significant events or transactions for 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 the 12 months ended 30th September 2017.

Air China Cargo's 2018 financial results also declined from last year.

OUTLOOK

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.

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

Rupert Hogg

HONG KONG AIRCRAFT ENGINEERING COMPANY (HAECO) GROUP

Financial Highlights

	2018 HK\$M	2017 HK\$M
Revenue		
HAECO Hong Kong	4,253	4,041
HAECO Americas	2,644	2,625
HAECO Xiamen	2,165	2,041
TEXL	4,893	5,162
Others	937	677
	14,892	14,546
Net operating profit/(loss)	1,048	(210)
Attributable profit/(loss)		
HAECO Hong Kong	261	257
HAECO Americas	(290)	(602)
HAECO Xiamen	233	135
TEXL	182	209
Share of profits of:		
HAESL	374	244
Other subsidiary and joint venture companies	191	97
Attributable profit (excluding non-recurring items)	951	340
Impairment charges in respect of:		
Goodwill	–	(625)*
Plant, machinery and tools	–	(7)*
Write-off of net deferred tax assets	–	(249)*
Gain on acquisition of additional interests in a joint venture company which became a subsidiary	42	–
Attributable profit/(loss)	993	(541)
Swire Pacific share of attributable profit/(loss)	760	(406)

* representing impairment charges and write-off relating to HAECO Americas

Operating Highlights

		2018	2017
Airframe services manhours sold			
HAECO Hong Kong	Million	2.70	2.70
HAECO Americas	Million	2.85	2.80
HAECO Xiamen	Million	4.11	3.76
Line services movements handled			
HAECO Hong Kong	Average per day	321	320
Engines overhauled			
TEXL		90	85
HAESL		212	140



HAECO became a wholly-owned subsidiary of Swire Pacific in December 2018.

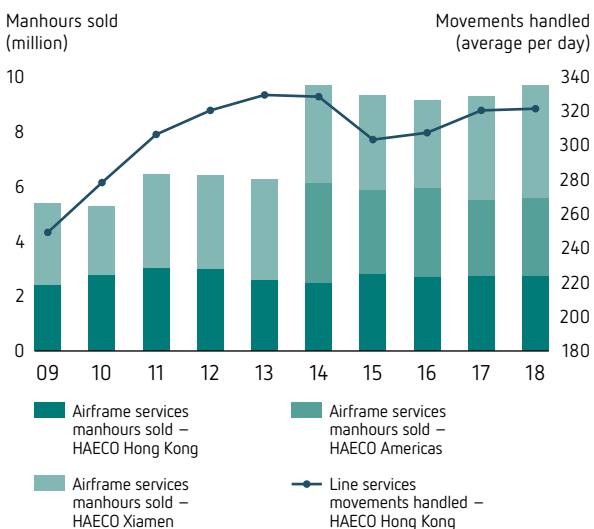
2018 AVIATION MAINTENANCE AND REPAIR INDUSTRY REVIEW

Orders for new aircraft are firm. Aircraft manufacturers have record order books and are increasing production. More aircraft means in principle more demand for their maintenance and repair. But new aircraft need less maintenance and repair than older aircraft and original equipment manufacturers are doing more maintenance and repair than they used to. On balance, maintenance and repair demand is still expected to grow in the medium and longer term.

2018 RESULTS SUMMARY

In 2018, most HAECO businesses did well and the results of HAECO Americas, although its business still made a loss, improved significantly. The HAECO group overall reported an attributable profit of HK\$993 million in 2018 on a 100% basis, including a gain of HK\$42 million associated with the acquisition of additional interests in a joint venture company. This compares with a loss of HK\$541 million in 2017, which included an impairment charge of HK\$625 million in respect of the goodwill attributable to HAECO Americas and a write-off of HK\$249 million in respect of HAECO Americas' net deferred tax assets.

HAECO group – Key Operating Highlights



Disregarding the gain associated with the acquisition of additional interests in a joint venture company in 2018 and the impairment charges and the net deferred tax assets write-off in 2017, the HAECO group's 2018 attributable profit was HK\$951 million, compared with HK\$340 million in 2017. The higher profit primarily reflected reduced losses at HAECO Americas and more workload at HAECO Xiamen and HAESL.

A total of 9.66 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2018, 0.40 million more than in 2017. More airframe services work was performed at HAECO Americas and HAECO Xiamen in 2018. Similar levels of work were performed at HAECO Hong Kong.

HAECO Hong Kong

HAECO Hong Kong recorded a 2% increase in profit in 2018 to HK\$261 million. This mainly reflects a better performance in airframe and line services, partly offset by increased operating costs in component repair. Manhours sold for airframe services remained at 2.70 million in 2018, with higher selling rates.

In line services, the average number of aircraft movements handled per day in 2018 was similar to that in 2017. Line services manhours sold increased, reflecting an increase in work per aircraft.

Component repair manhours sold in 2018, including those sold by HAECO Component Overhaul (Xiamen), were 0.22 million, an increase of 2% compared to 2017. The growth reflected increased demand and new capabilities.

HAECO Americas

HAECO Americas recorded a loss of HK\$290 million in 2018, HK\$312 million lower than the loss of HK\$602 million in 2017 (the latter figure excluding impairment charges and the write-off of net deferred tax assets). The improved result reflected an increased proportion of higher margin airframe services work and gains in efficiency, in addition to more seat and spares sales.

Demand for HAECO Americas' airframe services was stable. 2.85 million manhours were sold in 2018 compared with 2.80 million in 2017. The significant work from a major customer lost in August 2017 was replaced with additional work following the opening of a fifth hangar at Greensboro in 2018 and higher margin work. The results in 2017 were also adversely affected by non-recurring expenses.

Less interior reconfiguration work was done and fewer Panasonic communication equipment installation kits were delivered in 2018. Despite this, the results of the cabin solutions business improved. This was because more seats (8,900 compared with 7,300 in 2017) and seating spares were sold, and at higher margins.

HAECO Xiamen

HAECO Xiamen recorded a 73% increase in attributable profit compared with 2017, to HK\$233 million. This reflected an increase in airframe services work and a significant favourable foreign exchange rate movement.

Manhours sold for airframe services reached a record high in 2018 at 4.11 million. The 9% growth in volume reflected higher demand and generated an 8% increase in revenue.

In line services, an average of 58 aircraft movements were handled per day in 2018, 7% more than in 2017.

TEXL

TEXL recorded a 13% decrease in attributable profit to HK\$182 million in 2018 compared to 2017. In 2018, TEXL performed 52 performance restoration worksopes and 38 quick turn worksopes on GE90 aircraft engines (compared with 52 performance restoration worksopes and 33 quick turn worksopes in 2017). The reduction in profit in 2018 principally reflected a change in the terms on which TEXL contracts with its key customer.

HAESL

HAESL recorded a 53% increase in attributable profit in 2018 compared to 2017. The increase in profit reflected an increase in engine volume and a heavier work mix. 212 engines were overhauled in 2018, compared with 140 in 2017. HAESL has invested heavily in new facilities and tooling (and continues to recruit additional manpower) in order to accommodate further growth.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 299 aircraft in 2018, 10% more than in 2017. However, its profit in 2018 was lower than in 2017. Staff costs and repair charges were higher.

HAECO Landing Gear Services made a profit in 2018, compared to a loss in 2017. It did more work.

OUTLOOK

The prospects for the HAECO group's different businesses in 2019 are mixed. Demand for airframe services in America is expected to rise and to be stable in Hong Kong and Xiamen. Demand for line services is expected to be firm. Demand for engines services is expected to increase. The component overhaul business is expected to improve gradually, with the development of new capabilities. The cabin solutions business in America expects fewer seats to be sold in 2019 than in 2018. Forward bookings for cabin integration work are low. More Panasonic communication equipment work is expected.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO group in Xiamen.

Augustus Tang