CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 293)

Announcement

2018 Annual Results

CATHAY PACIFIC

Financial and Operational Highlights

Group Financial Statistics

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

Operating Statistics – Cathay Pacific and Cathay Dragon

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

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

Chairman's Statement

Overview

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

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

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

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

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

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

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

Business performance

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

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

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

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

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

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

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

Data security incident

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

Prospects

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

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

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

John Slosar

Chairman

Hong Kong, 13th March 2019

Review of Operations

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

	Capacity ASK/AFTK (million)*			Load factor (%)			Yield**
	2018	2017	**Change**	**2018**	2017	**Change**	**Change**
Passenger services							
Americas	**40,308**	40,407	**-0.2%**	**86.5**	85.0	**+1.5%pt**	**+3.4%**
Europe	**32,090**	28,957	**+10.8%**	**86.2**	87.5	**-1.3%pt**	**+6.8%**
North Asia	**31,533**	30,764	**+2.5%**	**80.7**	81.0	**-0.3%pt**	**+7.8%**
Southeast Asia	**20,919**	20,344	**+2.8%**	**83.2**	84.4	**-1.2%pt**	**+6.5%**
Southwest Pacific	**18,494**	17,863	**+3.5%**	**83.2**	84.7	**-1.5%pt**	**+0.8%**
South Asia, Middle East and Africa	**12,018**	11,803	**+1.8%**	**82.3**	82.6	**-0.3%pt**	**+9.5%**
Overall	**155,362**	150,138	**+3.5%**	**84.1**	84.4	**-0.3%pt**	**+5.7%**
Cargo services	**17,616**	17,163	**+2.6%**	**68.8**	67.8	**+1.0%pt**	**+14.7%**

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

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

Passenger Services

Home market - Hong Kong and Pearl River Delta

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

Americas

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

Europe

- We introduced new routes to Europe and increased frequencies to Tel Aviv.
- Premium class demand on routes to Europe was strong.
- In March 2018, Cathay Pacific introduced a four flights per week service to Brussels. In June 2018, Cathay Pacific introduced a four flights per week service to Dublin. In May 2018, Cathay Pacific introduced a three flights per week seasonal service to Copenhagen.
- In April 2018, Cathay Pacific's previously seasonal service to Barcelona became a year-round service.

- In October 2018, Cathay Pacific reduced the frequency of its service to Madrid from five to four flights per week for the winter season.
- In October 2018, Cathay Pacific reduced the frequency of its service to Paris from 11 to 10 flights per week for the winter season.
- From winter 2018, Cathay Pacific started to use Airbus A350-1000 aircraft on its Amsterdam, Madrid, Manchester and Tel Aviv routes.
- In March 2018, Cathay Pacific stopped flying to Dusseldorf.
- In July 2018, Cathay Pacific entered into a codeshare agreement with Brussels Airlines. The CX code has been placed on Brussels Airlines services to Berlin (Berlin-Tegel), Hamburg, Lyon (Lyon-Saint Exupery), Marseilles, Toulouse, Oslo and Prague.

North Asia

- Passenger traffic grew faster than (modest) capacity increases on Mainland China routes.
- Demand on North Asia routes was robust in 2018, particularly on routes to Japan.
- In January 2018, Cathay Dragon introduced a four flights per week service to Nanning.
- In March 2018, Cathay Dragon introduced a four flights per week service to Jinan.
- In March 2018, Cathay Dragon reintroduced its service to Tokyo Haneda which had been suspended in October 2017.
- In December 2018, Cathay Dragon introduced a two flights per week seasonal service to Tokushima in Japan.
- In April 2019, Cathay Pacific will introduce a two flights per week service to Komatsu in Japan.
- In March 2018, Cathay Dragon increased the frequency of its passenger services to Fukuoka from 11 flight per week to twice daily during the summer season.
- In October 2018, an additional direct daily flight to Tokyo Narita was introduced.
- In March 2018, Cathay Pacific entered into a codeshare agreement with Air Astana. The CX code has been placed on Air Astana's flights between Hong Kong and Almaty and on Air Astana's connecting services between Almaty and Astana. The CX code has also been placed on Air Astana's services between Bangkok and Almaty and between Seoul and Almaty. Air Astana's KC code has been placed on some Cathay Pacific flights to Melbourne, Perth, Singapore and Sydney.

Southeast Asia

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

Southwest Pacific

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

South Asia, Middle East and Africa

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

Cargo Services

- Cargo demand was robust in 2018. Tonnage grew faster than capacity. Trans-shipments from the Indian sub-continent, Europe, Japan and Southeast Asia were strong.
- E-commerce shipments from Asia were strong. Exports of machinery and food from Europe and the Americas to Asia increased. We carried cargo to and from more places in Europe as we extended our passenger network.
- We have entered into more agreements to rent thermal containers, increasing our ability to transport high-value, temperature-sensitive pharmaceutical products.
- Yield increased everywhere, reflecting in part higher fuel surcharges. A progressive strengthening of the US dollar adversely affected performance in the latter half of the year.
- The load factor benefited from shipments of seasonal foods, pharmaceuticals, aircraft engines and auto parts.
- Growth in the second half of 2018 slowed. But the peak months at the end of the year were strong.
- We increased capacity on North American routes in the second half of the year in order to meet seasonal demand.
- We increased frequency on South Asia routes from 16 to 17 flights per week by adding one flight per week to Chennai.
- We suspended our twice weekly service to Calgary in summer 2018.

Fleet profile*

Aircraft type	Number at 31st December 2018				Firm orders				Expiry of operating leases						
		Leased													
	Owned	Finance	Operating	Total	'19	'20	'21 and beyond	Total	'19	'20	'21	'22	'23	'24	'25 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	10	3	33					1	2					
A350-900	16	4	2	22	2	4		6							2
A350-1000	6	2		8	4[(a)]	3	5	12							
747-400BCF	1			1											
747-400ERF		6		6											
747-8F	3	11		14											
777-200	4			4											
777-300	14			14	3			3[(b)]							
777-300ER	20	10	22	52					1		6	4	2	3	6
777-9X							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.

Financial Review

Revenue

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

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

Operating expenses

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

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

Operating results analysis

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

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

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

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

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

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

Notes:

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

Fuel expenditure and hedging

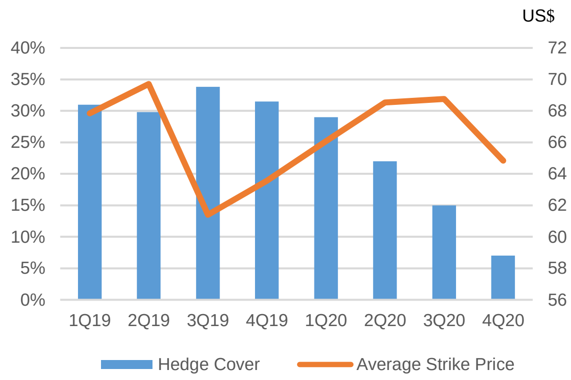
A breakdown of the Group's fuel cost is shown below:

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

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

- The Group's fuel hedging cover at 31st December 2018 is set out in the chart opposite.
- The Group's policy is to reduce exposure to fuel price risk by hedging a percentage of its expected fuel consumption. The Group uses fuel derivatives which are economically equivalent to forward contracts to achieve its desired hedging position. The chart opposite indicates the estimated percentage of projected consumption by year covered by hedging transactions at various Brent strike prices.
- The Group does not speculate on oil prices but uses hedging to manage the risk of increases in oil prices and therefore its fuel costs. Hedging is not risk free.

Fuel hedging cover



Assets

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

Borrowings and capital

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

Review of subsidiaries and associates

- AHK Air Hong Kong Limited recorded an increase in profit for 2018 compared with 2017. Compared with 2017, capacity decreased by 4.2% to 730 million available tonne kilometres. The load factor decreased by 0.8 percentage points to 66.1%. Revenue tonne kilometres decreased by 5.3% to 483 million. In 2017, Air Hong Kong entered into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. The remainder were completed in 2018. In 2017, Cathay Pacific entered into an agreement with DHL International for Cathay Pacific to acquire from DHL International the 40% shareholding in Air Hong Kong that it did not already own. This agreement was completed at the end of 2018, with the result that Air Hong Kong is now a wholly owned subsidiary of Cathay Pacific. Air Hong Kong continues to operate an agreed freighter network to destinations in Asia for DHL International. It does so under a new block space agreement with DHL International for a 15-year term, which commenced on 1st January 2019.
- Asia Miles Limited achieved an increase in profit compared with 2017, due to an increase in business volume. There was a 7% increase in redemptions by Asia Miles members on Cathay Pacific and Cathay Dragon flights in 2018.
- Cathay Pacific Catering Services (H.K.) Limited (“CPCS”) produced 30 million meals and handled 73,500 flights in 2018 (representing a daily average of 82,000 meals and 201 flights, a decrease of 1.2% and 1.0% respectively from 2017). Profits fell in 2018. Revenue decreased because of a decrease in business volume. Material costs were higher. Overheads and depreciation at CPCS’ expanded facility increased. The profits of the flight kitchens outside Hong Kong increased compare to the previous year.
- Cathay Pacific Services Limited (“CPSL”) provided cargo handling services to 17 airlines in 2018. One airline became a customer and one airline ceased to be a customer in 2018. It handled 2.1 million tonnes of cargo in 2018, 53% of which were transshipments. Export and import shipments accounted for 30% and 17% respectively of the total. The financial results in 2018 deteriorated compared with those of 2017. There was a decrease in tonnage and a higher proportion of the tonnage comprised (less profitable) transshipments.
- The financial results of Hong Kong Airport Services Limited in 2018 were worse than those in 2017. This reflected the loss of the Cathay Dragon passenger handling business.
- Air China Limited (“Air China”), in which Cathay Pacific had a 18.13% interest at 31st December 2018, is the national flag carrier and leading provider of passenger, cargo and other airline-related services in Mainland China. The 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 those for the 12 months ended 30th September 2017.
- Air China Cargo Co., Ltd. (“Air China Cargo”), in which Cathay Pacific owns an equity and an economic interest totally 49%, is the leading provider of air cargo services in Mainland China. Air China Cargo’s 2018 financial results declined compare to those of 2017.

CATHAY PACIFIC

Corporate Responsibility

- Our sustainable development report for 2018 will be published in June 2019. It will be available at https://www.cathaypacific.com/cx/en_HK/about-us/environment/our-publications.html.
- Our new sustainable development website is available at sustainability.cathaypacific.com.
- Cathay Pacific participates in an International Civil Aviation Organization task force which leads the aviation industry's work in developing proposals for a fair, equitable and effective global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA Environment Committee, the Sustainable Aviation Fuel Users Group, the Roundtable on Sustainable Biomaterials and the Association of Asia Pacific Airlines) involved in shaping climate change and aviation policy. The aim is to increase awareness of climate change and to develop appropriate solutions for the aviation industry.
- In compliance with the European Union's Emissions Trading Scheme, our 2018 emissions data from intra-EU flights were reported on by an external auditor in January 2019 and our emissions report was submitted to the UK Environment Agency in February 2019.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. Our passengers contributed HK$11.7 million in 2017 to help improve the lives of vulnerable children worldwide. Since its introduction in 1991, nearly HK$190 million has been raised through the programme.
- At 31st December 2018, the Cathay Pacific Group employed more than 32,400 people worldwide. Around 26,200 of these people are based in Hong Kong. Cathay Pacific and Cathay Dragon employed more than 26,600 permanent staff worldwide. Around 78% of these people are based in Hong Kong.
- 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.

CATHAY PACIFIC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31st December 2018

	Note	2018 HK$M	2017 HK$M
Revenue			
Passenger services		**73,119**	66,408
Cargo services		**28,316**	23,903
Catering, recoveries and other services		**9,625**	6,973
Total revenue		**111,060**	97,284
Expenses			
Staff		**(20,211)**	(19,962)
Inflight service and passenger expenses		**(5,292)**	(4,996)
Landing, parking and route expenses		**(17,486)**	(15,225)
Fuel, including hedging losses		**(33,869)**	(31,112)
Aircraft maintenance		**(9,401)**	(9,607)
Aircraft depreciation and operating leases		**(12,743)**	(11,845)
Other depreciation, amortisation and operating leases		**(2,851)**	(2,795)
Commissions		**(862)**	(681)
Others		**(4,750)**	(3,340)
Operating expenses		**(107,465)**	(99,563)
Operating profit/(loss) before non-recurring items		**3,595**	(2,279)
Gain on disposal of a long-term investment		**-**	586
Gain on deemed partial disposal of an associate		**-**	244
Operating profit/(loss)	*3*	**3,595**	(1,449)
Finance charges		**(2,457)**	(2,223)
Finance income		**343**	462
Net finance charges	*4*	**(2,114)**	(1,761)
Share of profits of associates		**1,762**	2,630
Profit/(loss) before taxation		**3,243**	(580)
Taxation	*5*	**(466)**	(308)
Profit/(loss) for the year		**2,777**	(888)
Non-controlling interests		**(432)**	(371)
Profit/(loss) attributable to the shareholders of Cathay Pacific		**2,345**	(1,259)
Earnings/(loss) per share (basic and diluted)	*6*	**59.6¢**	(32.0)¢
Profit/(loss) for the year		**2,777**	(888)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Defined benefit plans		**(270)**	702
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**1,586**	4,352
Revaluation of available-for-sale financial assets		**-**	(403)
Share of other comprehensive income of associates		**628**	470
Exchange differences on translation of foreign operations		**(1,495)**	1,874
Other comprehensive income for the year, net of taxation	*7*	**449**	6,995
Total comprehensive income for the year		**3,226**	6,107
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		**2,794**	5,736
Non-controlling interests		**432**	371
		3,226	6,107

Consolidated Statement of Financial Position

at 31st December 2018

	Note	**2018 HK$M**	2017 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment		**117,124**	111,182
Intangible assets		**11,174**	11,221
Investments in associates		**27,570**	28,144
Other long-term receivables and investments		**4,015**	4,068
Deferred tax assets		**793**	928
		160,676	155,543
Long-term liabilities		**(60,183)**	(69,506)
Other long-term payables		**(4,649)**	(3,502)
Deferred tax liabilities		**(13,178)**	(12,820)
		(78,010)	(85,828)
Net non-current assets		**82,666**	69,715
Current assets and liabilities			
Stock		**1,828**	1,515
Trade, other receivables and other assets	*8*	**12,475**	11,361
Assets held for sale		**-**	865
Liquid funds		**15,315**	19,094
		29,618	32,835
Current portion of long-term liabilities		**(13,694)**	(8,888)
Trade and other payables	*9*	**(19,408)**	(17,057)
Unearned transportation revenue		**(14,030)**	(13,961)
Bank overdrafts – unsecured		**(19)**	-
Taxation		**(1,193)**	(1,372)
Dividend payable to non-controlling interests		**(1)**	-
		(48,345)	(41,278)
Net current liabilities		**(18,727)**	(8,443)
Total assets less current liabilities		**141,949**	147,100
Net assets		**63,939**	61,272
CAPITAL AND RESERVES			
Share capital	*10*	**17,106**	17,106
Other reserves		**46,830**	43,995
Funds attributable to the shareholders of Cathay Pacific		**63,936**	61,101
Non-controlling interests		**3**	171
Total equity		**63,939**	61,272

Consolidated Statement of Cash Flows

for the year ended 31st December 2018

	2018 HK$M	2017 HK$M
Operating activities		
Cash generated from operations	**17,737**	6,415
Interest received	**248**	237
Interest paid	**(1,956)**	(1,546)
Tax paid	**(1,504)**	(783)
Net cash inflow from operating activities	**14,525**	4,323
Investing activities		
Net decrease/(increase) in liquid funds other than cash and cash equivalents	**4,639**	(1,557)
Proceeds from sales of property, plant and equipment	**71**	1,371
Proceeds from sales of intangible assets	**196**	-
Proceeds from sales of assets held for sale	**865**	8
Proceeds from disposal of a long-term investment	**-**	635
Net decrease in other long-term receivables and investments	**-**	460
Payments for property, plant and equipment and intangible assets	**(15,991)**	(16,926)
Dividends received from associates	**467**	371
Proceeds from disposal of an associate	**-**	2
Net repayments of loans to associates	**1,121**	-
Net cash outflow from investing activities	**(8,632)**	(15,636)
Financing activities		
Purchase of non-controlling interests	**(36)**	-
New financing	**11,237**	19,277
Net cash benefit from financing arrangements	**1,029**	1,619
Loan and finance lease repayments	**(16,198)**	(12,152)
Dividends paid - to the shareholders of Cathay Pacific	**(590)**	-
- to non-controlling interests	**(564)**	(453)
Net cash (outflow)/inflow from financing activities	**(5,122)**	8,291
Increase/(decrease) in cash and cash equivalents	**771**	(3,022)
Cash and cash equivalents at 1st January	**6,914**	9,778
Effect of exchange differences	**(32)**	158
Cash and cash equivalents at 31st December	**7,653**	6,914

Notes:

1. Basis of accounting

The annual results set out in this announcement are extracted from the Group's statutory financial statements for the year ended 31st December 2018.

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

The financial information relating to the years ended 31st December 2017 and 2018 that is included in this document does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. The specified financial statements for the year ended 31st December 2018 have not been but will be delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. Auditor's reports have been prepared on the specified financial statements for the years ended 31st December 2017 and 2018. Those reports were not qualified or otherwise modified, did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and did not contain statements under section 406(2) or 407(2) or (3) of the Ordinance.

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

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

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

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

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

1. Basis of accounting (continued)

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

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

(a) HKFRS 9 “Financial Instruments”

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

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

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

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

1. Basis of accounting (continued)

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

(i) Classification of financial assets and financial liabilities

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

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

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

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

The Group classifies and measures financial assets and recognises gains and losses under HKFRS 9 in accordance with accounting policy 8 in the 2018 annual report.

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

(ii) Credit losses

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

The Group measures and recognises credit losses under HKFRS 9 in accordance with accounting policy 8 in the 2018 annual report.

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

1. Basis of accounting (continued)

(iii) Hedge accounting

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

The Group's hedge accounting policy is outlined in accounting policy 10 in the 2018 annual report.

(iv) Transition

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

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

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

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

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

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

1. Basis of accounting (continued)

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

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

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

(i) Timing of revenue recognition

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

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

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

(ii) Presentation of revenue

Passenger revenue

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

Cargo revenue

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

1. **Basis of accounting (continued)**

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

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

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

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

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

2. Segment information

(a) Segment results

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

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

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

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

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

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

2. Segment information (continued)

(b) Geographical information

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

Geographical segment results and segment net assets are not disclosed for the reasons set out in the 2018 Annual Report.

3. Operating profit/(loss)

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

CATHAY PACIFIC

4. Net finance charges

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

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

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

5. Taxation

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

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 27(c) to the financial statements in the 2018 Annual Report).

5. Taxation (continued)

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

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

Further information on deferred taxation is shown in note 14 to the financial statements in the 2018 annual report.

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

7. Other comprehensive income

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

8. Trade, other receivables and other assets

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

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

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

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

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

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

9. Trade and other payables

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

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

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

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

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

10. Share capital

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

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

11. Dividends

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

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

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

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

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

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

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

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

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

12. Corporate governance

The Company 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 year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

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

The 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") contained 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 annual 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.

Details of the Company's corporate governance principles and processes will be available in the 2018 Annual Report.

The annual results have been reviewed by the Audit Committee of the Company.

13. Annual report

The 2018 Annual Report containing all the information required by the Listing Rules of the Stock Exchange will be published on the Stock Exchange's website and the Company's website *www.cathaypacific.com* on 9th April 2019, and copies will be dispatched to shareholders on 10th April 2019.

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, Irene Lee and Andrew Tung.

By Order of the Board
Cathay Pacific Airways Limited
John Slosar
Chairman
Hong Kong, 13th March 2019

Website: www.cathaypacific.com

Disclaimer

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