CATHAY PACIFIC

Media Information

17 August 2016

FOR IMMEDIATE RELEASE

CATHAY PACIFIC AIRWAYS LIMITED ANNOUNCES 2016 INTERIM RESULTS

Results		**1H2016**	1H2015	Change
Revenue	*HK$ million*	**45,683**	50,388	**-9.3%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**353**	1,972	**-82.1%**
Earnings per share	*HK cents*	**9.0**	50.1	**-82.0%**
Dividend per share	*HK$*	**0.05**	0.26	**-80.8%**

The Cathay Pacific Group reported an attributable profit of HK$353 million for the first six months of 2016. This compares to a profit of HK$1,972 million for the same period in 2015. Earnings per share were HK9.0 cents compared to HK50.1 cents for the first six months of the previous year.

The operating environment in the first half of 2016 was affected by economic fragility and intense competition. There was sustained pressure on revenues, reflecting suspension of fuel surcharges, weak currencies in some markets, weak premium class demand, particularly on long-haul routes, and a higher proportion of passengers transiting through Hong Kong. All these factors impacted the Group's operating performance. The contribution from subsidiary and associated companies increased.

Passenger business

The Group's passenger revenue in the first six months of 2016 was HK$33,413 million, a decrease of 7.8% compared to the same period in 2015. Capacity increased by 4.2%, reflecting the introduction of new routes and increased frequencies on other routes. Load factor decreased by 1.4 percentage points, to 84.5%. Revenue was adversely affected by the suspension (from February) of fuel surcharges, which remained suspended for the rest of the period despite a subsequent rise in fuel prices. Yield fell by 10.1% to HK54.3 cents, reflecting the suspension of fuel surcharges, strong competition and adverse currency movements.

There was a significant reduction in premium corporate travel, particularly on long-haul routes. Revenue from long-haul routes declined compared to the same period in 2015, despite a 4.7% increase in long-haul capacity.

Cargo business

The Group's cargo revenue in the first six months of 2016 was HK$9,415 million, a decrease of 17.2% compared to the same period in 2015. The cargo capacity of Cathay Pacific and Dragonair increased by 0.6%. The load factor decreased by 1.9 percentage points, to 62.2%. Tonnage carried decreased by 0.2%. The overall market was weak during the period, although tonnage stabilised in the second quarter.

oneworld

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Yield fell by 17.6% to HK$1.59, reflecting strong competition, overcapacity and the suspension (from April) of fuel surcharges. Demand on European routes continued to be weak and demand on transpacific routes weakened. India was one of the few routes where demand strengthened. The Group managed freighter capacity in line with demand and carried a higher percentage of cargo in the bellies of its passenger aircraft.

Cost

Total fuel costs for Cathay Pacific and Dragonair (before the effect of fuel hedging) decreased by HK$4,023 million (or 31.9%) compared with the first half of 2015, despite a rise in the price of fuel in the second quarter. A 33.3% decrease in average prices was partially offset by a 2.0% increase in consumption. Fuel remains the Group's most significant cost, accounting for 29.1% of operating costs in the first half of 2016 (compared to 34.2% in the same period in 2015). Lower fuel prices were partially offset by fuel hedging losses. After taking hedging losses into account, fuel costs decreased by HK$3,360 million (or 20.2%) compared with the first half of 2015.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on the Group. The Group is doing more to improve the reliability of its operations.

Productivity improvements kept the increase in non-fuel costs in the first half of 2016 below the increase in capacity. There was a 0.5% reduction in non-fuel costs per available tonne kilometre. In response to weak revenues, the Group introduced measures intended to reduce non-operational costs. The Group is reviewing productivity and expenditure, has stopped the hiring and replacement of non-operationally critical staff, and is restricting non-essential discretionary spending. Despite these short-term measures, the Group continues to make long-term investments.

Network

Cathay Pacific introduced a passenger service to Madrid in June. This service has been well received. The airline will introduce passenger services to London Gatwick in September, using new Airbus A350-900XWB aircraft. It stopped operating flights to Doha in February but still offers codeshare services with Qatar Airways on this route. Dragonair did not introduce any new routes in the first half of 2016. Frequencies on Dragonair's Da Nang, Penang, Wenzhou and Wuhan services were increased. Frequencies on Dragonair's Clark and Kota Kinabalu services were reduced. There were no changes to the Group's freighter network in the first half of 2016. Cathay Pacific will introduce a freighter service to Portland in November. The Group continued to manage freighter capacity in line with demand.

Fleet

Cathay Pacific took delivery of its first Airbus A350-900XWB aircraft in May. A second was delivered in July and the third in August. The airline is scheduled to take delivery of further nine aircraft of this type during the remainder of 2016. The A350-900XWBs are fuel efficient and have the right range, capacity and operating economics for the Group's requirements.

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Cathay Pacific retired two Airbus A340-300 aircraft in the first half of 2016. It will retire one more aircraft of this type in the second half of this year and will retire the remaining four aircraft of this type in 2017. The airline will have retired our three remaining Boeing 747-400 passenger aircraft by October. One parked Boeing 747-400F freighter aircraft was delivered to Boeing in July and another aircraft of this type in August. The remaining two aircraft of this type will be delivered to Boeing in August and September. Cathay Pacific took delivery of its final Boeing 747-8F freighter in August.

Product

The new Airbus A350-900XWB aircraft have the latest cabins, seats and entertainment systems and inflight connectivity for passengers' mobile devices. The Group opened a new lounge in Vancouver in May and reopened the business class lounge at The Pier at Hong Kong International Airport in June. The G16 lounge in Hong Kong closed for renovations in July and will reopen in the second quarter of 2017. The Group's new first and business class lounge at London Heathrow will open in the third quarter of 2016.

In January the Group announced that Dragonair is to be rebranded as Cathay Dragon, bringing the brands of its two airlines into closer alignment. The first aircraft with the Cathay Dragon livery went into service in April.

Prospects

Cathay Pacific Chairman John Slosar said: "We expect the operating environment in the second half of the year to continue to be impacted by the same adverse factors as in the first half. The overall business outlook therefore remains challenging. We expect passenger yield to remain under pressure. Overcapacity and economic fragility will dampen cargo demand. Fuel prices have increased this year, but are still lower than in previous periods. The benefits from lower fuel prices will continue to be partially offset by losses on our fuel hedging contracts. The fuel surcharge remains suspended. In this difficult environment, we will manage capacity and strive to make further improvements in operational efficiency. We will also continue to be vigilant on costs.

"The strategic objective of the Cathay Pacific Group is to provide sustainable growth in shareholder value over the long term. To that end we will continue to build a modern and fuel-efficient fleet and to strengthen our network and will strive to provide a high standard of customer service. We will continue to develop our strategic relationship with Air China. As we celebrate our 70th anniversary, our commitment to the Hong Kong and its people remains unwavering. We will continue to make long-term strategic investments to develop and strengthen Hong Kong's position as Asia's premier aviation hub."

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CATHAY PACIFIC AIRWAYS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00293)

Announcement
2016 Interim Results

Financial and Operating Highlights

Group Financial Statistics

		2016	2015	Change
Results		Six months ended 30th June		
Revenue	*HK$ million*	**45,683**	50,388	**-9.3%**
Profit attributable to the shareholders of Cathay Pacific	*HK$ million*	**353**	1,972	**-82.1%**
Earnings per share	*HK cents*	**9.0**	50.1	**-82.0%**
Dividend per share	*HK$*	**0.05**	0.26	**-80.8%**
Profit margin	*%*	**0.8**	3.9	**-3.1%pt**
Financial position		**30th June**	31st December	
Funds attributable to the shareholders of Cathay Pacific	*HK$ million*	**50,664**	47,927	**+5.7%**
Net borrowings	*HK$ million*	**41,938**	42,458	**-1.2%**
Shareholders' funds per share	*HK$*	**12.9**	12.2	**+5.7%**
Net debt/equity ratio	*Times*	**0.83**	0.89	**-0.06 times**

Operating Statistics – Cathay Pacific and Dragonair

		2016	2015	Change
		Six months ended 30th June		
Available tonne kilometres ("ATK")	*Million*	**14,929**	14,598	**+2.3%**
Available seat kilometres ("ASK")	*Million*	**72,647**	69,689	**+4.2%**
Revenue passengers carried	*'000*	**17,249**	16,800	**+2.7%**
Passenger load factor	*%*	**84.5**	85.9	**-1.4%pt**
Passenger yield	*HK cents*	**54.3**	60.4	**-10.1%**
Cargo and mail carried	*'000 tonnes*	**866**	868	**-0.2%**
Cargo and mail load factor	*%*	**62.2**	64.1	**-1.9%pt**
Cargo and mail yield	*HK$*	**1.59**	1.93	**-17.6%**
Cost per ATK (with fuel)	*HK$*	**2.98**	3.24	**-8.0%**
Cost per ATK (without fuel)	*HK$*	**2.11**	2.12	**-0.5%**
Aircraft utilisation	*Hours per day*	**12.1**	12.2	**-0.8%**
On-time performance	*%*	**71.4**	65.8	**+5.6%pt**

Capacity, load factor and yield - Cathay Pacific and Dragonair

	Capacity ASK/ATK (million)#			Load factor (%)			Yield
	2016	2015	**Change**	**2016**	2015	**Change**	**Change**
Passenger services							
India, Middle East, Pakistan and Sri Lanka	**4,679**	4,959	**-5.6%**	**80.6**	83.7	**-3.1%pt**	**-7.5%**
Southwest Pacific and South Africa	**9,911**	9,592	**+3.3%**	**88.2**	88.8	**-0.6%pt**	**-14.0%**
Southeast Asia	**10,662**	10,221	**+4.3%**	**85.1**	83.1	**+2.0%pt**	**-10.5%**
Europe	**12,347**	11,395	**+8.4%**	**86.1**	88.1	**-2.0%pt**	**-12.6%**
North Asia	**15,392**	14,987	**+2.7%**	**79.2**	80.6	**-1.4%pt**	**-8.2%**
North America	**19,656**	18,535	**+6.0%**	**86.2**	89.3	**-3.1%pt**	**-8.6%**
Overall	**72,647**	69,689	**+4.2%**	**84.5**	85.9	**-1.4%pt**	**-10.1%**
Cargo services	**8,021**	7,971	**+0.6%**	**62.2**	64.1	**-1.9%pt**	**-17.6%**

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

Passenger services

- The slowdown in the Mainland China economy and economic fragility elsewhere caused restrictions to be placed on corporate travel. This adversely affected premium class demand, particularly on long-haul routes.
- Revenue from long-haul routes declined compared to the same period in 2015, despite a 4.7% increase in long-haul capacity.
- Premium class yield and load factor were lower than in the first half of 2015. Economy class yield weakened in the second quarter of 2016.
- The relative strength of the Hong Kong and United States dollars adversely affected revenue on routes to Mainland China, Australia, Canada, Europe and South Africa.
- In February, we stopped levying fuel surcharges, which adversely affected yield. The surcharges remained suspended for the rest of the period despite a subsequent rise in fuel prices.
- Yield was further affected by strong competition, adverse currency movements and a significant reduction in premium corporate travel.
- Passenger numbers in the first half of 2016 increased by 2.7%, though slightly behind the capacity increase during the same period. As a result, passenger load factors declined by 1.4 percentage points compared to the same period last year.
- Passenger capacity increased by 4.2% in the first half of 2016, reflecting the introduction of new routes in the second half of 2015, the introduction of the Madrid route in June 2016 and increases in frequency on some existing routes.
- We introduced a four-times-weekly service to Madrid in June, using Boeing 777-300ER aircraft. The service has been well received. We will introduce a four-times-weekly service to London Gatwick in September, using A350-900XWB aircraft.
- Demand for travel originating from Hong Kong was strong in the first two months of the year, but weakened thereafter. Corporate travel originating in Hong Kong was well below expectations, particularly to London and New York. Numbers travelling declined for the first time since 2009, when business was affected by the financial crisis.
- We sold premium class tickets on a promotional basis to leisure travellers, in an effort to counter the shortfall in corporate travel.
- Our weekly "fanfares" promotions in Hong Kong demonstrate our commitment to offering good-value fares in our home market.

- Tourism from Mainland China to Hong Kong is weak. To compensate, we have been trying to get passengers from Mainland China to connect through Hong Kong, with some success. Demand for connecting flights to Australia and North America was strong in the first six months of 2016.
- Demand for travel originating from the Pearl River Delta area was strong, though there is strong competition from other airlines and airports.
- Load factors were generally high on Middle Eastern routes. But low oil prices adversely affected Middle Eastern economies and consequently the demand for travel originating from the Middle East.
- We stopped operating flights to Doha in February. We still offer codeshare services with Qatar Airways on this route.
- Demand, yield and revenue on routes to the Indian subcontinent improved. Demand on the Nepal route, which was depressed by the 2015 earthquake, has recovered. The introduction of daily nonstop flights to Colombo has been well received.
- Demand on the Johannesburg route was steady.
- We increased capacity on the Auckland route by using Boeing 777-300ER aircraft instead of Airbus A340-300 aircraft from December 2015 to February 2016. The strategic agreement between Cathay Pacific and Air New Zealand in relation to this route has been reauthorised until 31st October 2019.
- Demand on the Australian routes was robust. Increased capacity from Mainland China carriers and the weakness of the Australian dollar put pressure on yield.
- The performance of the Southeast Asian routes was satisfactory.
- Demand for travel to Thailand has gradually recovered.
- Demand for leisure travel to Singapore and Malaysia was strong, but so was competition.
- Demand for travel to Indonesia was steady. Traffic on the Philippines routes was disrupted by the presidential election in May. The subsequent recovery was slower than expected.
- Cathay Pacific announced to stop operating to Kuala Lumpur in early 2017. Dragonair will operate this four-times-daily service instead.
- Our increased capacity to Europe (resulting from the introduction of new routes and the use of bigger aircraft on some existing routes) is being absorbed by the market.
- Our London and Manchester routes were adversely affected by the weakness of sterling and strong competition. We are maintaining our market share on United Kingdom routes.
- Demand for travel to and from Taiwan was strong, despite strong competition and more cross-strait services. There was good demand for travel between Taiwan and Japan and Korea, but yield was under pressure due to increased capacity.
- Demand on Korean routes was satisfactory. Load factors were high. Strong competition put pressure on yield.
- Demand for travel to Japan was adversely affected by the strength of the Japanese yen. Competition on Japanese routes increased. Demand for travel to Fukuoka has been weak since the earthquake in April 2016.
- Revenue from United States routes increased modestly. A reduction in corporate travel adversely affected premium class revenue. Competition intensified as Mainland Chinese carriers operated more direct flights to the United States. This put pressure on yield.
- Our Boston service has been well received since its introduction in 2015. From May to August this year, we are increasing the number of flights per week from four to five.
- Demand on Canada routes was stable. We are increasing the number of Toronto flights during the summer peak period from 10 to 12 per week.

Cargo services

- Cargo demand was generally weak throughout the first half of 2016, although tonnage stabilised in the second quarter. Low fuel prices discouraged carriers from reducing capacity. Strong competition and overcapacity put downward pressure on yield. So did the suspension (from April) of Hong Kong fuel surcharges and lower fuel surcharges collected outside Hong Kong.
- Shipments from Hong Kong and Mainland China to North America accounted for the majority of our total shipments. Rates were under severe pressure because of overcapacity.
- We operated 33 flights per week to North America in the first half of 2016, compared with 37 per week in the first half of 2015.
- The weakness of the Renminbi adversely affected revenue from Mainland China.
- Shipments of pharmaceutical products and mail (the yield on which is above average) increased by 80% and 11% respectively.
- Demand for shipments to and from the Indian sub-continent increased. We increased services accordingly. The yield on shipments from the region was under pressure. Airport congestion limited shipments from Dhaka.
- Demand for shipments within Asia was strong, but yield was under pressure.
- Shipments from the Southwest Pacific to Mainland China grew strongly.
- Northeast Asia showed resilience with steady exports of electronics, machineries and perishable products. However the year-on-year comparison was distorted by the exceptional high base of 2015 due to the shipment of automobile parts from Japan to North America in the first quarter of 2015 on a product recall incident.
- Shipments of perishable products from the Americas to Asia grew strongly.
- In May, we signed a joint business agreement with Lufthansa Cargo AG in relation to cargo routes between Hong Kong and Europe. The agreement will come into effect in the first quarter of 2017.
- One parked Boeing 747-400F freighter aircraft was delivered to Boeing in July and another aircraft of this type in August. The remaining two aircraft of this type will be delivered to Boeing in August and September.
- We will introduce a twice-weekly service to Portland in November.
- CPSL's air cargo terminal handled 824 thousand tonnes of cargo in the first half of 2016. The terminal handles cargo for Cathay Pacific, Dragonair, Air Hong Kong and 10 other airlines.

Chairman's Letter

The Cathay Pacific Group reported an attributable profit of HK$353 million for the first six months of 2016. This compares to a profit of HK$1,972 million for the same period in 2015. Earnings per share were HK9.0 cents compared to HK50.1 cents for the first six months of the previous year. The operating environment in the first half of 2016 was affected by economic fragility and intense competition. There was sustained pressure on revenues, reflecting suspension of fuel surcharges, weak currencies in some markets, weak premium class demand, particularly on long-haul routes, and a higher proportion of passengers transiting through Hong Kong. All these factors impacted the Group's operating performance. The contribution from subsidiary and associated companies increased.

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

Productivity improvements kept the increase in non-fuel costs in the first half of 2016 below the increase in capacity. There was a 0.5% reduction in non-fuel costs per available tonne kilometre. In response to weak revenues, we introduced measures intended to reduce non-operational costs. We are reviewing productivity and expenditure, we have stopped hiring and replacement of non-operationally critical staff, and we are restricting non-essential discretionary spending. Despite these short-term measures, we continue to make long-term investments.

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The strategic objective of the Cathay Pacific Group is to provide sustainable growth in shareholder value over the long term. To that end we will continue to build a modern and fuel-efficient fleet and to strengthen our network and will strive to provide a high standard of customer service. We will continue to develop our strategic relationship with Air China. As we celebrate our 70th anniversary, our commitment to the Hong Kong and its people remains unwavering. We will continue to make long-term strategic investments to develop and strengthen Hong Kong's position as Asia's premier aviation hub.

John Slosar

Chairman

Hong Kong, 17th August 2016

CATHAY PACIFIC

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 30th June 2016 – Unaudited

	Note	2016 HK$M	2015 HK$M
Revenue			
Passenger services		**33,413**	36,226
Cargo services		**9,415**	11,376
Catering, recoveries and other services		**2,855**	2,786
Total revenue		**45,683**	50,388
Expenses			
Staff		**(9,867)**	(9,373)
Inflight service and passenger expenses		**(2,372)**	(2,284)
Landing, parking and route expenses		**(7,376)**	(7,266)
Fuel, including hedging losses		**(13,259)**	(16,619)
Aircraft maintenance		**(4,170)**	(3,653)
Aircraft depreciation and operating leases		**(5,065)**	(5,568)
Other depreciation, amortisation and operating leases		**(1,213)**	(1,133)
Commissions		**(371)**	(400)
Others		**(1,326)**	(1,730)
Operating expenses		**(45,019)**	(48,026)
Operating profit	*4*	**664**	2,362
Finance charges		**(851)**	(686)
Finance income		**244**	127
Net finance charges		**(607)**	(559)
Share of profits of associates		**683**	771
Profit before taxation		**740**	2,574
Taxation	*5*	**(237)**	(444)
Profit for the period		**503**	2,130
Non-controlling interests		**(150)**	(158)
Profit attributable to the shareholders of Cathay Pacific		**353**	1,972
Profit for the period		**503**	2,130
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges		**4,046**	2,713
Revaluation of available-for-sale financial assets		**73**	103
Share of other comprehensive income of associates		**(180)**	(674)
Exchange differences on translation of foreign operations		**(493)**	3
Other comprehensive income for the period, net of taxation	*6*	**3,446**	2,145
Total comprehensive income for the period		**3,949**	4,275
Total comprehensive income attributable to			
Shareholders of Cathay Pacific		**3,799**	4,117
Non-controlling interests		**150**	158
		3,949	4,275
Earnings per share (basic and diluted)	*7*	**9.0¢**	50.1¢

Consolidated Statement of Financial Position

at 30th June 2016 - Unaudited

	Note	**30th June 2016 HK$M**	31st December 2015 HK$M
ASSETS AND LIABILITIES			
Non-current assets and liabilities			
Property, plant and equipment		**98,987**	100,552
Intangible assets		**10,754**	10,606
Investments in associates		**22,487**	22,878
Other long-term receivables and investments		**5,026**	5,069
Deferred tax assets		**652**	497
		137,906	139,602
Long-term liabilities		**(49,624)**	(49,867)
Other long-term payables		**(11,885)**	(15,838)
Deferred tax liabilities		**(9,878)**	(9,278)
		(71,387)	(74,983)
Net non-current assets		**66,519**	64,619
Current assets and liabilities			
Stock		**1,449**	1,366
Trade, other receivables and other assets	*9*	**8,464**	9,715
Assets held for sale	*10*	**1,449**	1,497
Liquid funds		**21,096**	20,647
		32,458	33,225
Current portion of long-term liabilities		**(13,889)**	(13,782)
Related pledged security deposits		**479**	544
Net current portion of long-term liabilities		**(13,410)**	(13,238)
Trade and other payables	*11*	**(19,915)**	(23,025)
Unearned transportation revenue		**(14,216)**	(13,012)
Taxation		**(614)**	(502)
		(48,155)	(49,777)
Net current liabilities		**(15,697)**	(16,552)
Total assets less current liabilities		**122,209**	123,050
Net assets		**50,822**	48,067
CAPITAL AND RESERVES			
Share capital and other statutory capital reserves	*12*	**17,106**	17,106
Other reserves		**33,558**	30,821
Funds attributable to the shareholders of Cathay Pacific		**50,664**	47,927
Non-controlling interests		**158**	140
Total equity		**50,822**	48,067

Notes:

1. Basis of preparation and accounting policies

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 17th August 2016.

The accounting policies, methods of computation and presentation used in the preparation of the interim financial statements are consistent with those described in the 2015 annual financial statements except for those noted in note 2 below.

2. Changes in accounting policies

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

- HKFRSs (Amendments) "Annual Improvements to HKFRSs 2012-2014 Cycle"
- HKAS 16 and HKAS 38 (Amendments) "Clarification of Acceptable Methods of Depreciation and Amortisation"
- HKAS 1 (Amendment) "Presentation of Financial Statements: Disclosure Initiative"

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

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

3. Segment information

(a) Segment results

	Six months ended 30th June							
	Airline business		Non-airline business		Unallocated		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
Sales to external customers	**45,083**	49,822	**600**	566			**45,683**	50,388
Inter-segment sales	**4**	4	**1,873**	1,797			**1,877**	1,801
Segment revenue	**45,087**	49,826	**2,473**	2,363			**47,560**	52,189
Segment results	**367**	2,270	**297**	92			**664**	2,362
Net finance charges	**(539)**	(495)	**(68)**	(64)			**(607)**	(559)
	(172)	1,775	**229**	28			**57**	1,803
Share of profits of associates					**683**	771	**683**	771
Profit before taxation							**740**	2,574
Taxation	**(237)**	(441)	**-**	(3)			**(237)**	(444)
Profit for the period							**503**	2,130

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

3. Segment information (continued)

The major revenue earning asset is the aircraft fleet which is used both for 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.

(b) Geographical information

	Six months ended 30th June	
	2016	2015
	HK$M	HK$M
Revenue by origin of sale:		
North Asia		
- Hong Kong and Mainland China	**22,712**	24,699
- Japan, Korea and Taiwan	**4,175**	4,767
India, Middle East, Pakistan and Sri Lanka	**1,939**	2,260
Southwest Pacific and South Africa	**2,760**	3,327
Southeast Asia	**3,837**	4,179
Europe	**4,075**	4,217
North America	**6,185**	6,939
	45,683	50,388

India, Middle East, Pakistan and Sri Lanka includes the Indian sub-continent, the Maldives, the Middle East, Pakistan, Sri Lanka and Bangladesh. Southwest Pacific and South Africa includes Australia, New Zealand and Southern Africa. Southeast Asia includes Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam and Cambodia. Europe includes continental Europe, the United Kingdom, Scandinavia, Russia, the Baltic states and Turkey. North America includes the U.S.A., Canada and Latin America. A geographic analysis of segment results is not disclosed for the reasons set out in the 2015 Annual Report.

4. Operating profit

	Six months ended 30th June	
	2016	2015
	HK$M	HK$M
Operating profit has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment		
- leased	**1,017**	1,129
- owned	**2,870**	3,174
Amortisation of intangible assets	**243**	223
Operating lease rentals		
- land and buildings	**525**	478
- aircraft and related equipment	**1,592**	1,675
- others	**32**	24
Gain on disposal of assets held for sale	**(232)**	-
Provision for impairment of assets held for sale	**2**	-
Loss on disposal of property, plant and equipment, net	**103**	101
Cost of stock expensed	**1,083**	979
Exchange differences, net	**(10)**	42
Auditors' remuneration	**6**	7
Dividend income from unlisted investments	**(15)**	(74)

5. Taxation

	Six months ended 30th June	
	2016	2015
	HK$M	HK$M
Current tax expenses		
- Hong Kong profits tax	**97**	103
- overseas tax	**119**	116
- under provisions for prior years	**80**	-
Deferred tax		
- origination and reversal of temporary differences	**(59)**	225
	237	444

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates of tax applicable in countries in which the Group is assessable for tax. Tax provisions are reviewed regularly to take into account changes in legislation, practice and the status of negotiations (see note 21(d) to the financial statements in the 2016 Interim Report).

6. Other comprehensive income

	Six months ended 30th June	
	2016	2015
	HK$M	HK$M
Cash flow hedges		
- recognised during the period	**551**	(367)
- transferred to profit or loss	**3,990**	3,316
- deferred tax recognised	**(495)**	(236)
Revaluation of available-for-sale financial assets		
- recognised during the period	**73**	103
Share of other comprehensive income of associates		
- recognised during the period	**(180)**	(674)
Exchange differences on translation of foreign operations		
- recognised during the period	**(493)**	(7)
- reclassified to profit or loss	**-**	10
Other comprehensive income for the period	**3,446**	2,145

7. Earnings per share (basic and diluted)

Earnings per share is calculated by dividing the profit attributable to the shareholders of Cathay Pacific of HK$353 million (2015: HK$1,972 million) by the daily weighted average number of shares in issue throughout the period of 3,934 million (2015: 3,934 million) shares.

8. Dividend

The Directors have declared a first interim dividend of HK$0.05 per share (2015: HK$0.26 per share) for the year ending 31st December 2016. The interim dividend which totals HK$197 million (2015: HK$1,023 million) will be paid on 4th October 2016 to shareholders registered at the close of business on the record date, being Friday, 9th September 2016. Shares of the Company will be traded ex-dividend as from Wednesday, 7th September 2016. This interim dividend has not been recognised as a liability at the reporting date.

The register of members will be closed on Friday, 9th September 2016, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 8th September 2016.

9. Trade, other receivables and other assets

	30th June 2016 HK$M	31st December 2015 HK$M
Trade debtors	**5,270**	5,360
Derivative financial assets - current portion	**736**	1,145
Other receivables and prepayments	**2,332**	3,083
Due from associates and other related companies	**126**	127
	8,464	9,715

	30th June 2016 HK$M	31st December 2015 HK$M
Analysis of trade debtors (net of allowance for doubtful debts) by age:		
Current	**5,015**	5,038
One to three months overdue	**133**	167
More than three months overdue	**122**	155
	5,270	5,360

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

10. Assets held for sale

	30th June 2016 HK$M	31st December 2015 HK$M
Assets held for sale	**1,449**	1,497

11. Trade and other payables

	30th June 2016 HK$M	31st December 2015 HK$M
Trade creditors	**4,988**	5,341
Derivative financial liabilities – current portion	**7,432**	9,456
Other payables	**7,112**	7,732
Due to associates	**218**	227
Due to other related companies	**165**	269
	19,915	23,025

	30th June 2016 HK$M	31st December 2015 HK$M
Analysis of trade creditors by age:		
Current	**4,868**	5,023
One to three months overdue	**111**	308
More than three months overdue	**9**	10
	4,988	5,341

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

12. Share capital

	30th June 2016		31st December 2015	
	Number of shares	**HK$M**	Number of shares	HK$M
Issued and fully paid				
At 30th June / 31st December	**3,933,844,572**	**17,106**	3,933,844,572	17,106

During the period, the Group did not purchase, sell or redeem any of its shares (2015: nil). At 30th June 2016, 3,933,844,572 shares were in issue (31st December 2015: 3,933,844,572 shares).

13. Corporate governance

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

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

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

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

The 2016 interim results have been reviewed by the Audit Committee of the Company and by the external auditors. Details on Corporate Governance can be found in the 2015 Annual Report and in the 2016 Interim Report.

14. Interim report

The 2016 Interim Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Company website (www.cathaypacific.com) on or before 31st August 2016. Printed copies will be sent to shareholders who have elected to receive printed copies on 1st September 2016.

15. Requirement in connection with publication of "non-statutory accounts" under Section 436 of the Hong Kong Companies Ordinance Cap. 622

The financial information relating to the year ended 31st December 2015 that is included in the Interim Report 2016 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance") in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2015 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report was prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

16. Event after the reporting period

In July 2015, Air China proposed the issue of A shares. As of 20th July 2016, the Public Offering Review Committee of China Securities Regulatory Commission (the "CSRC") has reviewed the application for the non-public issue of A shares and gave it a preliminary approval. Air China will publish a further announcement once it receives formal approval from the CSRC. When the issue happens, the Company's shareholding in Air China will be diluted.

Operating expenses

	Group			Cathay Pacific and Dragonair		
	Six months ended 30th June			Six months ended 30th June		
	2016 HK$M	2015 HK$M	**Change**	**2016 HK$M**	2015 HK$M	**Change**
Staff	**9,867**	9,373	**+5.3%**	**8,812**	8,399	**+4.9%**
Inflight service and passenger expenses	**2,372**	2,284	**+3.9%**	**2,372**	2,284	**+3.9%**
Landing, parking and route expenses	**7,376**	7,266	**+1.5%**	**7,250**	7,101	**+2.1%**
Fuel, including hedging losses	**13,259**	16,619	**-20.2%**	**13,081**	16,357	**-20.0%**
Aircraft maintenance	**4,170**	3,653	**+14.2%**	**3,996**	3,509	**+13.9%**
Aircraft depreciation and operating leases	**5,065**	5,568	**-9.0%**	**4,994**	5,482	**-8.9%**
Other depreciation, amortisation and operating leases	**1,213**	1,133	**+7.1%**	**905**	825	**+9.7%**
Commissions	**371**	400	**-7.3%**	**371**	400	**-7.3%**
Others	**1,326**	1,730	**-23.4%**	**2,221**	2,406	**-7.7%**
Operating expenses	**45,019**	48,026	**-6.3%**	**44,002**	46,763	**-5.9%**
Net finance charges	**607**	559	**+8.6%**	**522**	479	**+9.0%**
Total operating expenses	**45,626**	48,585	**-6.1%**	**44,524**	47,242	**-5.8%**

- The Group's total operating expenses decreased by 6.1% to HK$45,626 million.
- The combined cost per ATK (with fuel) of Cathay Pacific and Dragonair decreased from HK$3.24 to HK$2.98.

Cathay Pacific and Dragonair operating results analysis

	Six months ended 30th June	
	2016 HK$M	2015 HK$M
Airlines' (loss)/profit before taxation	**(618)**	1,323
Taxation	**(165)**	(368)
Airlines' (loss)/profit after taxation	**(783)**	955
Share of profits from subsidiaries and associates	**1,136**	1,017
Profit attributable to the shareholders of Cathay Pacific	**353**	1,972

Cathay Pacific and Dragonair operating results analysis (continued)

The changes in the interim airlines' profit/(loss) before taxation can be analysed as follows:

	HK$M	
2015 interim airlines' profit before taxation	**1,323**	
Decrease of revenue	**(4,658)**	- Passenger revenue decreased due to a 10.1% decrease in yield and an 1.4% points decrease in load factor, offset in part by a 4.2% increase in capacity. - Cargo revenue decreased due to a 17.6% decrease in yield and an 1.9% points decrease in load factor, offset in part by a 0.6% increase in capacity.
Decrease/(increase) of costs:		
- Fuel, including hedging losses	**3,276**	- Fuel costs decreased primarily due to a 33.3% decrease in the average into-plane fuel price, offset in part by a 2.0% increase in consumption and an increase in hedging losses.
- Aircraft maintenance	**(487)**	- Increased mainly due to increases in operational capacity, higher maintenance fees from higher charge rates and more repair programmes to improve aircraft availability.
- Landing, parking and route expenses	**(149)**	- Increased mainly due to an increase in flight frequencies.
- Depreciation, amortisation and operating leases	**408**	- Decreased mainly due to decreases in depreciation of three Airbus A340-300 aircraft and four Boeing 747-400F freighters.
- Staff	**(414)**	- Increased mainly due to an increase in headcount and salaries.
- All other operating expenses, including inflight service, commissions, net finance charges and others	**83**	- Decreased mainly due to a net decrease in various operating expenses.
2016 interim airlines' loss before taxation	**(618)**	

Fuel expenditure and hedging

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

	Six months ended 30th June	
	2016	2015
	HK$M	HK$M
Gross fuel cost	**8,769**	12,876
Fuel hedging losses	**4,490**	3,743
Fuel cost	**13,259**	16,619

Financial position

- Additions to property, plant and equipment were HK$2,437 million, comprising HK$1,549 million for aircraft and related equipment and HK$888 million for other equipment and buildings.
- Gross borrowings decreased by 0.1% to HK$63,034 million. These are fully repayable by 2027 and are mainly denominated in United States dollars, Hong Kong dollars, Japanese yen and Euros, with 46.0% at fixed rates of interest after taking into account the effect of related derivatives.
- Liquid funds, 71.0% of which are denominated in the United States dollars, increased by 2.2% to HK$21,096 million.
- Net borrowings (after deduction of liquid funds) decreased by 1.2% to HK$41,938 million.
- Funds attributable to the shareholders of Cathay Pacific increased by 5.7% to HK$50,664 million. This was in part due to reduction in unrealised hedging losses of HK$4,046 million recognised in the cash flow hedging reserve, offset by retained profit and other reserve movements.
- The net debt/equity ratio decreased from 0.89 times to 0.83 times.
- The Group's policies in relation to financial risk management and the management of currency, interest rate and fuel price exposures are set out in the 2015 Annual Report.

Fleet profile *

Aircraft type	Number at 30th June 2016				Firm orders				Expiry of operating leases						Options
		Leased													
	Owned	Finance	Operating	Total	‘16	‘17	‘18 and beyond	Total	‘16	‘17	‘18	‘19	‘20	‘21 and beyond	
Aircraft operated by Cathay Pacific:															
A330-300	23	13	6	42							3	1	2		
A340-300	4	1		5											
A350-900			1	1	11[(a)]	10		21						1	
A350-1000							26	26							
747-400	3			3											
747-400F	4			4[(b)]											
747-400BCF			1	1							1				
747-400ERF		6		6											
747-8F	2	11		13	1[(b)]			1							
777-200	5			5											
777-200F															5[(c)]
777-300	12			12			5[(d)]	5							
777-300ER	19	11	23	53						2	2			19	
777-9X							21[(b)]	21							
Total	72	42	31	145	12	10	52	74		2	6	1	2	20	5
Aircraft operated by Dragonair:															
A320-200	5		10	15							2	1	1	6	
A321-200	2		6	8									1	5	
A330-300	10		9[(e)]	19					3	4		2			
Total	17		25	42					3	4	2	3	2	11	
Aircraft operated by Air Hong Kong:															
A300-600F	2	6	2	10							2				
747-400BCF			3[(e)]	3					1	2					
Total	2	6	5	13					1	2	2				
Grand total	**91**	**48**	**61**[(e)]	**200**	**12**	**10**	**52**	**74**[(d)]	**4**	**8**	**10**	**4**	**4**	**31**	**5**

* Includes parked aircraft. The table does not reflect aircraft movements after 30th June 2016.

(a) Including one aircraft on a 12-year operating lease which was delivered in July 2016 and another aircraft which was delivered in August 2016.

(b) In December 2013, Cathay Pacific agreed with The Boeing Company to purchase 21 new Boeing 777-9X aircraft (for delivery after 2020), three new Boeing 777-300ER aircraft and one new Boeing 747-8F freighter and to sell six existing Boeing 747-400F freighters. Three Boeing 777-300ER aircraft have been delivered to Cathay Pacific, one in April 2015, one in July 2015 and the third in September 2015. One Boeing 747-8F freighter was delivered to Cathay Pacific in August 2016. Four of the Boeing 747-400F freighters have been delivered to The Boeing Company, one in November 2014, one in July 2015, one in July 2016 (parked in January 2014) and the fourth one in August 2016. The remaining two Boeing 747-400F freighters will be delivered to The Boeing Company by the end of 2016.

(c) Purchase options in respect of five Boeing 777-200F freighters.

(d) At 30th June 2016, the Company had 69 new aircraft and five used Boeing 777-300 aircraft due for delivery up to 2024.

(e) 56 of the 61 aircraft which are subject to operating leases are leased from third parties. The remaining five of such aircraft (three Boeing 747-400BCFs and two Airbus A330-300s) are leased within the Group.

Review of other subsidiaries and associates

- AHK Air Hong Kong Limited recorded a decrease in profit in the first half of 2016 compared with the first half of 2015.
- Asia Miles Limited achieved an increase in profit in the first half of 2016 compared with the first half of 2015. This reflected an increase in business volume.
- Cathay Pacific Catering Services (H.K.) Limited's profit in the first half of 2016 decreased compared with the first half of 2015. Increases in staff, maintenance and depreciation costs more than offset an increase in revenue.
- The financial results of Cathay Pacific Services Limited in the first half of 2016 improved compared with the first half of 2015. This was mainly due to an increase in the number of customers and effective management of operating costs.
- The financial results of Hong Kong Airport Services Limited for the first half of 2016 deteriorated by comparison with the first half of 2015. This reflected limited rate increases and significant increases in staff costs, the latter necessitated by labour shortages.
- The Group's share of Air China Limited's ("Air China") results is based on its financial statements drawn up three months in arrear. Consequently the 2016 interim results include Air China's results for the six months ended 31st March 2016, adjusted for any significant events or transactions for the period from 1st April 2016 to 30th June 2016. Air China's results improved significantly in the six months to 31st March 2016. This reflected lower fuel prices, strong passenger demand and lower exchange losses from depreciation of the Renminbi.
- Air China Cargo Co., Ltd. ("Air China Cargo"), in which Cathay Pacific owns an equity and an economic interest, is the leading provider of air cargo services in Mainland China. In the first half of 2016, Air China Cargo recorded a loss compared to a profit in the first half of 2015. Savings from lower fuel prices were more than offset by unrealised exchange losses on loans denominated in United States dollars and lower yield in the highly competitive air cargo market.

Corporate Responsibility

- Our 2015 sustainable development report will be published in the third quarter of 2016 and will be available at www.cathaypacific.com/sdreport.
- Cathay Pacific is involved in the Global Market-Based Measure Technical Task Force, under the auspices of the International Civil Aviation Organization. This task force is leading the industry's work to develop airlines' commitment to carbon neutral growth by 2020, and in developing proposals for a fair and equitable global agreement on emissions.
- Cathay Pacific engages with regulators and groups (the IATA Environment Committee, the Airlines Advisory Group on Global Market-Based Measures, 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 as part of its climate change strategy. 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 2015 emissions data from intra-EU flights were reported on by an external auditor in January and our emissions report was submitted to the UK Environment Agency in February. Cathay Pacific's greenhouse gas emissions data for 2015 were reported on by an external auditor.
- In January, Hong Kong SAR Chief Executive CY Leung was guest of honour on a community flight organised by Cathay Pacific. The 90-minute flight on a Boeing 777-300 aircraft was a special treat for some 250 residents from less-advantaged families in Hong Kong. Most of the participants had never flown before.
- Cathay Pacific supports UNICEF through its "Change for Good" inflight fundraising programme. In July, a group of Cathay Pacific staff travelled to Nepal as part of a "Change for Good" field trip organised by UNICEF. The aim was to give them a better understanding of how "Change for Good" donations are used to help improve the lives of disadvantaged children and their families.

- At 30th June 2016, the Cathay Pacific Group employed more than 33,700 people worldwide. More than 26,000 of these people are employed in Hong Kong. Cathay Pacific itself employs around 23,400 people worldwide. Dragonair employs around 3,300 people. We regularly review our human resources and remuneration policies in the light of legislation, industry practice, market conditions and the performance of individuals and the Group.

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

Executive Directors: John Slosar (Chairman), Ivan Chu, Rupert Hogg, Martin Murray, Algernon Yau;

Non-Executive Directors: Cai Jianjiang, Martin Cubbon, Fan Cheng, Ian Shiu, Song Zhiyong, Merlin Swire, Samuel Swire, Zhao Xiaohang;

Independent Non-Executive Directors: John Harrison, Irene Lee, Andrew Tung and Peter Wong.

By Order of the Board
Cathay Pacific Airways Limited
John Slosar
Chairman

Hong Kong, 17th August 2016

Website: http://www.cathaypacific.com