Analysts Briefing

15 March 2017

Annual Results - 2016

Group Financial Statistics

		2016	2015	% Var
Group Revenue	HK$m	**92,751**	102,342	-9.4%
Group attributable profit/(loss)	Million	**(575)**	6,000	-109.6%
Earning/(loss) per share	HK¢	**(14.6)**	152.5	-109.6%
Dividend per share	HK¢	**0.05**	0.53	-90.6%

Group Operating Statistics

		2016	2015	% Var
Available tonne kilometres (ATK)	Million	**30,462**	30,048	+1.4%
Available seat kilometres (ASK)	Million	**146,086**	142,680	+2.4%
Revenue passengers carried	'000	**34,323**	34,065	+0.8%
Cost per ATK (with fuel)	HK$	**3.02**	3.14	-3.8%
Cost per ATK (without fuel)	HK$	**2.12**	2.06	+2.9%

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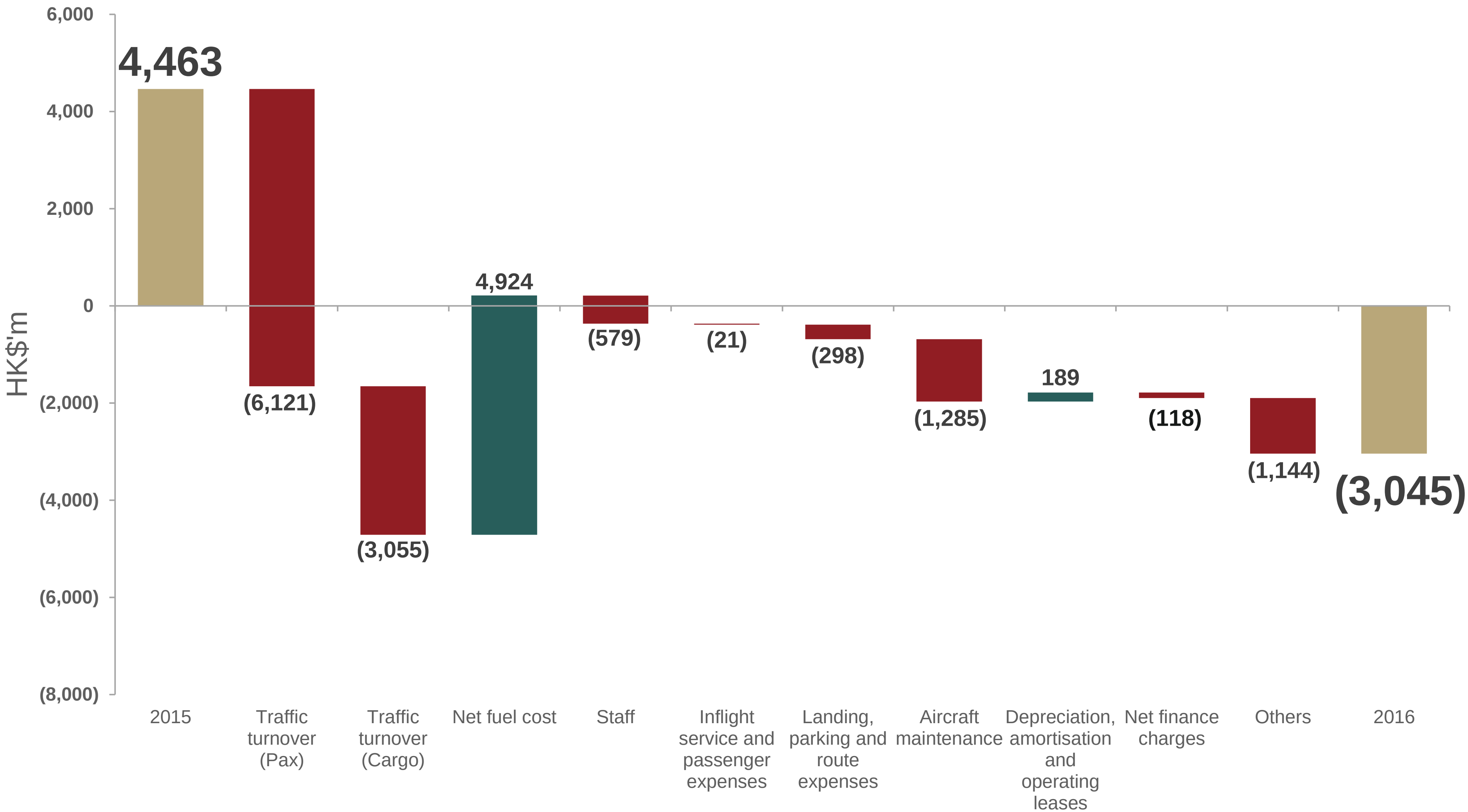
Operating performance - overview

- Difficult business environment.
- Intense competition and significant competing capacity.
- Competitors increased the availability of direct flights from Mainland China to international destinations.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China.
- Reduction in numbers of visitors to Hong Kong.
- Strength on the Hong Kong dollar made our home hub an expensive destination.
- Severe pressure on yields.
- Overcapacity in cargo market.
- Low net fuel costs, but the benefit was reduced by fuel hedging losses.
- Satisfactory performance from our share in associate companies.
- Announcement of a critical review of the business, resulting in a three year transformational programme.

Annual Results - 2016

HK$ million	2016	2015	% change
Airlines' (loss)/profit before tax	**(3,045)**	4,463	-168.2%
Taxation	**(318)**	(891)	-64.3%
Airlines' (loss)/profit after tax	**(3,363)**	3,572	-194.1%
Share of profits from subsidiaries & associates	**2,788**	2,428	+14.8%
Group attributable (loss)/profit	**(575)**	6,000	-109.6%

Reconciliation of profit before tax



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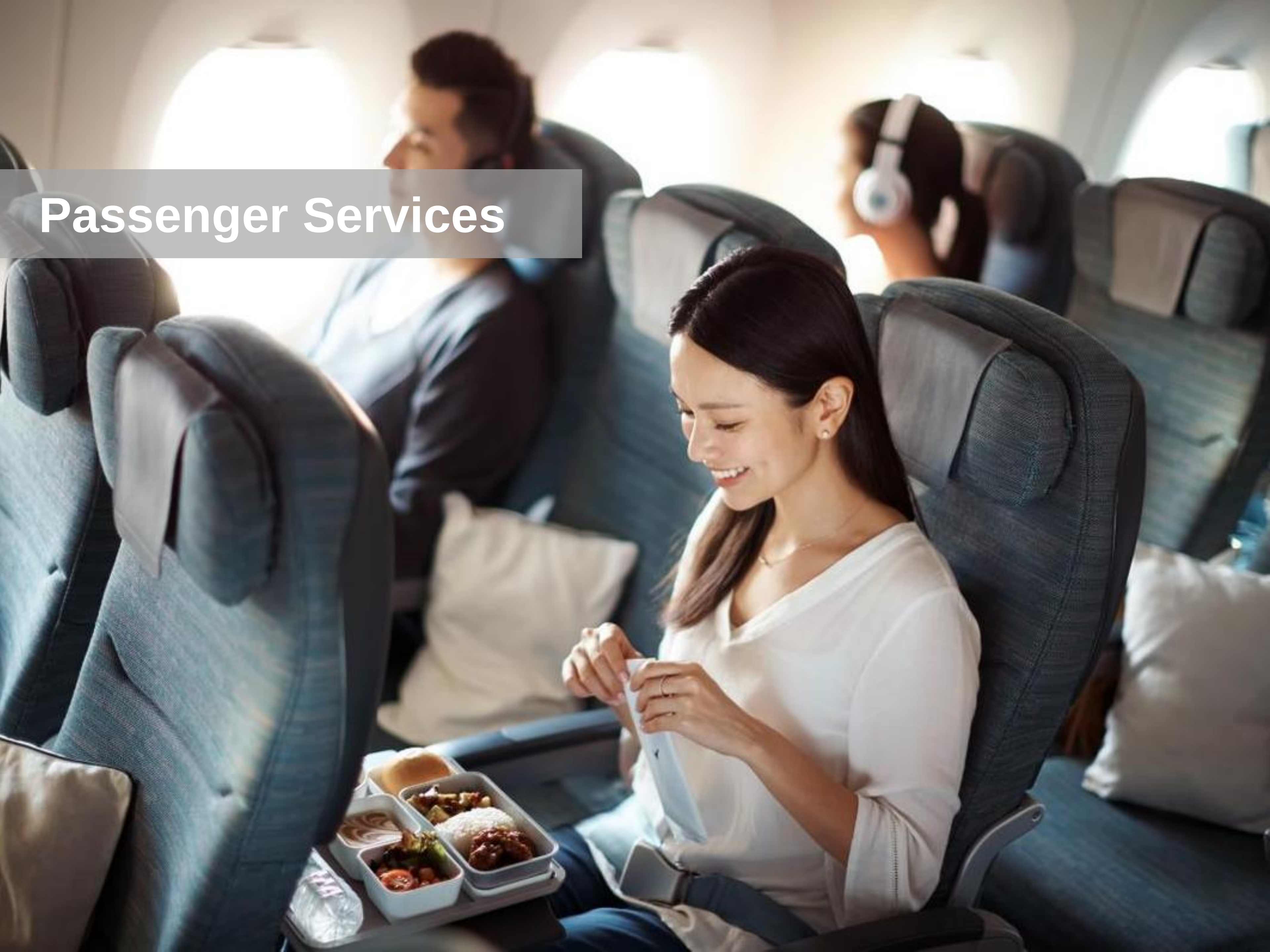

Passenger Services

Operating performance - Passenger

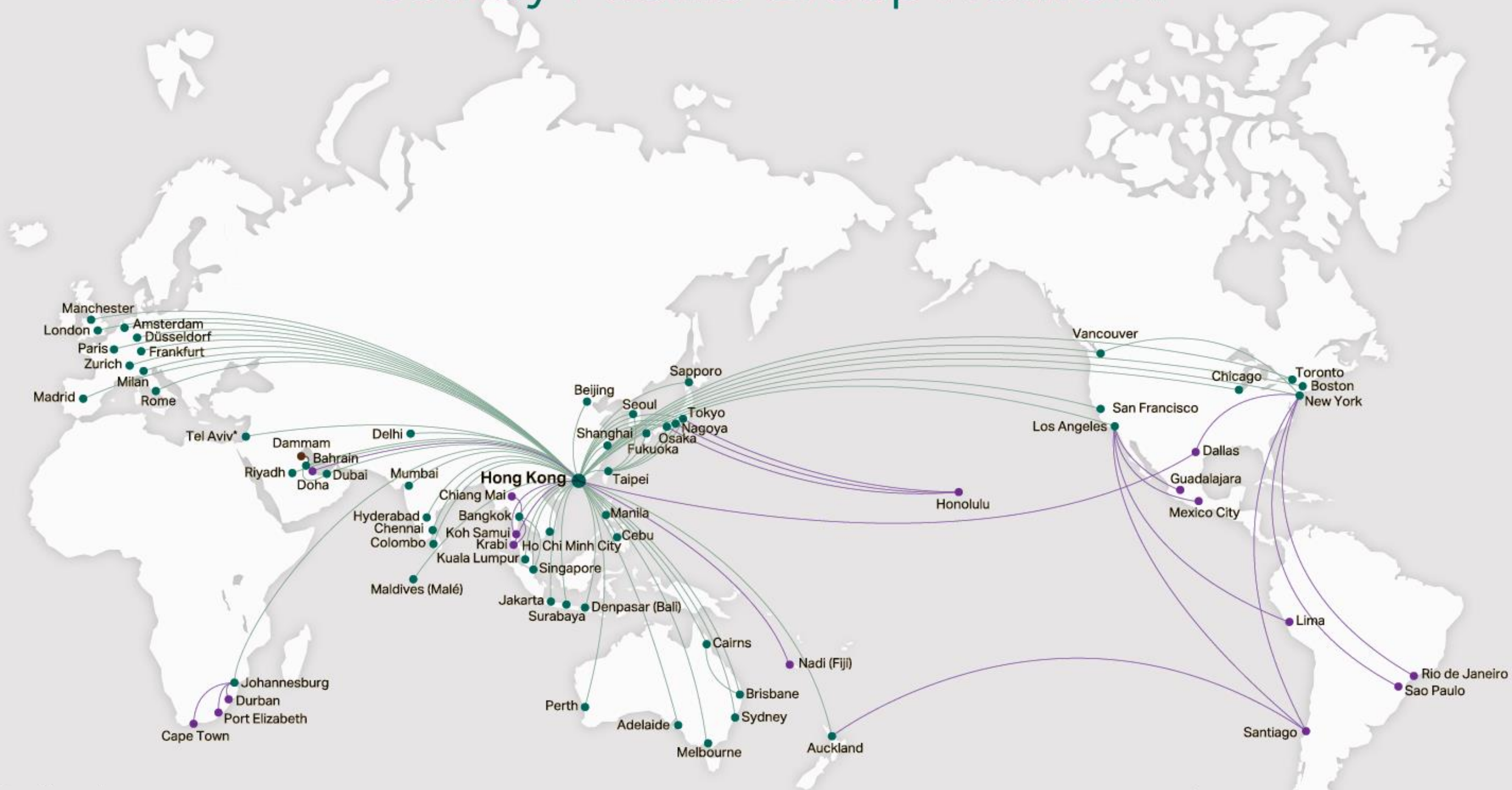
		2016	2015	% Var
Revenue	HK$m	**66,926**	73,047	-8.4%
ASK	Million	**146,086**	142,680	+2.4%
Passengers carried	‘000	**34,323**	34,065	+0.8%
Passenger yield	HK¢	**54.1**	59.6	-9.2%
Passenger load factor	%	**84.5**	85.7	-1.2%pt

Yields decline on:

- Intense and increasing competition.
- Increased capacity in the market.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China, and reduction in visitors to Hong Kong.
- Strength of Hong Kong dollar made Hong Kong an expensive destination.
- Decline in premium class demand.
- Weak foreign currencies.

Operating performance – Regions

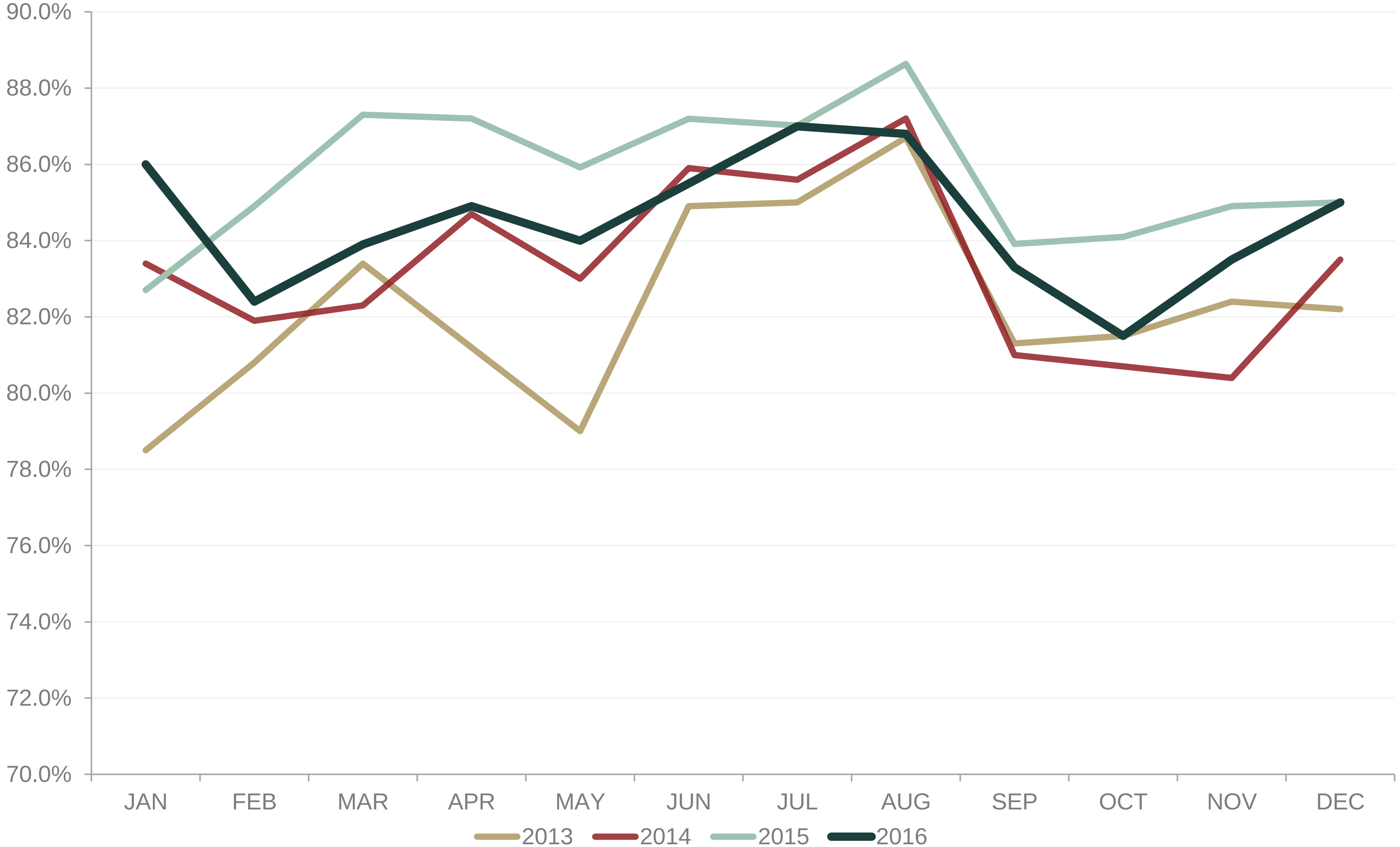
Cathay Pacific Group Network



Cathay Dragon Network

Europe	Southwest Pacific & South Africa	India, Middle East & Sri Lanka	Southeast Asia	North Asia	North America
ASK: +8.3%	ASK: +1.8%	ASK: -9.4%	ASK: +2.5%	ASK: +1.8%	ASK: +2.5%
LF: -1.9%	LF: -1.5%	LF: -3.6%	LF: +1.0%	LF: -1.1%	LF: -1.6%

Passenger Load Factors



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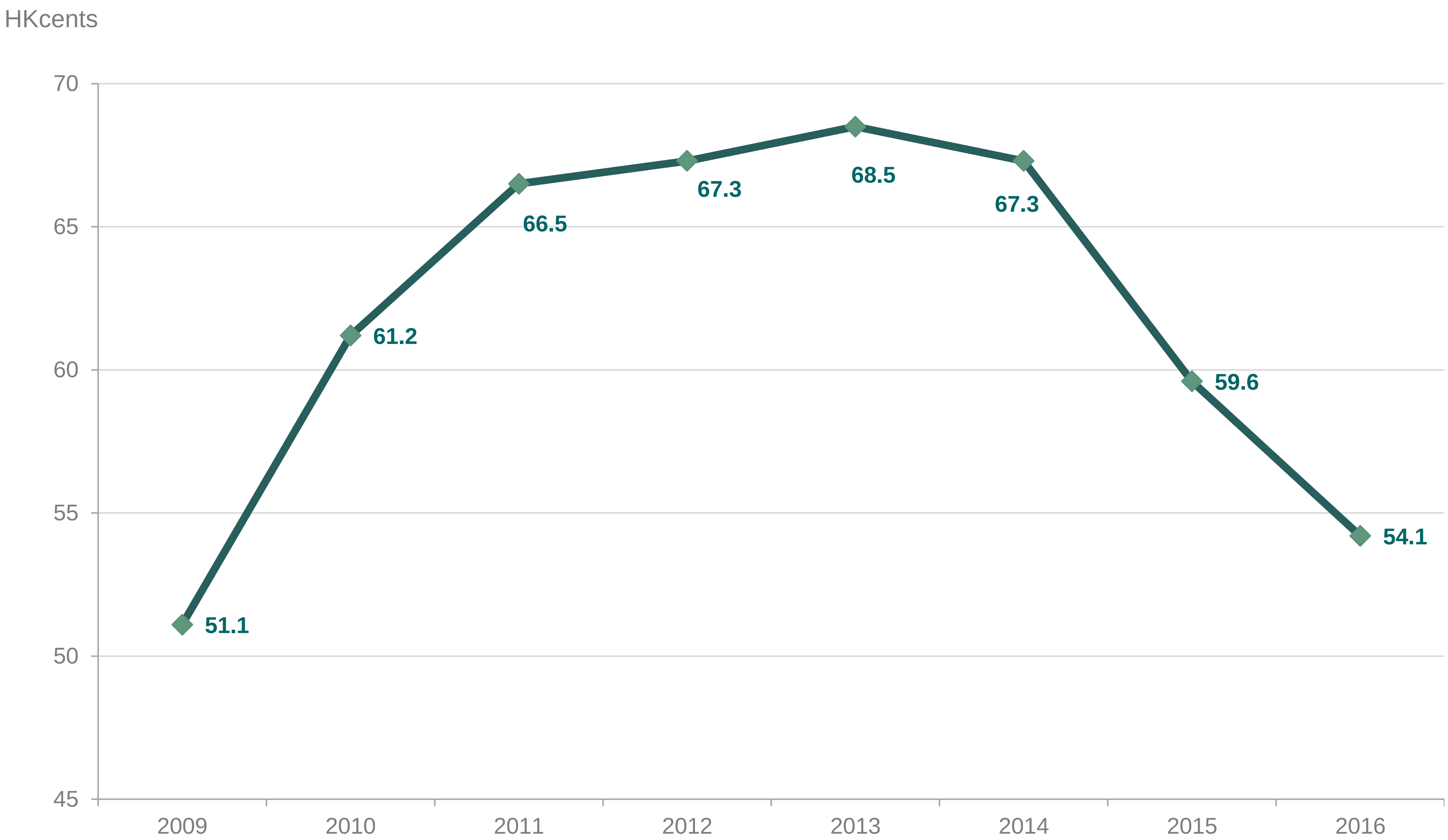
Passenger Yield

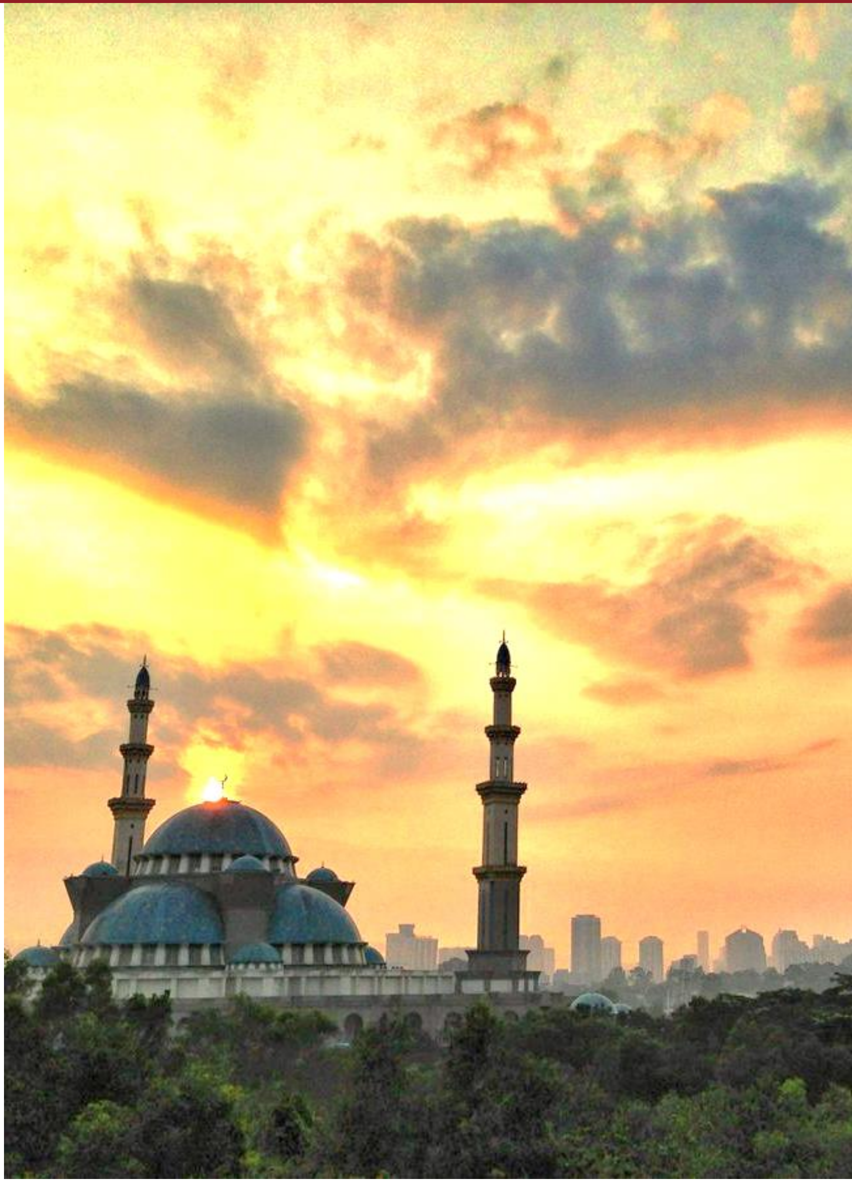


Network Development – Cathay Pacific

2016	
Mar	▪ Seasonal increase of one additional flight per week on the **Sapporo** route
May	▪ Seasonal increase of frequency on the **Boston** route to a 5-times-weekly service
June	▪ Introduced a 4-times-weekly service to **Madrid**
Sept	▪ Introduced a 4-times-weekly service to **London Gatwick**
Oct	▪ Announced a new 4-times-weekly service to **Tel Aviv** to commence in March 2017

Network Development – Cathay Dragon

2016	
May	▪ Increased service to **Wenzhou** to 10 flights per week.
Aug	▪ Announced that Cathay Dragon will operate flights to **Kuala Lumpur** from March 2017
Sept	▪ Increased service to **Phnom Penh** to 14 flights per week.



Cargo Services

Operating performance – Cargo

		2016	2015	% Var
Group Revenue	HK$m	**20,063**	23,122	-13.2%
Cathay Pacific and Cathay Dragon				
Revenue	HK$m	**17,024**	20,079	-15.2%
Cargo capacity	Million	**16,572**	16,481	+0.6%
Cargo & mail carried	‘000 tonnes	**1,854**	1,798	+3.1%
Cargo & mail yield	HK$	**1.59**	1.90	-16.3%
Cargo & mail load factor	%	**64.4**	64.2	+0.2%pt

- Increase in capacity.
  - Introduced new freighter services to Portland (2 fpw) and to Brisbane West Wellcamp (1 fpw).
- Yields decline on:
  - Strong competition.
  - Overcapacity in the market.
  - Suspension of Hong Kong fuel surcharge.

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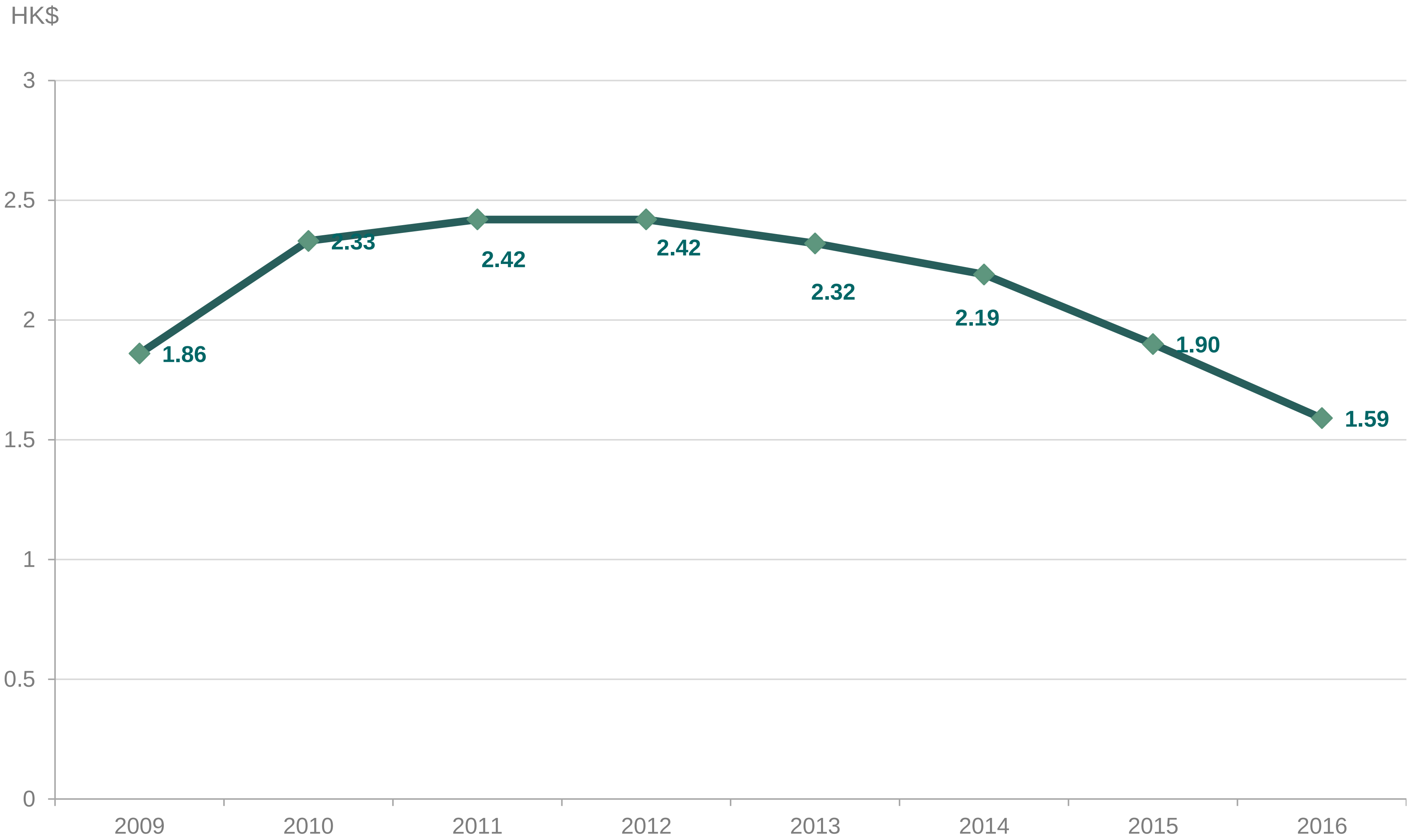
Operating performance – Cargo Load Factors

CATHAY PACIFIC CARGO

Cargo Yield


HK$
3
2.5
2
1.5
1
0.5
0
1.86
2.33
2.42
2.42
2.32
2.19
1.90
1.59
2009
2010
2011
2012
2013
2014
2015
2016

Operating costs

Operating Costs - Group

- Lower net fuel costs.
- Cost per ATK (excluding fuel) increased by 2.9%.

	2016	2015	% Var
Staff	**19,770**	18,990	+4.1%
Inflight service and passenger expenses	**4,734**	4,713	+0.4%
Landing, parking and route expenses	**14,985**	14,675	+2.1%
Fuel, including hedging losses	**27,953**	32,968	-15.2%
Aircraft maintenance	**8,856**	7,504	+18.0%
Depreciation, amortization and operating leases	**13,008**	13,193	-1.4%
Net finance charges	**1,301**	1,164	+11.8%
Others (including commissions)	**3,970**	3,635	+9.2%
Total operating costs	**94,577**	96,842	**-2.3%**

Financial Risk Management - Fuel

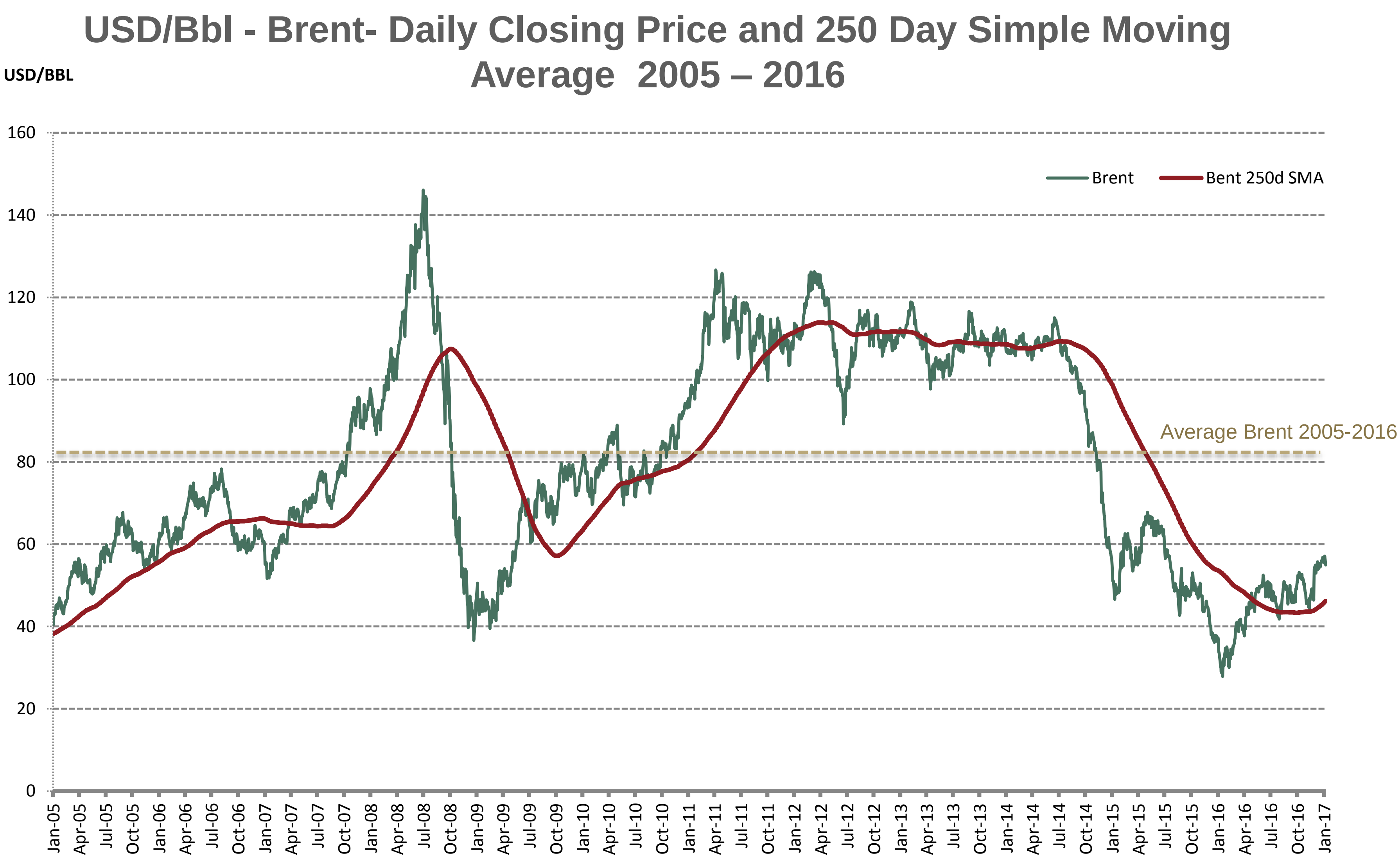
Fuel expenditure

	2016	2015
	HK$M	HK$M
Gross fuel cost	**19,497**	24,494
Fuel hedging losses (gains)	**8,456**	8,474
Fuel cost	**27,953**	32,968

Fuel hedging coverage (as at 31st Dec 2016)

Year	% coverage	Average Brent strike price (US$)
2017	**53.8%**	$89.63
2018	**46.0%**	$80.73
2019	**8.0%**	$75.40

Fuel Hedging - Fuel prices

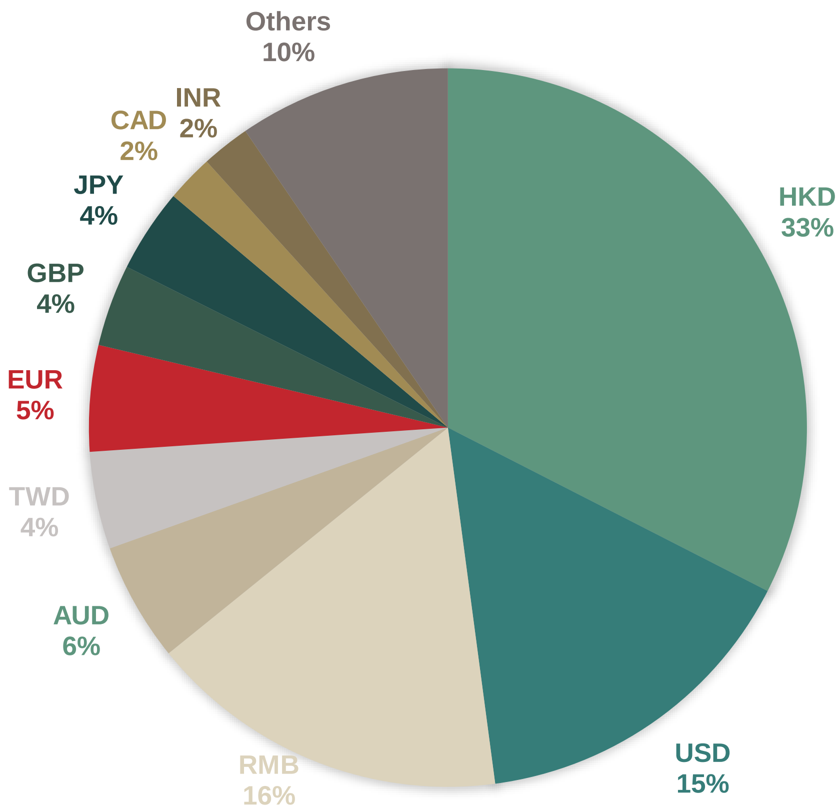


Financial Risk Management - Currency

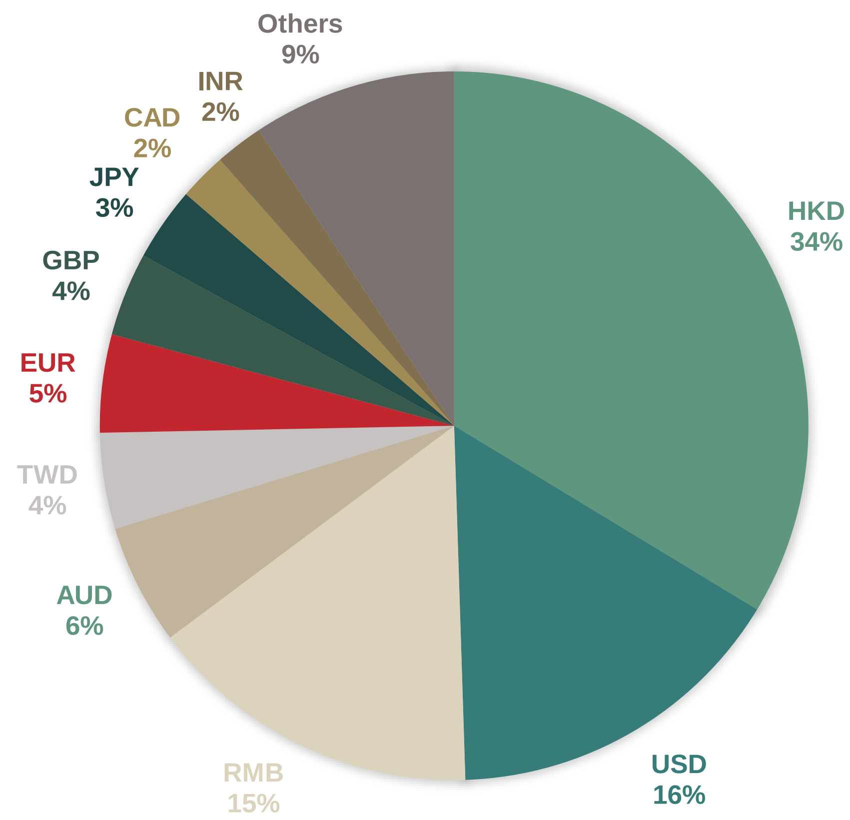
- 52% of the Group's revenue is denominated in currencies other than the USD or HKD.
- Where cost-effective, foreign exchange exposure is managed by matching receipts and payments in each currency.
- In addition, the Group hedges a percentage of its forecast net foreign currency cash flows to reduce its exposure to foreign exchange risk.
- Instruments for hedging are limited to deliverable and non-deliverable currency forwards.
- The Group generates a surplus in most of its revenue currencies, except the USD (on account of fuel and aircraft purchase payments).
- Surplus funds are therefore converted to and managed in USD and HKD.

Revenue mix – by currency

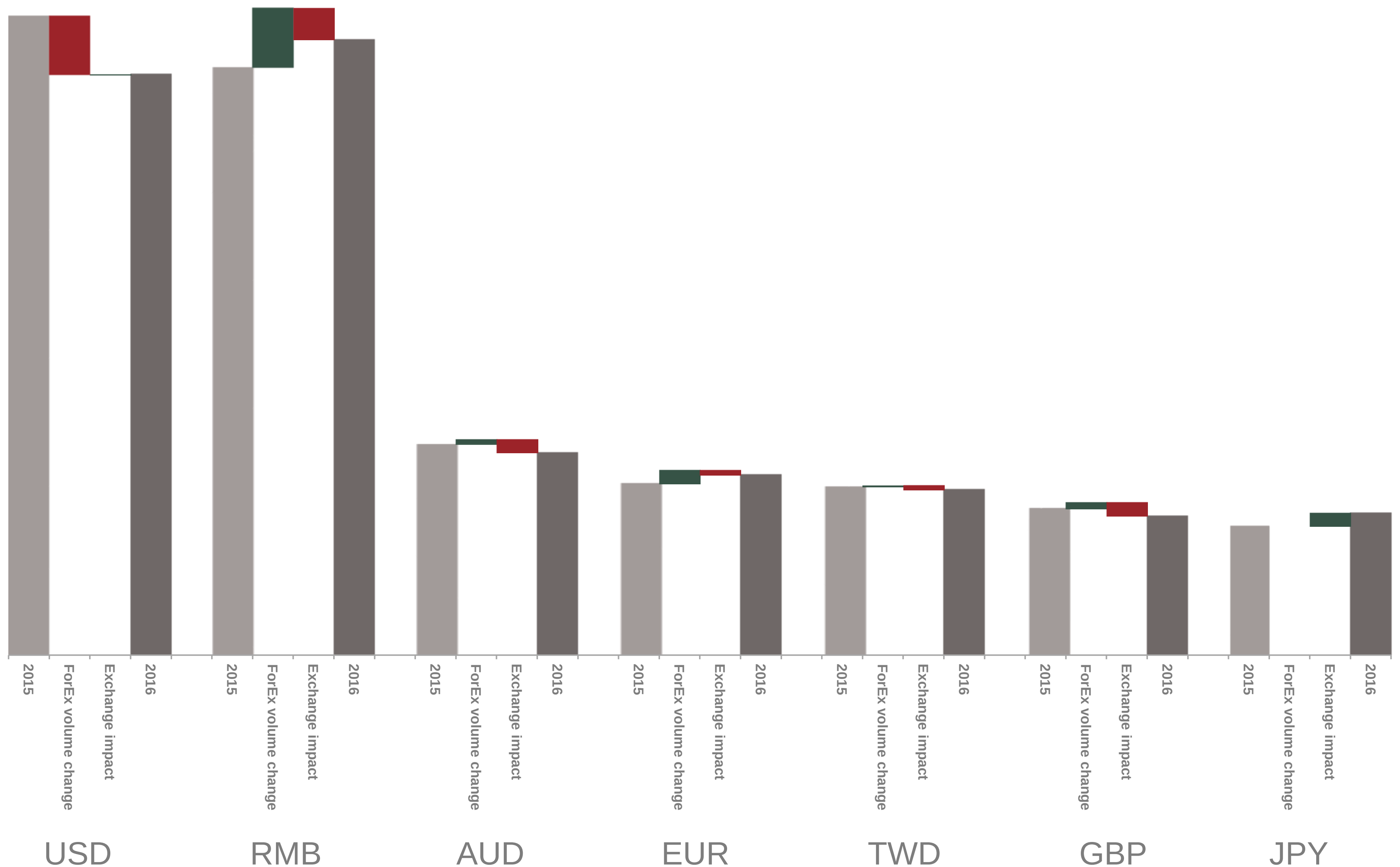
Full year 2016



Full year 2015



Currency movement impacts on sales revenue



Foreign Currency Movements – 8 Biggest

	From 1st January to 31st December 2016	From 1st January to 31st December 2015
RMB	-5.93%	-4.40%
AUD	-1.30%	-10.96%
TWD	1.57%	-3.73%
EUR	-3.12%	-10.26%
GBP	-16.32%	-5.45%
INR	-2.63%	-4.23%
JPY	3.07%	-0.40%
IDR	2.65%	-9.02%

Source: All currencies are market rates against USD obtained from Bloomberg.

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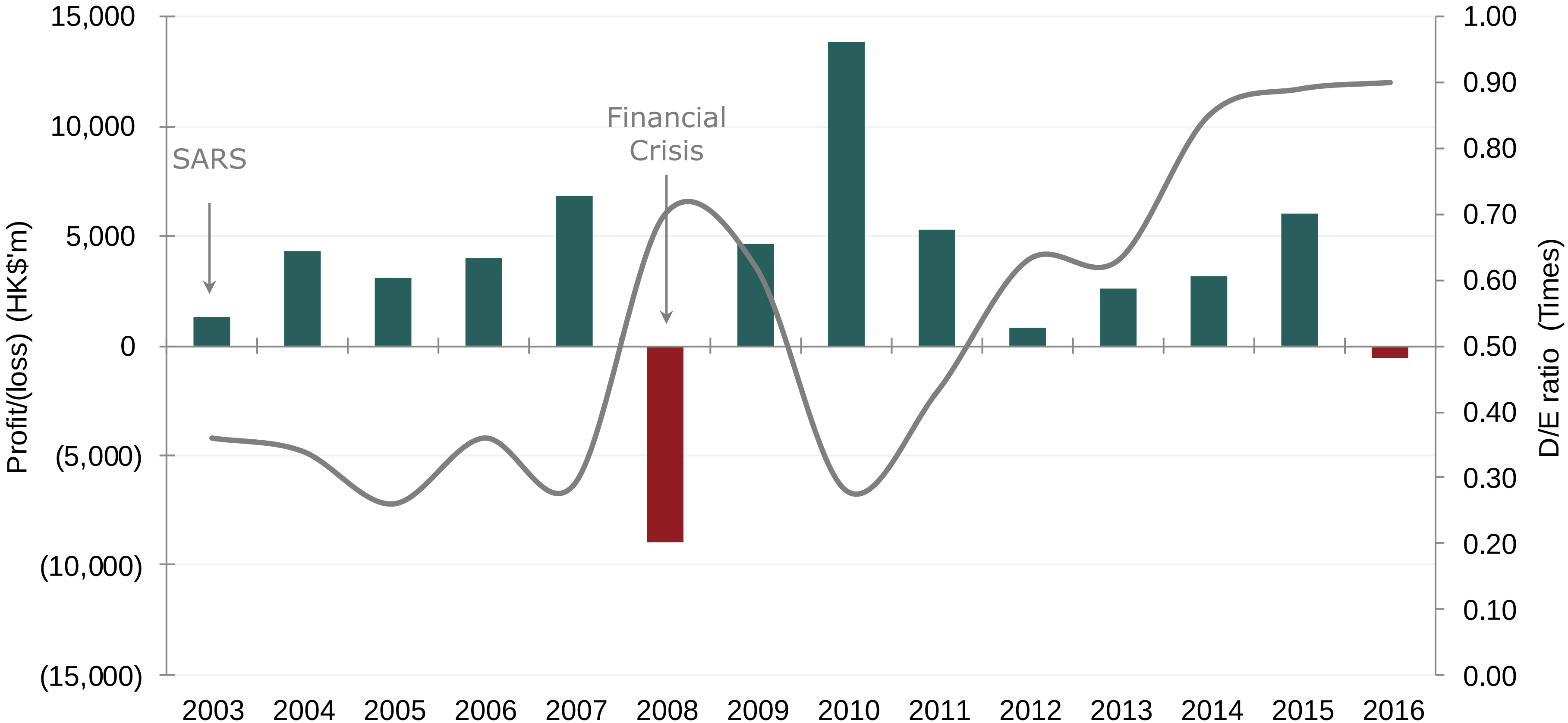
Extract of Consolidated Statement of Financial Position

	2016 HK$ million	2015 HK$ million	% Var
Shareholders' Funds	**55,365**	47,927	+15.5%
Gross Borrowings	**70,169**	63,105	+11.2%
Less: Liquid Funds	**(20,290)**	(20,647)	-1.7%
Net Borrowings	**49,879**	42,458	+17.5%
Capital Employed (including non-controlling interests)	**105,405**	90,525	+16.4%
Net Debt/Equity Ratio	**0.90**	0.89	+0.01 times
Investment in Air China	**19,770**	19,164	+3.2%

Profit and Net Debt/Equity Ratio



Group Profit Margin	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
%	4.0	10.2	6.2	6.5	9.1	(10.4)	6.9	15.5	5.4	0.9	2.6	3.0	5.9	(0.6)

Sources and Uses of Cash

	31 Dec 2016 HK$ million	31 Dec 2015 HK$ million
Inflow		
Operating activities	**6,108**	15,995
Proceeds from sales of fixed assets and others	**2,148**	1,080
New financing	**20,146**	8,268
Net cash benefit from financing arrangements	**894**	-
Repayment of loans to associates	**19**	-
Outflow		
Capital expenditure	**(14,886)**	(13,179)
Purchase of shares in an associate	**-**	-
Loans to associates	**(12)**	(77)
Loan and finance lease repayments	**(13,346)**	(10,050)
Dividends paid	**(1,447)**	(2,329)
Net inflow/(outflow)	**(376)**	(292)
Total Liquid Funds	**20,290**	20,647

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Fleet Profile

CX and KA Fleet Profile

	In operations			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
1 Jan 2016	164	23	187	-	1	1
New deliveries	10	1	11	-	-	-
Return to lessors	-	-	-	-	-	-
Parked aircraft	-	-	-	-	-	-
Deregistered	(6)	(3)	(9)	-	(1)	(1)
31 December 2016	168	21	189	-	-	-

Fleet Profile – as at 31 December 2016

Aircraft type (includes parked aircraft)	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	33	12	16	61
A340-300	4	-	-	4
A350-900	5	3	2	10
747-400BCF	-	-	1	1
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
Total	**88**	**43**	**58**	**189**

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Aircraft Delivery & Retirement Plans

Deliveries of new aircraft

Aircraft type	2017	2018	2019	2020	>2021	Total
A350-900	12					12
A350-1000		8	8	10		26
B777-9X					21	21
Total	12	8	8	10	21	59

Retirements

A340 - by the end of 2017		
Exit date	Number	Remaining
2017	-3	0

Subsidiaries & Associates

Associates

Air China

- As at 31st Dec 2016, Cathay Pacific had a **20.13%** interest in Air China.
- Increased profits from Air China compared with prior year.
- There was a benefit from low fuel prices and strong passenger demand.
- Results impacted by the weakening of the RMB.
- Cathay Pacific accounts for Air China’s results three months in arrears.
- On the 10th March 2017, Air China completed the issuance of 1,440,064,181 A-shares. As a consequence, Cathay Pacific’s shareholding in Air China was diluted from 20.13% to 18.13%.

Air China Cargo

- Improved results from Air China Cargo compared with prior year.
- Savings from low fuel prices, offset partially by exchange losses.
- Strong competition in the air cargo market.

Major Subsidiaries

AHK Air Hong Kong

- Capacity increased by 0.1%, load factor decreased by 1.2%pts and RTK decreased by 1.6%.
- Marginal increase in profit compared to 2015.

Cathay Pacific Catering Services

- Growth of 2.5% in the number of meals produced.
- Higher turnover compared to 2015, but a decrease in profit due to increased costs.

Asia Miles

- Membership approaching nine million worldwide.
- An increase in profit in 2016 compared with 2015.

Cathay Pacific Services Limited (Cargo Terminal)

- Provided cargo handling services to 15 airlines in 2016. Seven airlines became new customers in the year.
- Handled 1.8 million tonnes of cargo, out of the maximum capacity of 2.6 million tonnes.
- The 2016 financial results were better than those of 2015. This reflected the addition of new customers and effective management of operating costs.

Investments in our Customer Experience

Airbus A350-900

Cathay Dragon

Vancouver lounge

Opened May 2016

The Pier – Business Class lounge

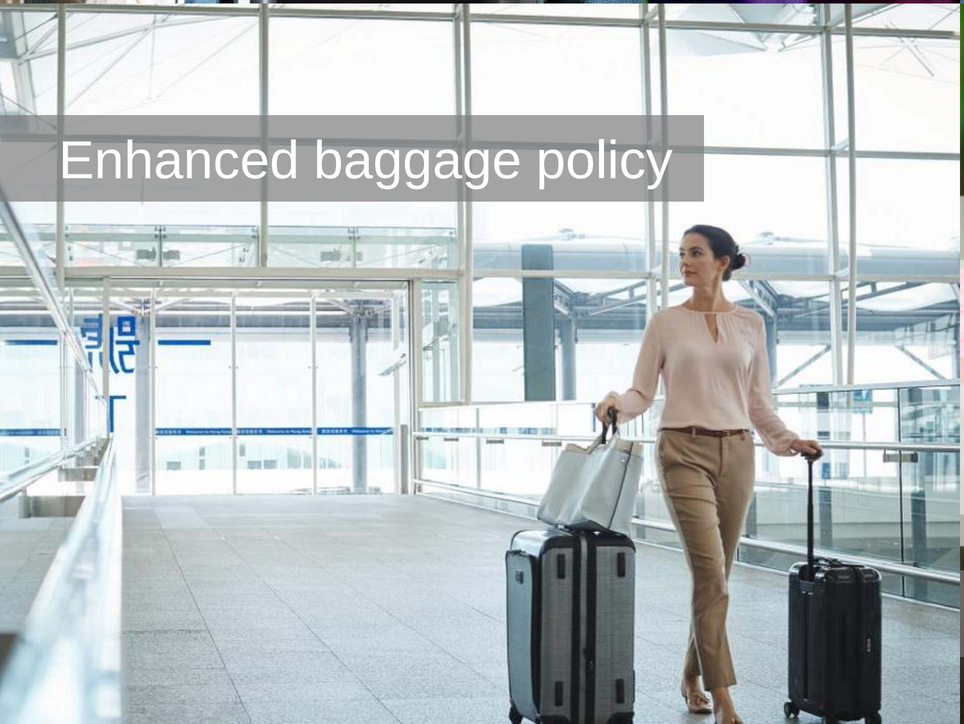
Reopened June 2016

First & Business Class lounges – London Heathrow

Opened December 2016


Premium Fanfare offers


Self service and kiosk bag tagging


Enhanced baggage policy


Create your own travel combinations...
NAGODIVES
Nagoya
Maldives
Vantage Pass promotion

2017 Outlook

- Operating environment in 2017 expected to remain challenging.
- Strong competition from other airlines expected to continue.
- Strength of the Hong Kong dollar expected to impact the travel sentiment to Hong Kong.
- Continued heavy pressure on yield.
- Overcapacity in the cargo market is expected to persist.
- We expect to continue to benefit from low fuel prices, but to a lesser extent than prior periods.
- Business is expected to grow in the long term.
- Continued investment in new and more fuel efficient aircraft will increase productivity and reduce costs.
- Starting on a three year programme of corporate transformation.

Corporate Transformation Programme

Transformation Programme

- Starting a 3 year programme of corporate transformation.
- ASK and DLATK expected to grow over this period.
- Targeting returns above our cost of capital.
- A more agile and competitive organisation.
- Continued investment in our brand and customers, but more effectively through use of digital analytics.
- Targeting to reduce our unit costs (ex fuel) over next 3 years.
- Our organisation will become leaner.

Two time horizons

2017

The immediate

Getting the short term right:

- Aggressive revenue and cost targets
- Sub-strategies
- Major HQ initiatives already in play

2020

The next three years and beyond

Turning the ship around:

- Changing our ‘as is’ business model
- Crafting the right strategy to win
- Driving sustainable profitability

Hub, Fleet & Network strategy

- **Fleet rationalisation**
  - Maximise the use of the available slots in HKIA.
  - Drive productivity and efficiency gains.
  - Allows growth without additional airframe or crew resources.
- **Continued aircraft investment**
  - The A350-900 fleet helped to open up new markets.
  - The A350-1000 scheduled for 2018-20 will provide further capacity, range and lower trip cost.
  - The Boeing 777-9X scheduled for 2021-24 will reinforce our position in the transpacific market.
  - The five additional Boeing 777-300 joining the fleet in 2018/19 will bolster the regional capacity.
- **Fleet simplification**
  - Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.

Improving our customer experience

Customer Insights Team

- New centralised function from mid-2017
- Will provide actionable business insights

Project Zenith

- Dine-on-demand service for Business Class customers
- First trials this year

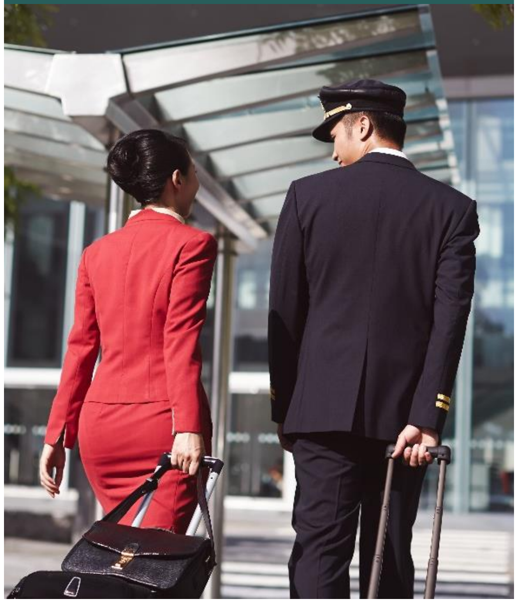
A350-900s

- 11 currently in service
- 10 more this year
- 11%pt increase in seat comfort scores in 2016

Customer Centric → Operational Excellence → Productivity and Value Focused → High Performance Culture

Delivering to an exacting schedule

Crew Management Programme



- Improved crew satisfaction
- Increased airline productivity

Improved On-Time Performance

- On-the-dot departures for CX & KA rose 12%pts year-on-year in the first two months of 2017

AA Collaborative Decision Making

- Stakeholder information sharing
- Optimised aircraft movement & departure

Customer Centric → **Operational Excellence** → Productivity and Value Focused → High Performance Culture

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Continuous productivity gains

Enterprise Portfolio Management Office

- Improving timeliness, value and efficiency of all projects

Shared Services

- Driving out wasteful and duplicative functions

Category Management

- Procurement category planning via Ariba system to drive efficiency and savings

Customer Centric → Operational Excellence → **Productivity and Value Focused** → High Performance Culture

Getting the best from our people

Employee Experience Review

- End-to-end employee experience review

Performance Management System

- Effective tracking and feedback
- New recognition and reward framework

Revamping Internal Communications

- New communication channels
- People oriented communications

Customer Centric → Operational Excellence → Productivity and Value Focused → **High Performance Culture**

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Organisational efficiency

Head Office

- Leaner
- More agile
- More accountable

Airports

- Future Airport Experience
- Rapid advance of self-service technology

Inflight

- Working with the unions to improve productivity

Customer Centric → Operational Excellence → Productivity and Value Focused → High Performance Culture

Digital Transformation

Data & Analytics

Mobile

IoT

Social

Apply on

Operation

- Service Delivery Consistency
- Structural Cost Change

Customer

- Personalizing Service
- Reassuring Operation
- Enticing Retail Experience
- Enriching Customer Insight

Commercial

- Extend Customer Reach
- Shorten Speed-to-Market
- Increase targeting efficiency
- Improve profitability of sales

Proof-of-Concept

#1: Operation Insight

#2: Operation Research

#3: Internet-Of-Things

#3: Internet-Of-Things

#5: Customer Data Model Design

#4: Omni-Channel Tool Stack Rationalization

#6 : Customer Value Model

Strategy on a page

Our unique positioning	Brand-led, relentlessly focused on enabling a Life Well Travelled for our customers			
Our call to action	**It's Time to Win**			
	By being digitally enabled and insights-driven			
Our pillars	**CUSTOMER CENTRIC**	**OPERATIONAL EXCELLENCE**	**PRODUCTIVITY AND VALUE FOCUSED**	**HIGH PERFORMANCE CULTURE**
Our focus	Experience Loyalty Advocacy	Safety Efficiency Consistency	Smart working Resource management Continuous improvement	Accountability Opportunity Experience
Success for our customers	"You have my lifetime loyalty"	"You are a brand I trust"	"You keep improving what you do to keep me travelling well"	"Your employees are service-oriented and focused on enhancing my travel experience"

Q&A

For more information, please visit our website

www.cathaypacific.com