



Analysts Briefing 2017 Interim Results

16 August 2017

Agenda



- Financial Performance and Operational Review
 - Martin Murray, Chief Financial Officer
- Corporate Transformation Programme update and 2017 Outlook
 - Martin Murray, Chief Financial Officer
- Q&A
 - Martin Murray, Chief Financial Officer
 - Ronald Lam, Director Commercial and Cargo

Interim results – Key themes



- Passenger business remains under pressure.
- Intense competition from other airlines.
- Higher fuel prices compared to the previous year.
- Increased airport charges and higher aircraft maintenance costs.
- Several special factors impacted operating costs.

However...



- Actions underway to transform Cathay Pacific and move back to profitability.
- Growth in volume for premium traffic, but price pressures remain.
- Inbound over-night visitors to Hong Kong are growing again after 2 years of the reverse.
- The cargo business outperforming with yields and load factor both showing growth over last year.
- Improved on-time performance.



Financial Performance and Operational Review

Interim results



The Group reported an attributable loss of **HK\$(2,051) million** for the first six months of 2017. This compares to a profit of HK\$353 million in the first half of 2016.

HK\$m	1H2017	1H2016
Airlines' loss before taxation	(2,925)	(618)
Taxation	160	(165)
Airlines' loss after taxation	(2,765)	(783)
Share of profits from subsidiaries & associates	714	1,136
Group attributable (loss)/profit	(2,051)	353

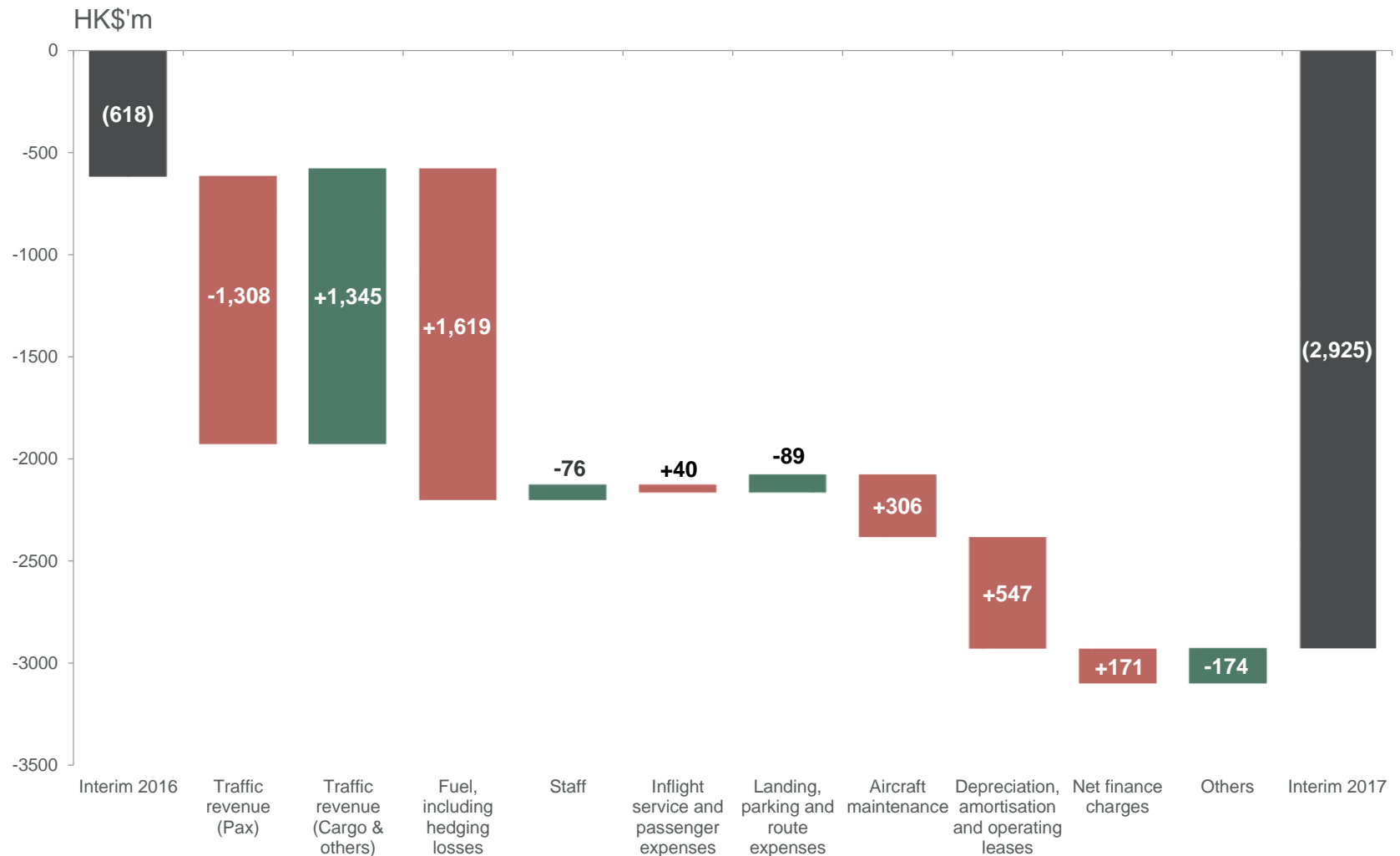
Financial results



Group Financial Statistics		1H2017	1H2016	Change
Group attributable (loss)/profit	HK\$m	(2,051)	353	-681.0%
Revenue	HK\$m	45,858	45,683	+0.4%
Loss/profit margin	%	(4.5)	0.8	-5.3%pt
Loss/earnings per share	HK¢	(52.1)	9.0	-678.9%
Dividend per share	HK\$	-	0.05	-

Operating Statistics – Cathay Pacific & Cathay Dragon		1H2017	1H2016	Change
Available tonne kilometres (ATK)	million	15,190	14,929	+1.7%
Available seat kilometres (ASK)	million	73,444	72,647	+1.1%
Revenue passengers carried	'000	17,163	17,249	-0.5%
Cost per ATK (with fuel)	HK\$	3.14	2.98	+5.4%
Cost per ATK (without fuel)	HK\$	2.17	2.11	+2.8%
Cost per ATK (without fuel & excluding exceptional items)	HK\$	2.12	2.11	+0.5%

Reconciliation of airlines' loss before tax





Passenger services

Passenger – capacity and load factor growth, offset by yield erosion

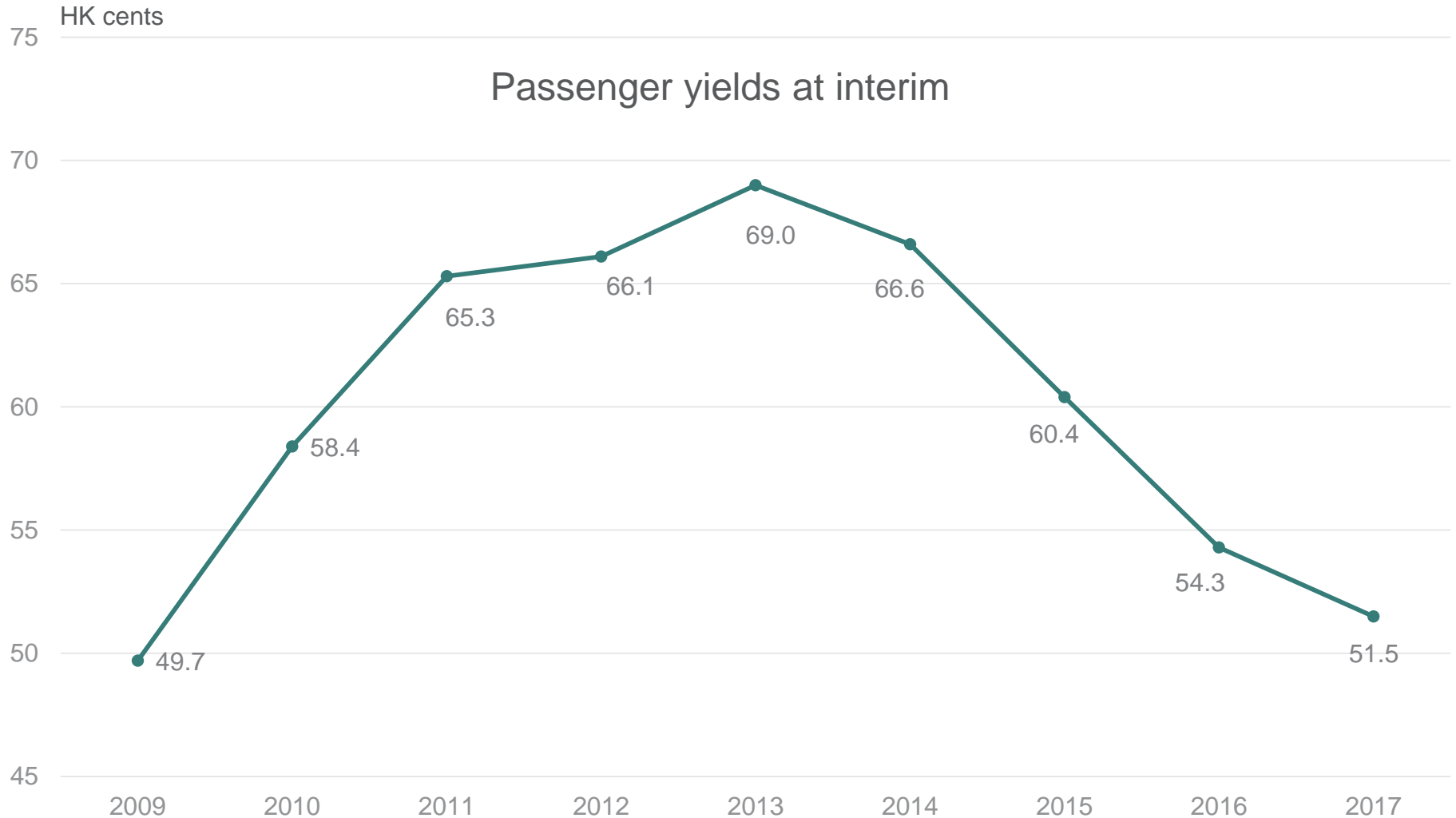


- Increased capacity (ASK)
 - Increased frequencies on some existing routes, and the on-going impact of new destinations introduced in the 2nd half of 2016.
 - Introduction of Tel Aviv route in March.
- Yield under pressure
 - Rapid capacity increase by competitors.
 - Ticket prices decline in both business and economy classes.
 - Strong HK dollar.
 - Partly offset by improved frontend volume and fuel surcharge collection.

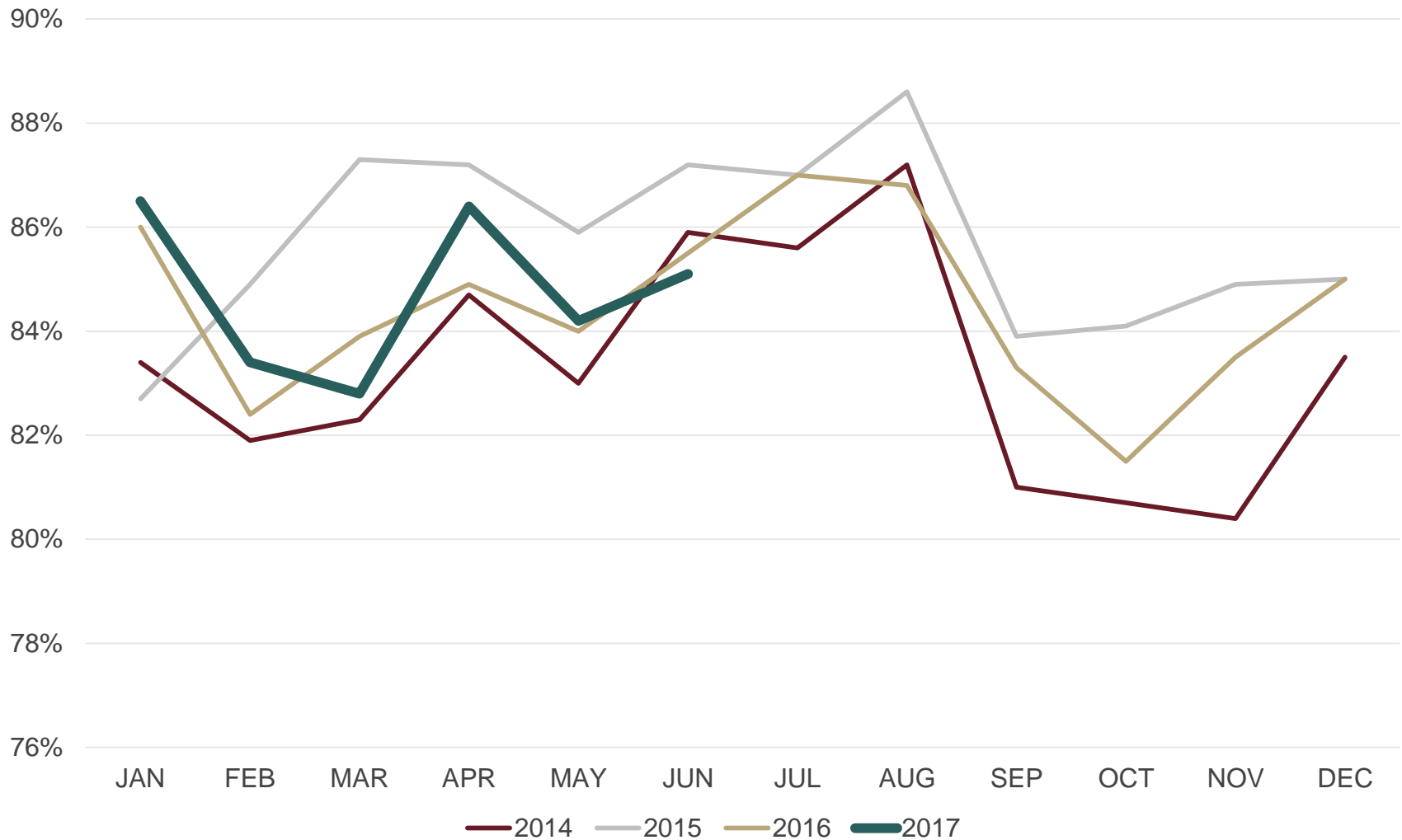
• Stable load factor

		1H2017	vs 1H 2016
Passenger revenue	HK\$m	32,105	-3.9%
ASK	Million	73,444	+1.1%
Passengers carried	'000	17,163	-0.5%
Passenger yield	HK¢	51.5	-5.2%
Passenger load factor	%	84.7	+0.2%pt

Passenger yield in decline



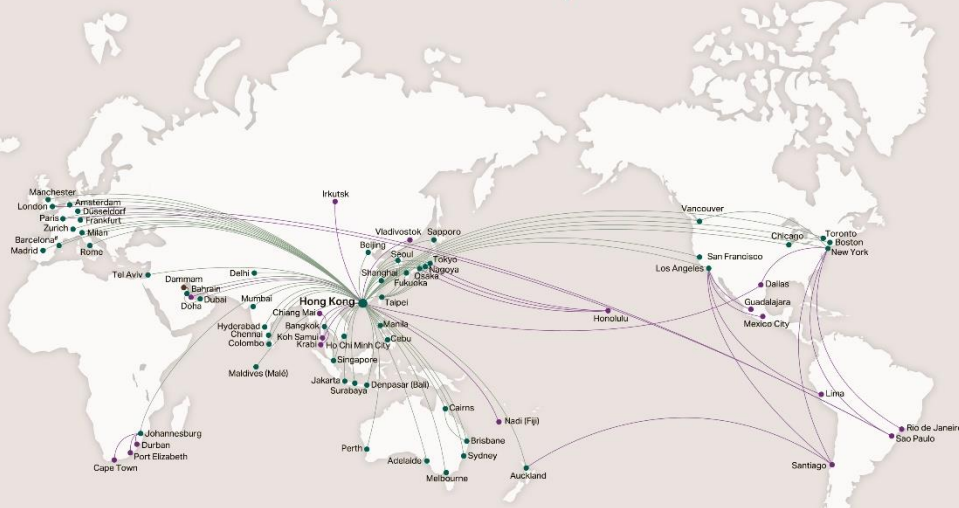
Overall passenger load factor improving



Operating performance



Cathay Pacific Group Network



Europe

ASK: +9.7%
 LF: +2.9%pts
 Yield: -7.3%

India, Middle East & Sri Lanka

ASK: -9.3%
 LF: +3.0%pts
 Yield: -3.6%

Southwest Pacific & South Africa

ASK: +1.6%
 LF: -3.0%pts
 Yield: -5.1%

Southeast Asia

ASK: -2.1%
 LF: -0.9%pt
 Yield: -2.7%

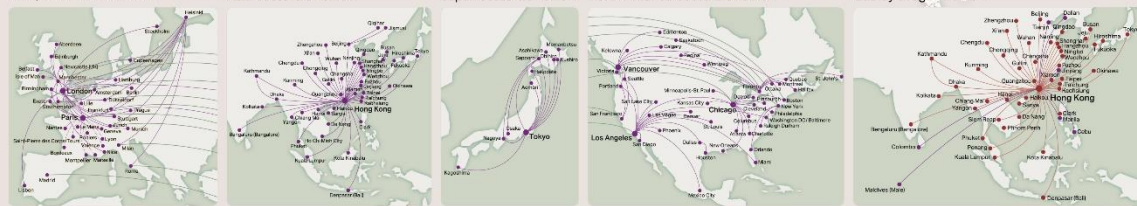
Europe Codeshare Network

Asia Codeshare Network

Japan Codeshare Network

North America Codeshare Network

Cathay Dragon Network



— Cathay Pacific Services — Cathay Dragon Services — Joint-Operated or Codeshare Services — SMO* IGV Intra Services in France — Bahrain-Lima
 *Cathay Pacific services to Barcelona commences on 2 July 2017 (subject to government approvals)

North Asia

ASK: -0.3%
 LF: +0.8%pt
 Yield: -2.8%

North America

ASK: +0.7%
 LF: -0.4%pt
 Yield: -7.7%

Adding long haul destinations and frequencies to strengthen the network



2017	
January	<ul style="list-style-type: none">Announced a seasonal four-times weekly service to Barcelona commencing in July
February	<ul style="list-style-type: none">Announced a seasonal three-times weekly service to Christchurch, commencing in December
March	<ul style="list-style-type: none">Introduced a four-times weekly service to Tel AvivIncreased frequency of the Boston route to a daily serviceIncreased frequency of the Vancouver service to 17 flights per week
June	<ul style="list-style-type: none">Increased frequency of the London Gatwick route to a daily serviceIncreased frequency of the Manchester service to five-times weekly



Cargo services

Strong demand supports growth in capacity, yield and load factor



- Strong cargo demand in the 1st half
 - Tonnage grew ahead of capacity, with strong exports from Mainland China, particularly on transpacific routes.
 - A joint business agreement with Lufthansa Cargo between Hong Kong and Europe started from February 2017.
 - A strategic partnership with Atlas Air started from June 2017, providing additional capacity and access to new markets.

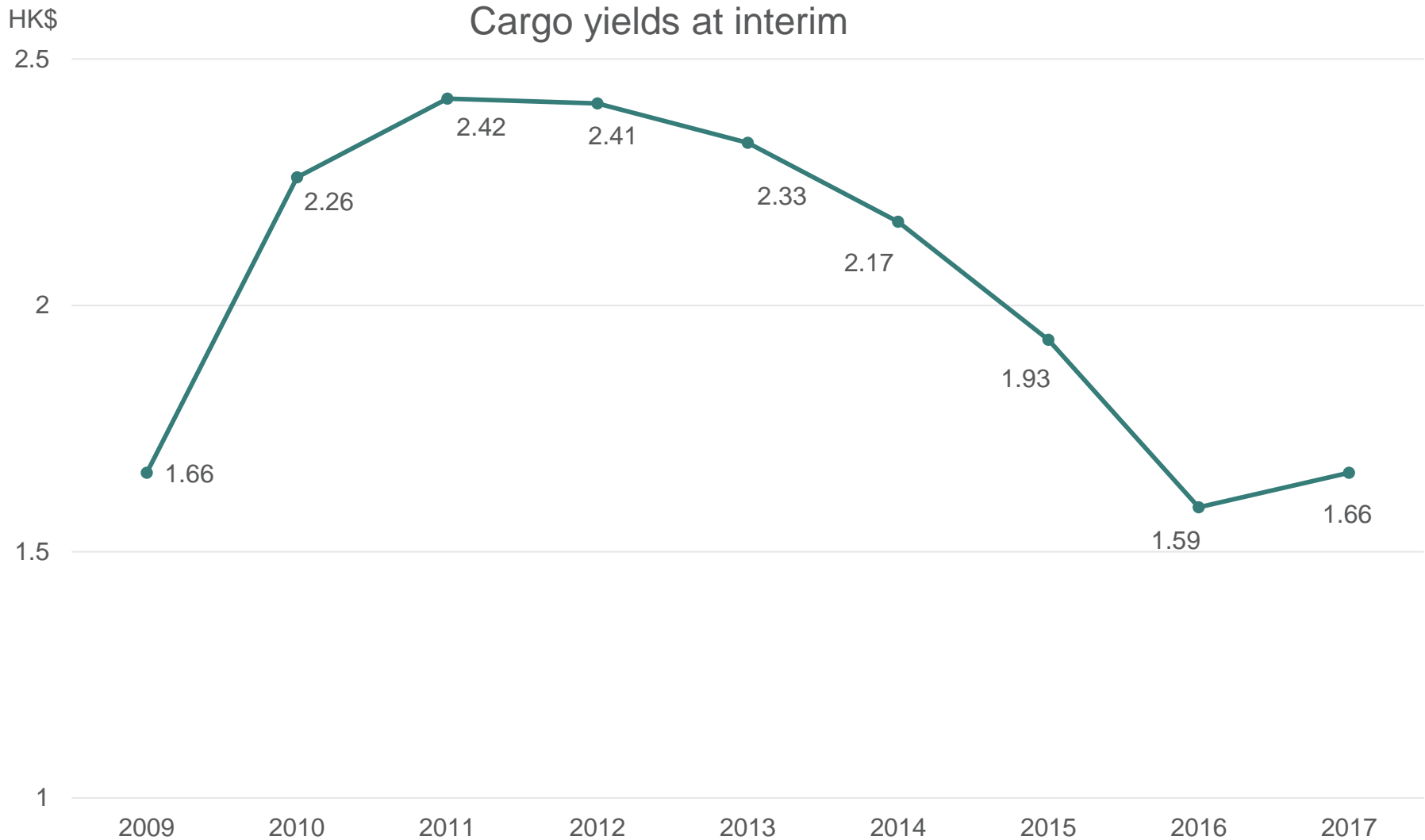
- Yield improvement compared to prior year

- Stronger market demand.

- Resumption of cargo fuel surcharges from April 2017 will improve yield.

		1H2017	1H2016	% Var
Group cargo revenue	HK\$m	10,515	9,415	+11.7%
Cathay Pacific and Cathay Dragon				
Cargo revenue	HK\$m	9,007	7,951	+13.3%
Cargo capacity (ATK)	Million	8,206	8,021	+2.3%
Cargo and mail carried	'000 tonnes	966	866	+11.5%
Cargo and mail yield	HK\$	1.66	1.59	+4.4%
Cargo and mail load factor	%	66.2	62.2	+4.0%pt

Cargo yield improving



Overall cargo load factors improving





Operating costs

Increased operating costs, impacted by one-off costs



	1H2017	1H2016	% Var
Staff	9,845	9,867	-0.2%
Inflight service and passenger expenses	2,412	2,372	+1.7%
Landing, parking and route expenses	7,307	7,376	-0.9%
Aircraft maintenance	4,461	4,170	+7.0%
Depreciation, amortisation and operating leases	6,953	6,278	+10.8%
Net finance charges	814	607	+34.1%
Others (including commissions)	2,477	1,697	+46.0%
Total operating costs (ex. fuel)	34,269	32,367	+5.9%

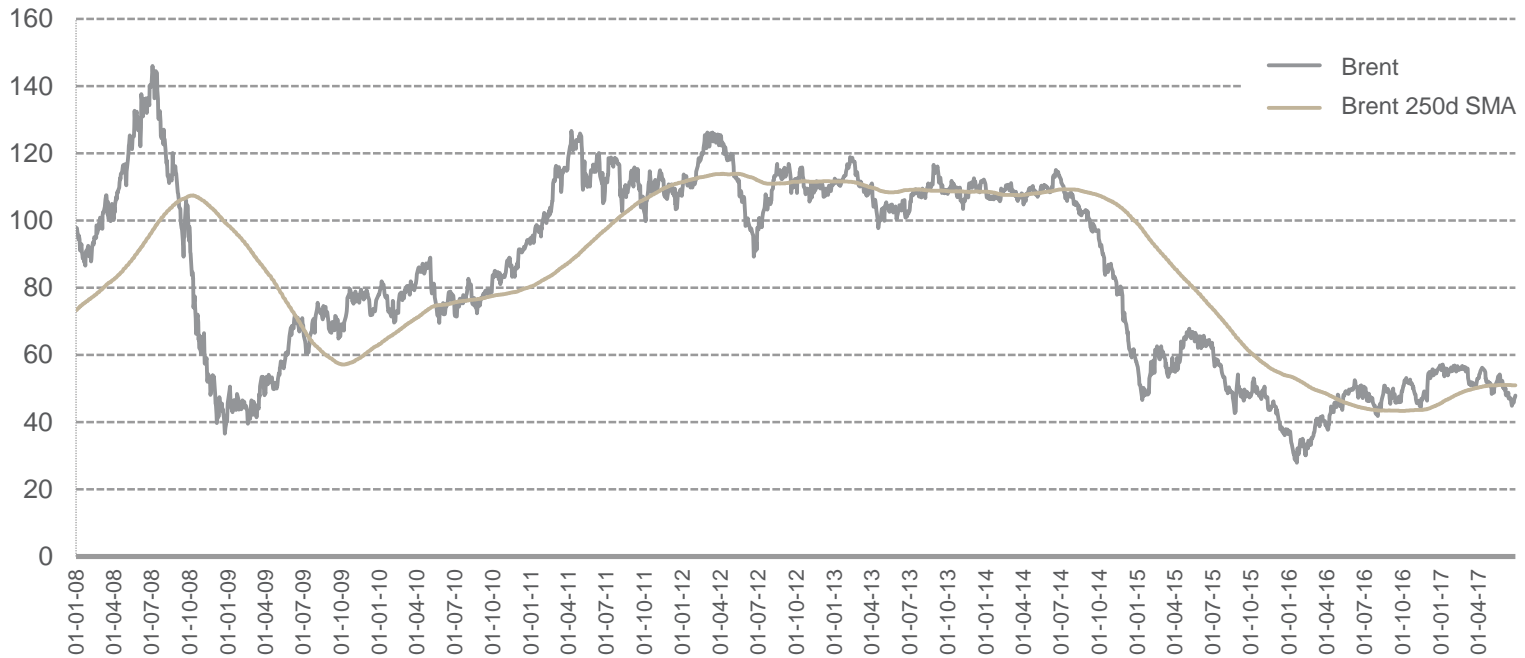
One off cost impacts in 1H2017

March	<ul style="list-style-type: none"> The European Commission issued a fine of Euros 57.12 million (approximately HK\$498 million) on Cathay Pacific. An application for appeal has been submitted.
May	<ul style="list-style-type: none"> Cathay Pacific announced a reorganisation of its head office, with associated redundancy costs of approximately HK\$224 million.

Fuel prices and fuel cost

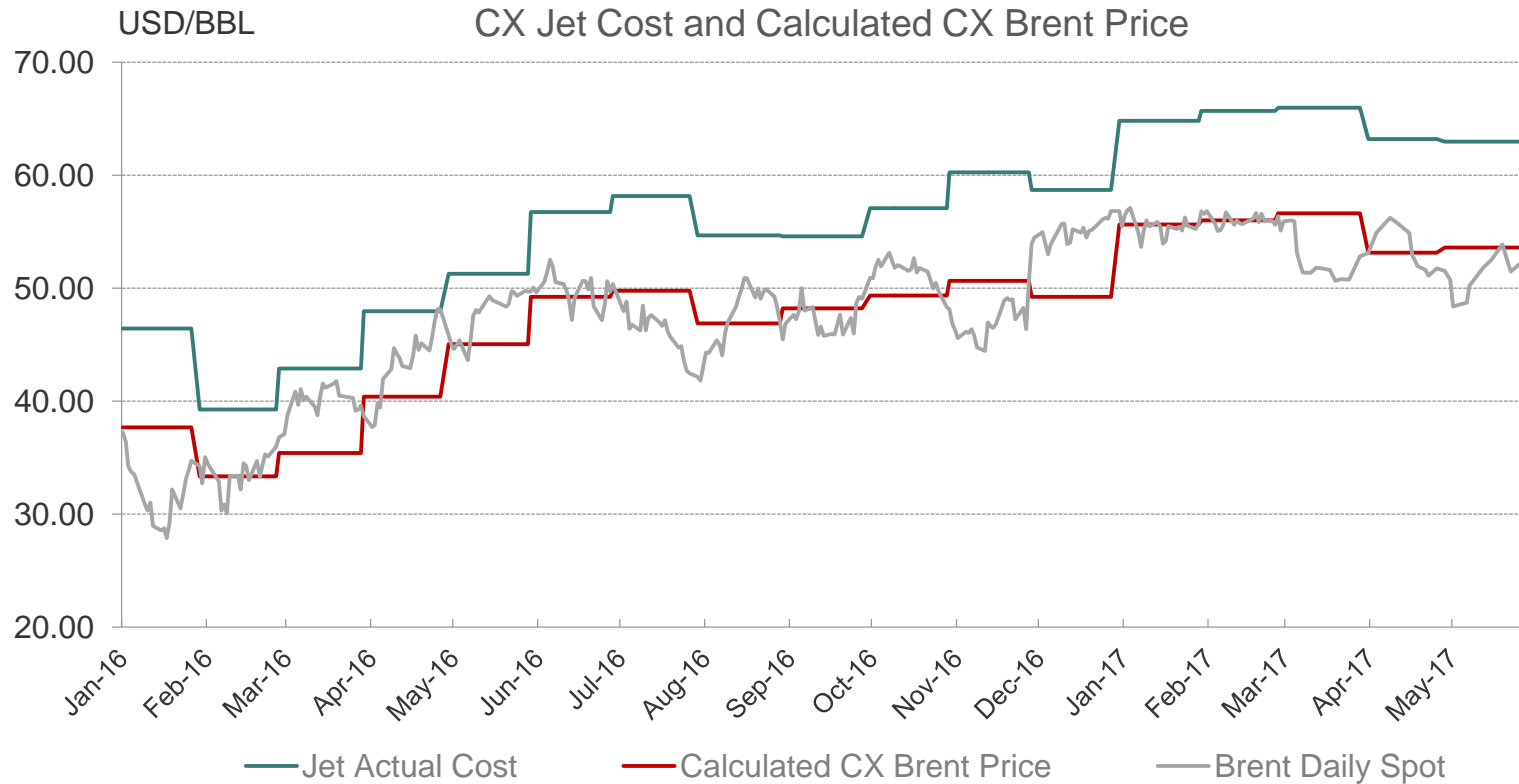


USD/BBL - Brent - Daily Closing Price and 250 Day Simple Moving Average 2008 - 2017



Group fuel expenditure	1H2017	1H2016	% Var
Gross fuel cost	11,700	8,769	+33.4%
Fuel hedging losses	3,237	4,490	-27.9%
Fuel cost	14,937	13,259	+12.7%

Fuel hedging – fuel prices



Fuel costs	1H2017	1H2016	% Var
Average calculated CX brent price (US\$)	\$54.05	\$40.34	+34.0%
Average crack spread (US\$)	\$9.73	\$7.17	+35.7%

Fuel hedging



Fuel hedging coverage (as at 30 June 2017)

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
3 rd Quarter 2017	52.7%	90.25
4 th Quarter 2017	54.3%	88.77
1 st Quarter 2018	45.2%	80.81
2 nd Quarter 2018	46.2%	81.13
3 rd Quarter 2018	45.8%	80.41
4 th Quarter 2018	46.7%	80.58
1 st Quarter 2019	16.3%	75.35
2 nd Quarter 2019	16.8%	75.45



Fleet profile

Fleet modernisation programme



- New modern aircraft deliveries.
 - Six additional A350-900 aircraft delivered up to June 2017, another one in July 2017.
 - Five more A350-900 expected deliveries in the remainder of 2017.
 - 22 Airbus A350-900 aircraft expected to be in service by the end of the year.
- Retirement of older fleet types.
 - The final four Airbus A340-300 in the fleet were retired in 1H 2017.
 - One Boeing 747-400 converted freighter was retired in June.
- Average age of fleet is 9 years (as at 30 June 2017).

In operation	Passenger	Freighter	Total
1 January 2017	168	21	189
New deliveries	6	-	6
Leased out to AHK	-	(1)	(1)
Returned from AHK	-	1	1
Retirements	(4)	(1)	(5)
30 June 2017	170	20	190

Cathay Pacific and Cathay Dragon fleet profile – as at 30 June 2017

Aircraft type <i>Includes parked aircraft</i>	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	30	12	19	61
A350-900	11	3	2	16
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
Total	87	43	60	190

- **Fleet simplification**

- Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.
- Nine fleet types as at 30 June 2017 compared to 11 fleet types as at 31 December 2016.

Fuel efficient forward deliveries



Deliveries

Aircraft type	2017	2018	2019	2020	>2021	Total
A350-900	6					6
A350-1000		8	8	10		26
B777-9X					21	21
Total	6	8	8	10	21	53



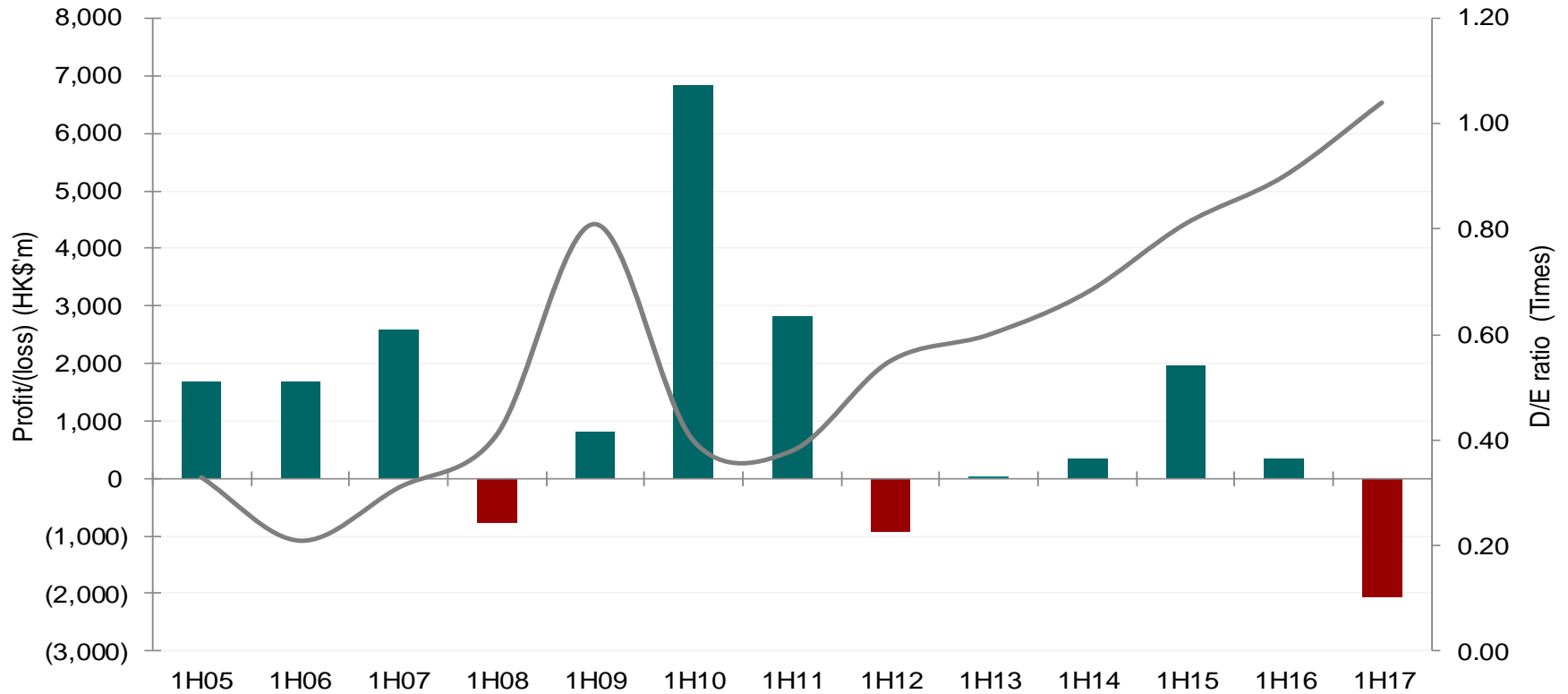
Other financials

Extract of Consolidated Statement of Financial Position



	30 June 2017 HK\$ million	31 Dec 2016 HK\$ million	% Var
Shareholders' Funds	53,077	55,365	-4.1%
Gross Borrowings	72,303	70,169	+3.0%
Less: Liquid Funds	(17,257)	(20,290)	-14.9%
Net Borrowings	55,046	49,879	+10.4%
Capital Employed (including non- controlling interests)	108,272	105,405	+2.7%
Net Debt/Equity Ratio	1.04	0.90	+0.14 times
Investment in Air China	21,111	19,770	+6.8%

Profit and net debt/equity ratio



Profit/(Loss) — Net debt/equity ratio

Group Profit Margin	1H 2005	1H 2006	1H 2007	1H 2008	1H 2009	1H 2010	1H 2011	1H 2012	1H 2013	1H 2014	1H 2015	1H 2016	1H 2017
%	7.8	7.3	8.9	(1.8)	2.6	16.5	6.0	(1.9)	0.1	0.7	3.9	0.8	(4.5)

Sources and uses of cash



	30 June 2017 HK\$ million	30 June 2016 HK\$ million
Inflow		
Operating activities	2,786	4,957
Proceeds from sales of fixed assets and others	1,142	566
New financing	9,148	6,088
Repayment of loans to associates	-	19
Outflow		
Capital expenditure	(8,235)	(2,828)
Loans to associates	-	(12)
Loan and finance lease repayments	(7,857)	(7,253)
Dividends paid	(254)	(1,194)
Net inflow/(outflow)	(3,270)	343
Total Liquid Funds	17,257	21,096



Subsidiaries & associates

Associates



- Cathay Pacific has a **18.13%** interest in Air China.
- In March 2017, Cathay Pacific's shareholding in Air China was reduced from **20.13%** as a result of a new issue of A shares by Air China.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears.
- Contribution from the share of profits lower than the same period in 2016.
- Air China's results decreased due to exchange losses and lower contributions from associates.



- In the first half of 2017, Air China Cargo made a profit compared to a loss in the first half of 2016.
- Higher fuel prices were more than offset by higher yields.

Major subsidiaries – mixed results



air Hongkong

- Marginal increase in profit in the first half of 2017 compared with the first half of 2016.
- Operates a fleet of eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters, one wet leased Boeing 767-300 freighter and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- Capacity decreased by 2.1% to 378 million available tonne kilometres, load factor increased by 0.5% and revenue tonne kilometres decreased by 1.2%.
- In July 2017, Cathay Pacific announced entry into a non-binding memorandum of understanding on the possible extension of arrangements with DHL Express after their expiry at the end of 2018.

Major subsidiaries – mixed results



CATHAY PACIFIC CATERING SERVICES

- Higher revenue but lower profit in 1H2017 compared to 1H2016.
- An expanded facility with 40% additional capacity started to operate in May 2017.
- Increases in staff and depreciation costs more than offset an increase in revenue.

ASIA MILES

- Membership exceeds nine million worldwide.
- Increase in profit in 1H2017 compared with 1H2016 due to increased business volume.

CPSL

- Improvement in results in 1H2017 compared to 1H2016, reflecting the increase in tonnage carried and the effective management of operating costs.



Corporate Transformation Programme update and 2017 Outlook

Repositioning for success – Corporate Transformation

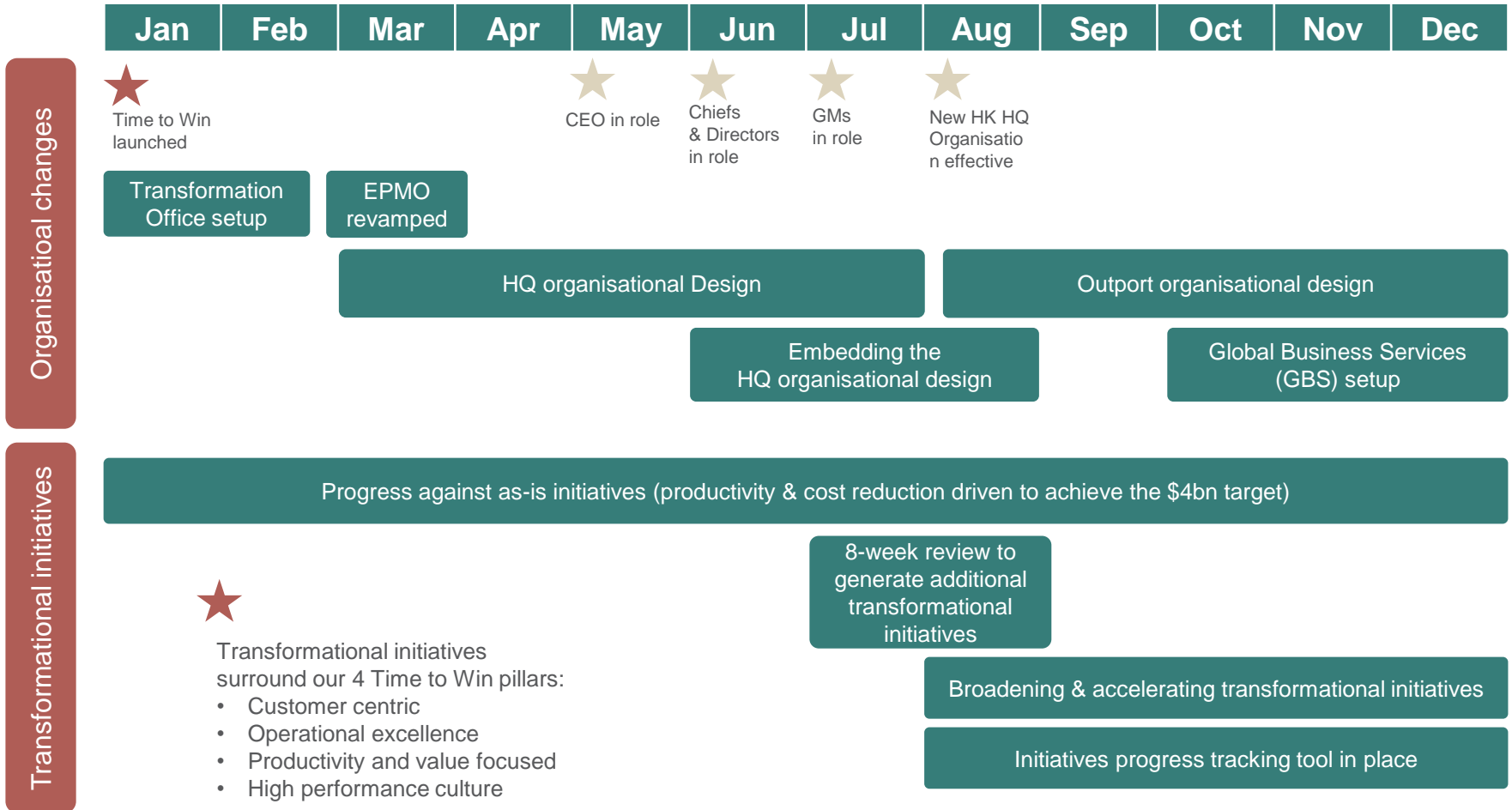


- Decisive steps taken to:
 - Reposition business to adapt to changing industry landscape.
 - Establish the platform for future success while maintaining our high standards of excellence.
 - Emerge as a leaner, more agile and profitable, flagship airline.
 - Achieve long-term sustainable recovery in revenue and future performance.
- Core targets of Transformation Programme:
 - Target to achieve ROCE above WACC by 2019
 - Reducing unit costs (ex-fuel) over the 3 year plan
 - ASK and DLATK to grow by 4% over next 3 years
 - 30% reduction in HQ Management Costs

Transformation Programme



2017



Transformation progress



Customer centric

Business class food

- Successful trial HKG to LGW and ORD
- 18% point increase in meal presentation scores on LGW
- 13% point increase on main course scores on ORD

A350 product

- Consistently higher passenger satisfaction
- + 6% in economy and +13% in premium economy

New outpost lounges

- London, Bangkok and Manila lounges all 26% improvements Vs previous

Operational excellence

Towing review

- Digital analysis of 22,300 towing movements a year
- Cooperation with airport authority and HAECO to increase efficiency
- Actions released 0.7 of an aircraft back into service

APU study

- Digital review of APU usage on Airbus 330 and Boeing 777 fleet
- The resulting operational procedural changes will deliver substantial ongoing fuel savings

Productivity & value

Crew management

- December 2017 Cathay Dragon pilot roster to be compiled using Jeppesen Service Bureau

Global Business Services

- New shared services organisation established in July 2017
- Staff and processes moves underway from Finance, People, Flight Operations, and Engineering

Lean

- Projects underway across the business.
- Baggage handling review has led to a 33% reduction in mishandled bags
- Customer relations response handling reduced by 35%

High performance culture

Head office restructure

- Completed on schedule by end July, 2017
- Simplified structure with clearer accountabilities, less layers and less staff.

Leadership behaviours

- All managers undergoing development workshops focused on accountability, agility, and collaboration.

Transformation Process

- Introduced a funnel process supported by online tool to track circa 500 initiatives.
- Top leadership meet weekly to review and drive progress

Frontline engagement

- 3 months of workshops commencing September and covering pilots, cabin crew, and ground staff



A strong platform on which to build

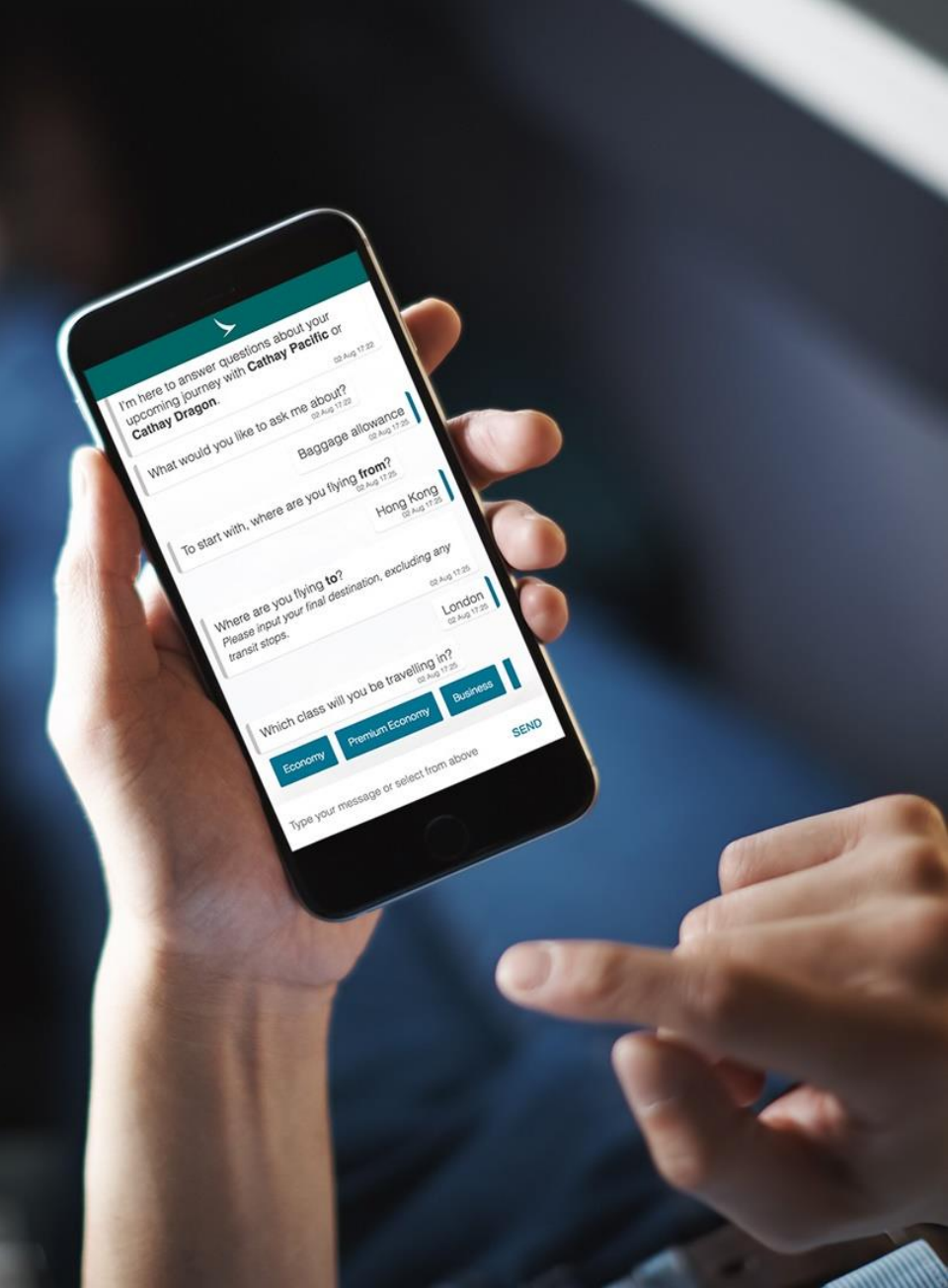
Young fleet



New product in air and on ground



Digital experience



Great people



Outlook – 2017 expected to remain difficult



- The overall business environment is expected to remain challenging through 2H 2017.
- Passenger yield to continue to be under intense pressure.
- Fuel costs remain higher than 2016.
- Operational challenges remain.

But

- Strong 2H expected for Cargo.
- Early signs of improvement from Transformation will be visible in 2H
 - Improving productivity and efficiency
 - Implementation of initiatives
- Strong performance from Associates.
- Benefits of the Transformation coming through in 2018.

Q&A

For more information, please visit our website
www.cathaypacific.com

