



# Analysts Briefing

17 November 2017

# Agenda



- Briefing highlights
- Shareholder analysis
- Operating performance
- Transformation Programme update
- Outlook
- Q&A
- Hosted by:
  - Martin Murray, Chief Financial Officer
  - Paul Loo, Chief Customer & Commercial Officer



# Briefing highlights

# Passenger business and yield remains challenging. Robust cargo performance.



- Passenger business remains under intense competition from other airlines.
- Back-end longhaul behind ASK growth.
- Growth in inbound over-night visitors to Hong Kong.
- Volume growth for premium traffic, with yield decline reducing.
- Robust cargo business performance, with strong growth in capacity, yield and load factor over the previous year.

# Higher fuel costs and operational challenges remain, but transformation programme well underway.



- Higher fuel prices compared to the previous year. Fuel Surcharge ex-HK remains suspended.
- Delay and disruption costs due to adverse weather.
- Transformation programme driving initiatives over revenue management, productivity improvement and cost management.

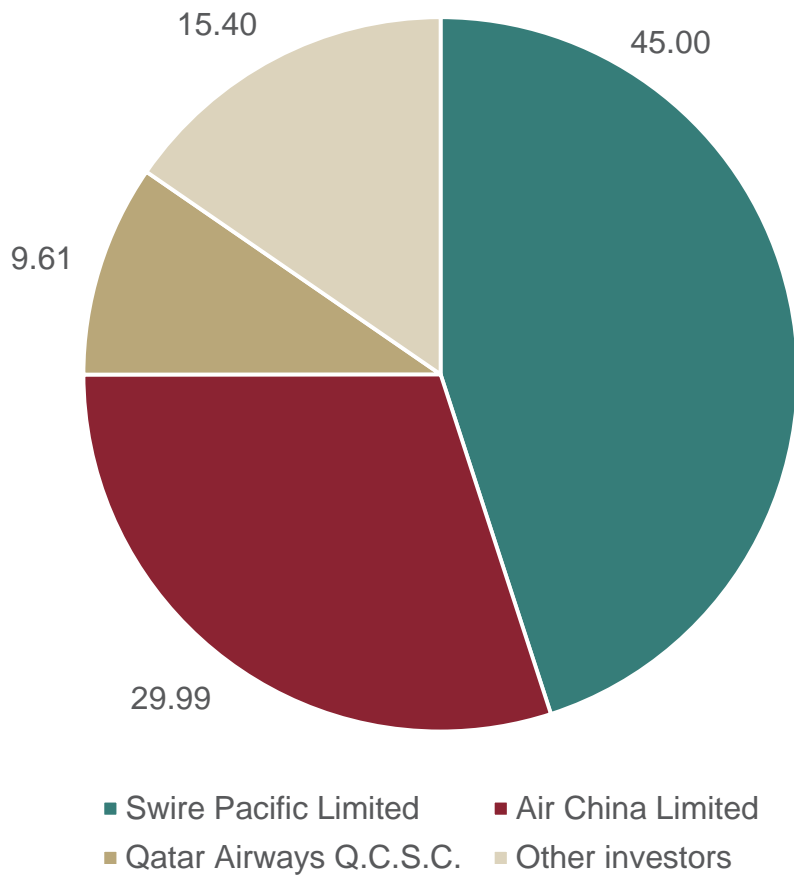


# Shareholder analysis

# Shareholder Analysis



## Shareholding %



- **Swire Pacific** committed to supporting Cathay Pacific's long-term growth.
- Cross share-holding with **Air China** continues to benefit Cathay in the Chinese outbound travel market.
- Cathay Pacific and **Qatar Airways** build on strong Oneworld Alliance partnership.
- Continued commitment to engage **other investors**.



# Operating performance

Passenger Services



# Capacity growth, improving frontend demand offset by continued pressure on yield



- Increased capacity (ASK)
  - Increased frequencies on some existing routes, and the on-going impact of the London Gatwick service in the 2nd half of 2016.
  - Introduction of Tel Aviv route in March, and a seasonal service to Barcelona between July-October.
- Yield under pressure
  - Increased capacity by competitors.
  - Yield decline in both business and economy classes compared to the previous year, but decline reducing .
  - Partly offset by improving frontend demand and increased fuel surcharge collection into Hong Kong.

## Stable overall load factor

		Year to Q3 2017	Year to Q3 2016	% Variance
ASK	Million	111,971	109,729	+2.0%
Passengers carried	'000	26,000	25,967	+0.1%
Passenger load factor	%	84.8	84.9	-0.1%pt

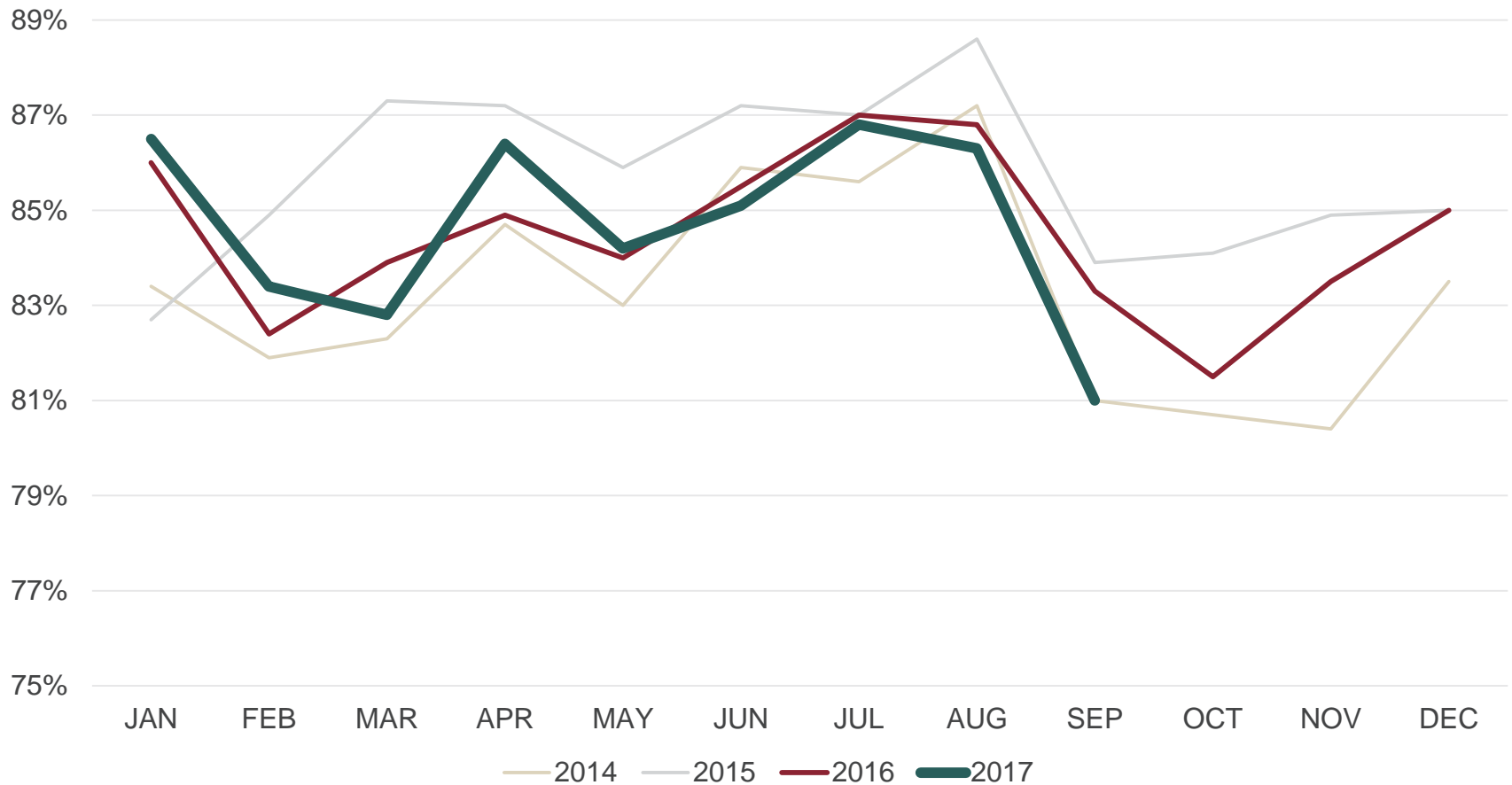
# Stable overall passenger load factor similar to 2016



## Year to September Load factor

2017 : 84.8%

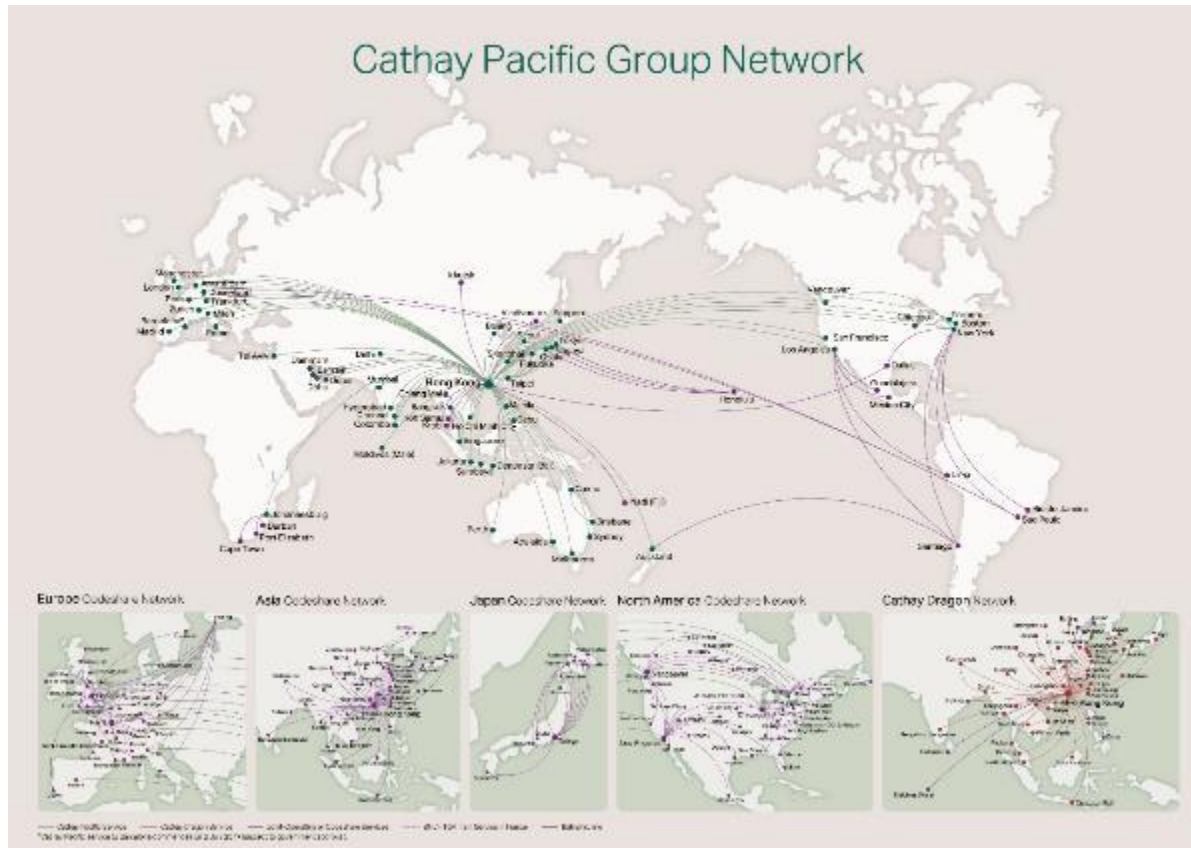
2016 : 84.9%



# Regional operating performance



YTD Sept statistics



**Europe**

ASK: +11.7%  
LF: +1.6%pts

**India, Middle East & Sri Lanka**

ASK: -9.3%  
LF: +3.0%pts

**Southwest Pacific & South Africa**

ASK: +2.5%  
LF: -2.5%pts

**Southeast Asia**

ASK: -1.7%  
LF: -0.8%pt

**North Asia**

ASK: -1.2%  
LF: +1.6%pt

**North America**

ASK: +2.8%  
LF: -2.3%pt

# New destinations and frequencies strengthen the network

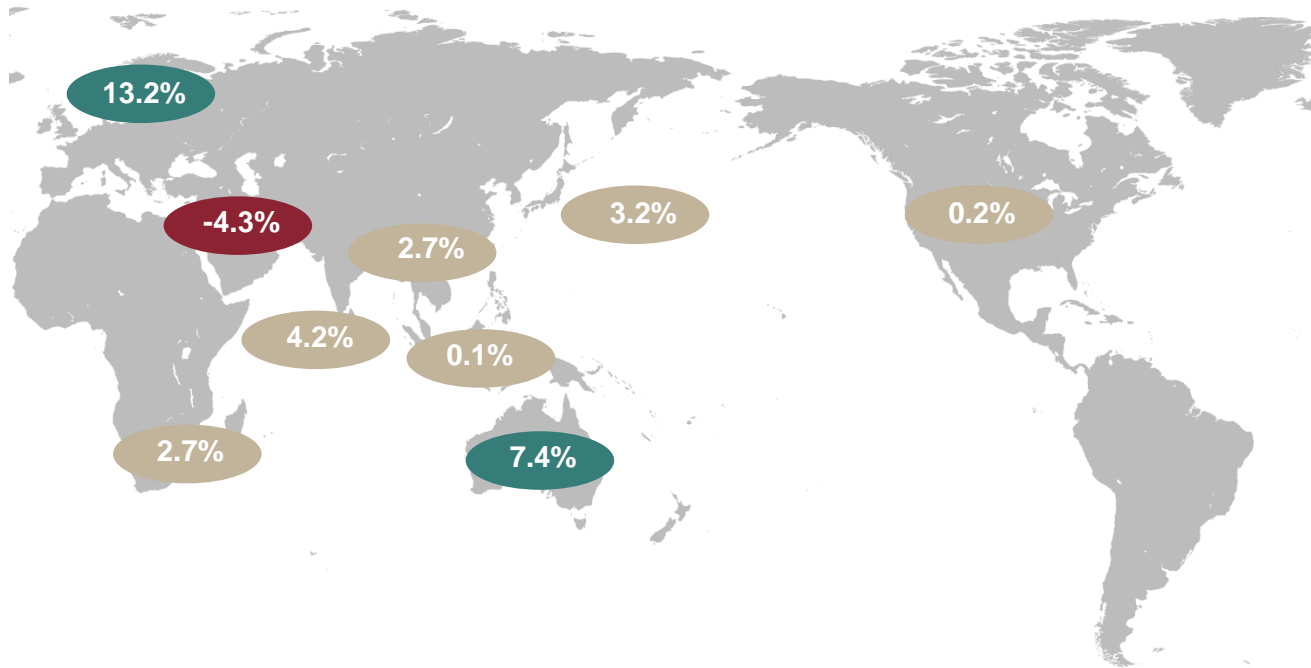


2017	
January	<ul style="list-style-type: none"> <li>Announced a seasonal four-times weekly service to <b>Barcelona</b> commencing in July</li> </ul>
February	<ul style="list-style-type: none"> <li>Announced a seasonal three-times weekly service to <b>Christchurch</b>, commencing in December</li> </ul>
March	<ul style="list-style-type: none"> <li>Introduced a four-times weekly service to <b>Tel Aviv</b></li> <li>Increased frequency of the <b>Boston</b> route to a daily service</li> <li>Increased frequency of the <b>Vancouver</b> service to 17 flights per week</li> </ul>
June	<ul style="list-style-type: none"> <li>Increased frequency of the <b>London Gatwick</b> route to a daily service</li> <li>Increased frequency of the <b>Manchester</b> service to five-times weekly</li> </ul>
August	<ul style="list-style-type: none"> <li>Announced new services to <b>Brussels, Dublin</b> and <b>Copenhagen</b> commencing in 2018</li> </ul>
September	<ul style="list-style-type: none"> <li>Announced a year-round service to <b>Barcelona</b> commencing in April 2018</li> </ul>
November	<ul style="list-style-type: none"> <li>Announced a new service to <b>Nanning</b> commencing in January 2018</li> </ul>

# Network growth in 2018



## 2018 ASK growth by region



**Overall network growth : 4.3%**

New destinations:

**Nanning** – 8<sup>th</sup> January

**Brussels** – 25<sup>th</sup> March

**Copenhagen** – between  
2<sup>nd</sup> May-12<sup>th</sup> October

**Dublin** – 2<sup>nd</sup> June

+ two more to be  
announced

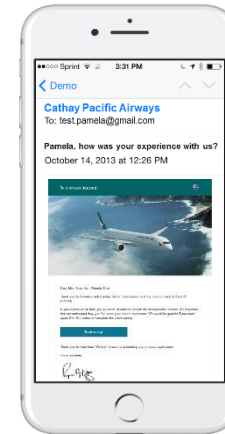
# Improving the customer experience



## MARCO POLO CLUB

## Reflex 2.0

<p>Up to <b>10</b> MORE club points</p>		<p><b>Regional travel within Asia</b> Including flights from Hong Kong to Taipei, Shanghai, Tokyo, and more destinations</p>
<p>Up to <b>15</b> MORE club points</p>		<p><b>Long-haul and ultra-long haul travel</b> Including flights from Hong Kong to London, New York, Copenhagen, and more destinations</p>
<p>Up to <b>20</b> MORE club points</p>		<p><b>Economy low-fare classes (S, N, Q)</b> Including flights from Hong Kong to a wide range of destinations such as Sydney and Tel Aviv</p>



- Digital post-flight survey
- Text analytics capability
- Review survey data in real-time
- Enable frontline teams to take more timely actions

## Taipei Hot Meal

## Singapore Lounge



- In response to customer feedback, hot food options are being trialed on Taipei flights
- Trials commenced on 1 October for all meal time flights



- Reflex 2.0 utilized to monitor new lounge performance
- Refine offering based on quantitative and qualitative feedback

# New products and travel experiences



# Digital platforms







# Operating performance

## Cargo Services

# Robust growth in capacity, yield and load factor



- Strong cargo demand continued into the 3<sup>rd</sup> quarter
  - Tonnage carried grew well ahead of capacity growth.
  - 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.

		Year to Q3 2017	Year to Q3 2016	% Variance
Cargo capacity (ATK)	Million	<b>12,650</b>	12,259	+3.2%
Cargo & mail carried	'000 tonnes	<b>1,495</b>	1,340	+11.6%
Cargo & mail load factor	%	<b>66.7</b>	62.9	+3.8%pt

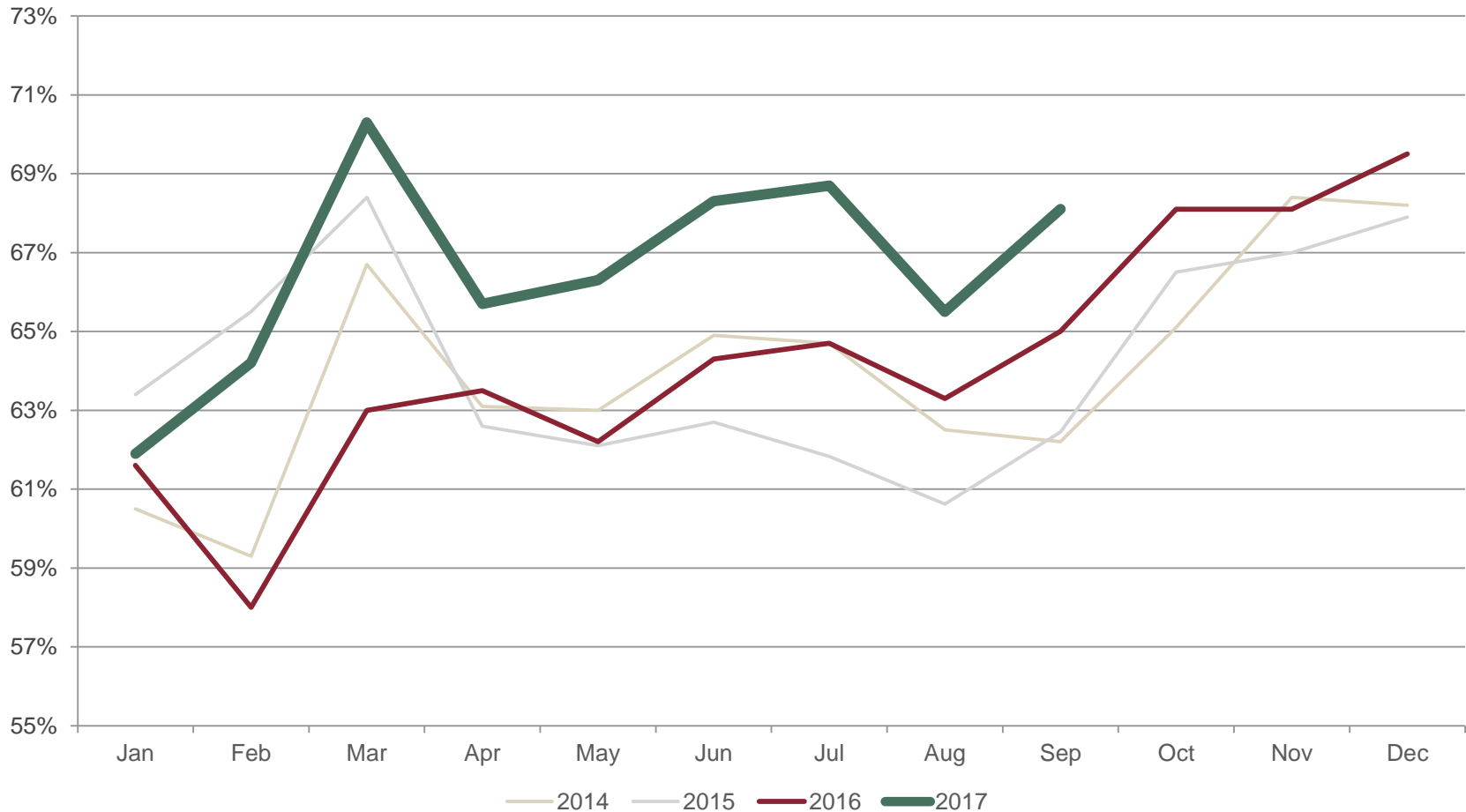
# Improving cargo load factors



## Year to September Load factor

2017 : 66.7%

2016 : 62.9%





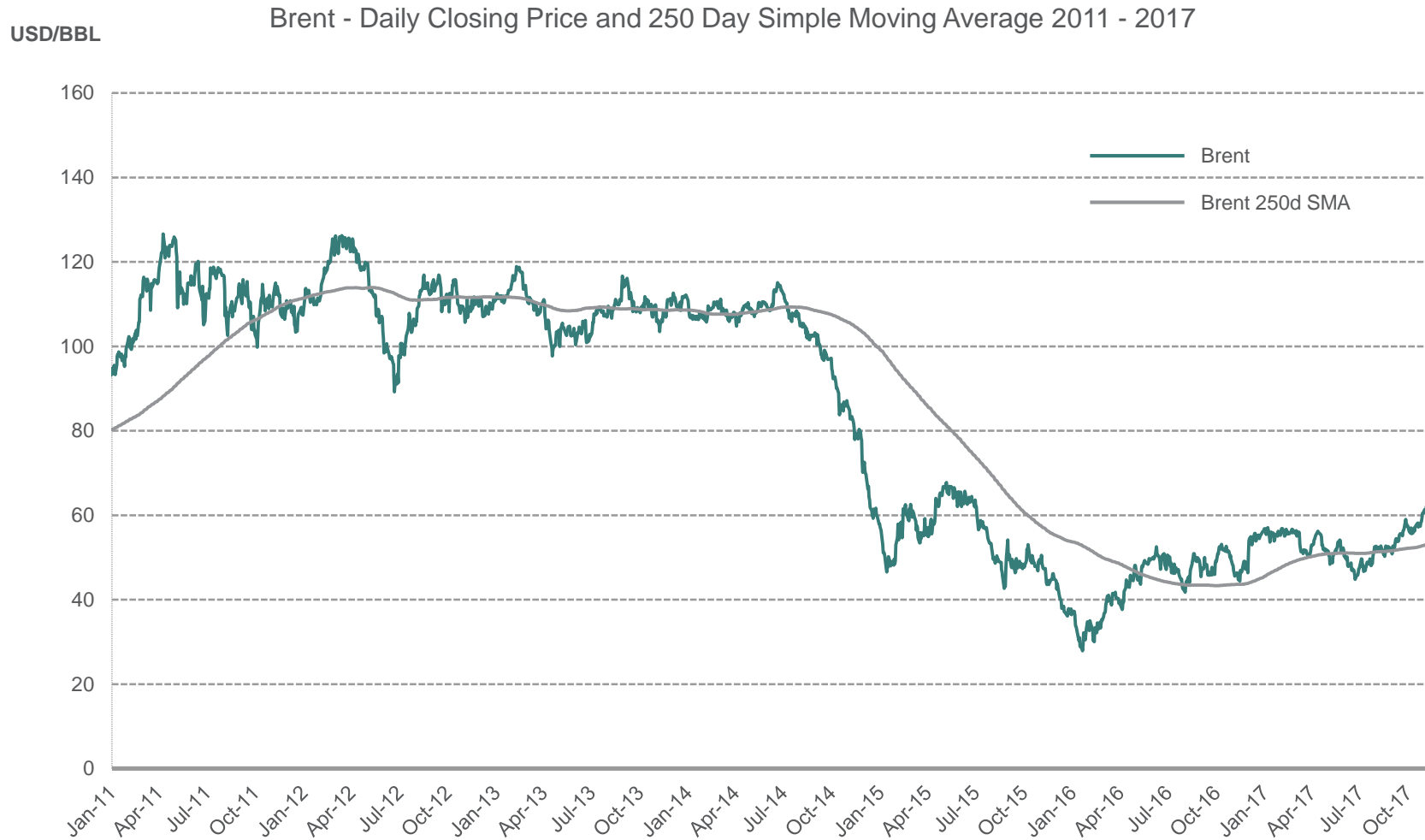
# Operating performance

Others



# Fuel

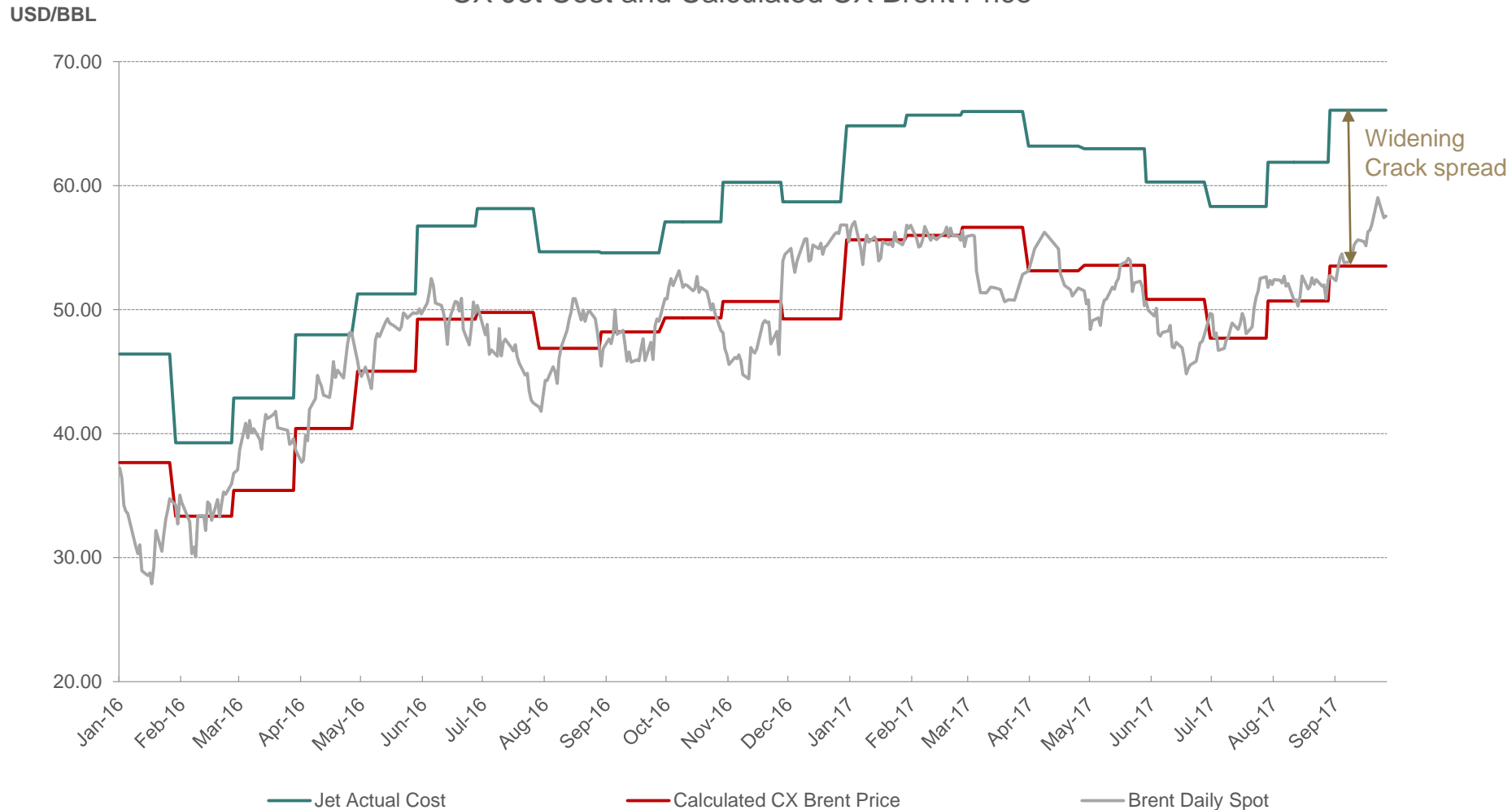
# Fuel prices and fuel cost



# Fuel hedging – fuel prices



## CX Jet Cost and Calculated CX Brent Price



# Fuel hedging



Fuel hedging coverage (as at 30 September 2017)

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
4 <sup>th</sup> Quarter 2017	54.4%	88.77
1 <sup>st</sup> Quarter 2018	45.2%	80.81
2 <sup>nd</sup> Quarter 2018	46.2%	81.13
3 <sup>rd</sup> Quarter 2018	45.8%	80.41
4 <sup>th</sup> Quarter 2018	46.7%	80.58
1 <sup>st</sup> Quarter 2019	16.3%	75.35
2 <sup>nd</sup> Quarter 2019	16.8%	75.45





# Fleet profile

# Investments in our fleet



# Fleet modernisation programme



- New modern aircraft deliveries.
  - Nine A350-900 aircraft delivered up to September 2017, bringing the fleet total to 19 aircraft of this type.
  - Three more A350-900 deliveries in the remainder of 2017; two were delivered in October and the remaining one to be delivered in December.
  - 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.
  - Two Boeing 747-400 converted freighters were retired in 2017.

In operation	Passenger	Freighter	Total
1 January 2017	168	21	189
New deliveries	9	-	9
Leased out to AHK	-	(1)	(1)
Returned from AHK	-	2	2
Retirements	(4)	(2)	(6)
30 September 2017	173	20	193

# Cathay Pacific and Cathay Dragon fleet profile – as at 30 September 2017



Aircraft type Includes parked aircraft	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	30	11	20	61
A350-900	13	4	2	19
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
<b>Total</b>	<b>89</b>	<b>43</b>	<b>61</b>	<b>193</b>

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

# Fuel efficient forward deliveries



## Deliveries

Aircraft type	2017	2018	2019	2020	>2021	Total
A321NEO				9	23	32
A350-900	3		2	4		9
A350-1000		8	4	3	5	20
B777-9X					21	21
<b>Total</b>	<b>3</b>	<b>8</b>	<b>6</b>	<b>16</b>	<b>49</b>	<b>82</b>



# People

# Investments in our People

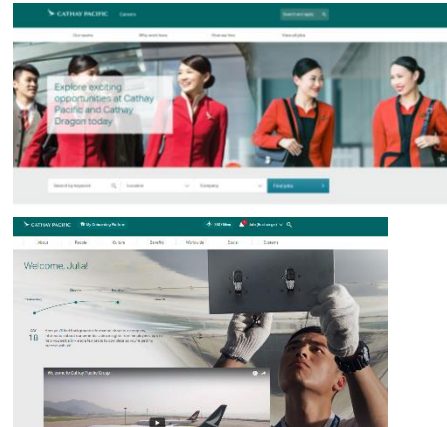


## Employee Engagement Survey



- **78%** I believe we need to change the way we work to succeed
- **74%** I understand how my work contributes to the strategy
- **64%** I feel proud to work for the airline
- **63%** I am motivated to go the extra mile in my role

## Digital Employee Experience



- New careers website for both Cathay Pacific and Cathay Dragon
- New onboarding platform for new starters
- New responsive, personalised communications and collaboration hub

## Improved Communications



- **Start the Week** – new weekly email to all employees
- **The Journey** – English and (digital) Chinese internal magazine
- **In the Know** – dedicated communications update for C+ level leaders

## Reward and Recognition



- More focus on our internal recognition programmes for all employees through Work Well Done and Niki and Betsy Awards



# Associates & subsidiaries



# 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.



中国国际货运航空公司  
**AIR CHINA CARGO**

- Stronger results in the first three quarters of 2017 compared to 2016.
- Higher fuel prices were more than offset by higher yields.

# Major subsidiaries – mixed results



## air Hongkong

- Marginal increase in performance up to 3Q of 2017 compared to 2016.

The logo for Cathay Pacific Catering Services, featuring the text "CATHAY PACIFIC" above "CATERING SERVICES" in white on a dark green rectangular background with a red border at the bottom.

- Lower profit compared to previous year.
- An expanded facility with 40% additional capacity started to operate in May 2017, resulting in increased operating costs.

## ASIA MILES

- Membership exceeds nine million worldwide.
- Increase in profit in compared with 2016 due to increased business volume.

The logo for CPSL, featuring the letters "CPSL" in a stylized font with red and blue circular accents.

- Improvement in compared 2016, reflecting the increase in tonnage carried and the effective management of operating costs.



## 2002 to 2018 - Current Contractual Arrangement

- Joint Venture Agreement (JVA)
- Current Block Space Agreement (BSA)
- JVA and Current BSA will expire in Dec 2018

**air Hongkong**

## Nov 2017 - Contracts were signed for the following transactions

- Freighter Sale & Leaseback
- Share Sale
- New Block Space Agreement

## 2019 Onward - Implication to CX Group

- Improved Returns
- CX owns 100% AHK



# Transformation Programme update

# Repositioning for success

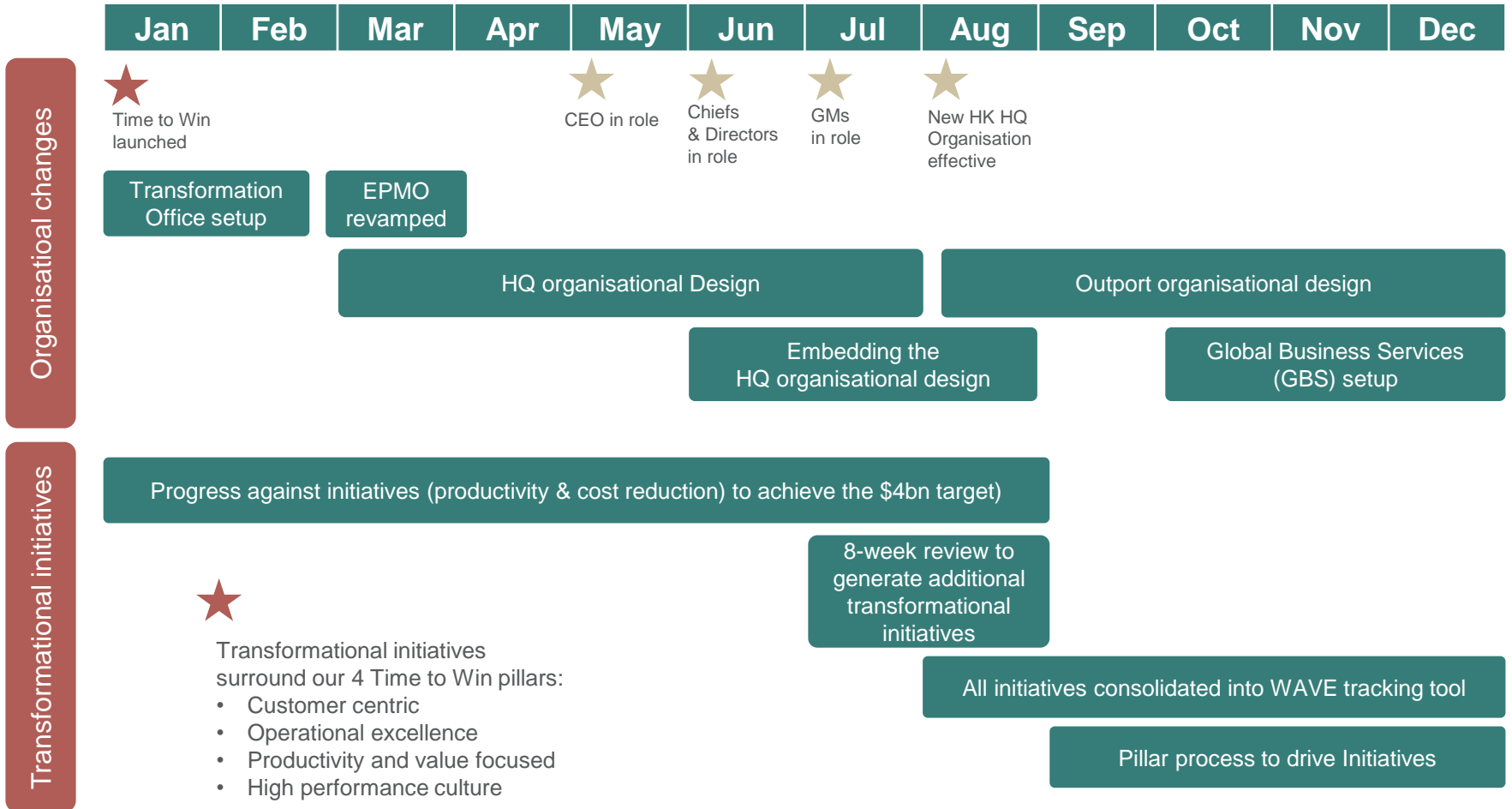


- Decisive steps taken to:
  - Reposition business to adapt to changing industry landscape.
  - Establish the platform for future success while maintaining our high standards of excellence.
  - Emerge as a leaner, more agile and profitable, flagship airline.
  - Achieve long-term sustainable recovery 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 update



## CUSTOMER CENTRIC

- New ports: Dublin, Copenhagen, and Brussels coming in 2018.
- Big improvements to MPO points accrual.
- Social customer care team formed, average response time of 60 minutes.
- New Taipei route catering trial proved very successful.

## OPERATIONAL EXCELLENCE

- Digital study to optimise block design for Base and Line maintenance.
- Established Schedule Council: Integrated Ops planning process.
- Digital analysis of "Aircraft On Ground" due to Engineering issues to improve asset utilization.

## PRODUCTIVITY AND VALUE FOCUSED

- Global Business Services launched in September, 57 staff transferred.
- Lean Academy launched with 28 yellow and green belts graduated.
- SAP cut over on schedule for January 2018.

## HIGH PERFORMANCE CULTURE

- New career website launched in September.
- Learning Academy in place bringing together all training.
- Leading High Performance teams completed for outport staff. |

- Continue to execute cost saving initiatives and align the business with new management vision
- Productivity and cost management expected to deliver positive impact to the bottom line in 2018



# Outlook



# Outlook



- The overall business environment will remain challenging for the remainder of 2017.
- Passenger yield to continue to be under pressure, back end longhaul behind ASK growth.
- Fuel costs will be higher than the previous year.
- Operational challenges and constraints still remain.

## But

- Strong performance expected for Cargo.
- Transformation programme well established
  - Initiatives to improve unit revenue
  - Managing cost per unit through productivity and efficiency initiatives as we grow
  - Leaner management structure
- Management actively committed to driving and delivering transformation to reposition Cathay for future success.
- Solid performance from Associates.



# Q&A

For more information, please visit our website  
[www.cathaypacific.com](http://www.cathaypacific.com)

