

# **Airline Strategy**

- Continue to grow our extensive international network, expand frequencies and further develop Hong Kong as one of the world's leading aviation hubs
- Ensure that the quality of our brand is not compromised and the service proposition to the customer remains strong
- Maintain a prudent approach to financial risk management







# Performance to May09 Capacity Data

CATHAY PACIFIC / DRAGONAIR	MAY	% change	11	Cumulative	% change
COMBINED CAPACITY	2009	VS MAY08		MAY 2009	YTD
			16		
ASK (000)	4	11.5	N		
- China	730,187	-1.7%	1	3,573,982	1.4%
- North East Asia	1,253,206	-1.6%	Á	6,271,253	-2.1%
- South East Asia & Middle East	2,028,222	7.8%		10,115,168	17.8%
- Europe	1,725,012	2.5%		8,795,270	7.8%
- South West Pacific & South Africa	1,421,994	1.2%		7,804,940	7.5%
- North America	2,193,717	-22.4%		10,514,182	-22.0%
ASK Total (000)	9,352,338	-4.7%		47,074,795	-0.7%
Pax load factor	75.8%	-1.6pt		78.8%	-1.0pt
Available cargo & mail tonne km (000)	944,673	-15.7%		4,797,185	-14.0%
Cargo and mail load factor	68.2%	1.2pt		65.2%	-1.0pt
ATK (000)	1,834,968	-10.7%		9,278,776	-8.0%







# Performance to May09 Traffic Data

CATHAY PACIFIC / DRAGONAIR	MAY	% change	Cumulative	% change
COMBINED TRAFFIC	2009	VS MAY08	MAY 2009	YTD
		18	27	
RPK (000)	2	1.3	//	
- China	471,494	-6.3%	2,474,182	1.2%
- North East Asia	774,082	-17.1%	4,301,912	-10.7%
- South East Asia & Middle East	1,495,793	0.0%	7,629,900	10.4%
- Europe	1,438,913	8.2%	7,289,239	3.1%
- South West Pacific & South Africa	1,009,721	6.7%	6,219,295	11.8%
- North America	1,895,158	-20.6%	9,177,369	-16.7%
RPK Total (000)	7,085,161	-6.7%	37,091,897	-1.9%
Pax carried	1,950,344	-7.5%	10,199,737	-1.3%
Cargo and mail tonne km (000)	644,569	-14.2%	3,125,754	-15.4%
Cargo and mail carried (000Kg)	121,966	-13.3%	576,833	-16.5%
No. of flights	4,803	-4.9%	24,126	-1.7%







## **Operating Performance**

- Passenger
  - Traffic sustained with load factor at 78.8% as lower fares stimulate demand in a highly competitive market
  - Pax number down by 1.3% vs capacity reduction of 0.7%
  - Weak economy class yield
  - Slump in demand for premium traffic, down by 39%
  - Traffic between Taiwan and Mainland affected by the launch of direct cross-straits services but leisure travellers from Mainland helped partially offset the impact
  - H1N1 impact







## **Operating Performance**

- Cargo
  - Continued weakness in the global airfreight business
  - Soft demand out of Hong Kong and PRD/YRD Region
  - Tonnage dropped by 16.5% against a capacity reduction of 14.0%, load factor fell by 1.0%pt to 65.2%
  - Competition continued to drive yield down
  - New freighter routes Houston/Miami and Jakarta/Ho Chi Minh City performed well







# **Financial Risk Management**

- Currency
  - For the 10 major currencies, except JPY and CNY, exchange rates have been 6% to 23% lower than 2008 average but have recently rebounded
  - Limited benefit seen from long term currency hedging in the current environment
- Liquidity
  - CX retains a substantial cash balance
  - Additional funding available from various sources
- Interest rates
  - Higher margins, lower absolute rates
  - Strategic management of fixed/floating ratio







#### Fleet Plan

- Passenger
  - Five aircraft deliveries scheduled in 2009; eight in 2010; nine in 2011
  - Plan to park six aircraft (negotiating to sell or lease out)
     and early terminate one operating lease
  - Return of two A330 and one A320 when leases expire in Jun/Oct09
  - Continue to negotiate with manufacturers to defer deliveries of new aircraft







# Fleet Plan (cont'd)

- Freighter
  - Five aircraft deliveries scheduled in 2009; four in 2010; two in 2011
  - Retirement of Classic freighters by Aug09
  - Have parked five B747-400BCF
  - Wet leasing one B747-400BCF to AHK
  - Continue to negotiate with manufacturers to defer deliveries of new aircraft







## **Current Fleet Profile**

Pax aircraft

A320-200	10
A321-200	6
A330-300	46
A340-300	15
747-400	23
777-200	5
777-300	12
777-300ER	В-нин 11
	128*







<sup>\*</sup> Of which six aircraft are to be parked

# Fleet profile

Freighters

747-200F	1	
747-400F	6	
747-400BCF	7	
747-400ERF	6	
Parked 747-400BCF	5	
	25	

Total fleet: 153

Owned: 111

Operating leased: 42







# Financing plan

Cathay Pacific is confident of raising finance on all its deliveries during 2009 – 2011 through a combination of:

- EXIM backed loans
- ECA loans
- Bank loans
- Sales and lease back
- Hong Kong leases







# Financing plan (cont'd)

Repayment profile of long term liabilities as at 31December 2008:

	After one year	After two years		
Within one	but within two	but within five	After five	
year	years	years	years	Total
HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
5,661	9,329	23,427	17,720	56,137







## **Fuel**

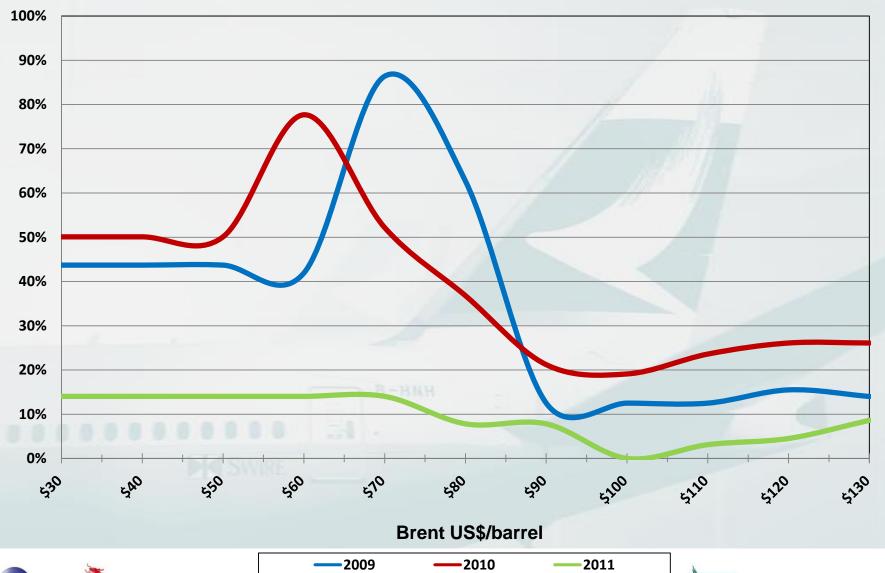
- Latest Brent price of USD70/bbl
  - Fuel costs rising undermining margins
  - Still 84% higher than 2004 level
  - We dynamically manage our hedging position
  - Unrealised MTM gains expected for interim
  - Policy retains a conservative focus based upon the use of cash flow hedge instruments
  - Fuel surcharges expected to continue to offer some form of relief against rising cost of fuel







#### **% Fuel Consumption subject to Hedging Contracts**

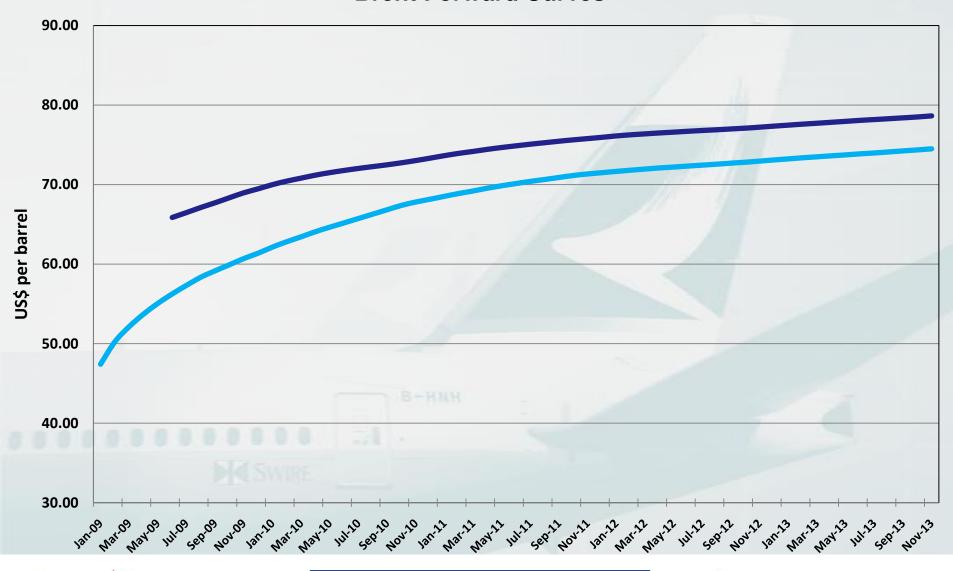








#### **Brent Forward Curves**



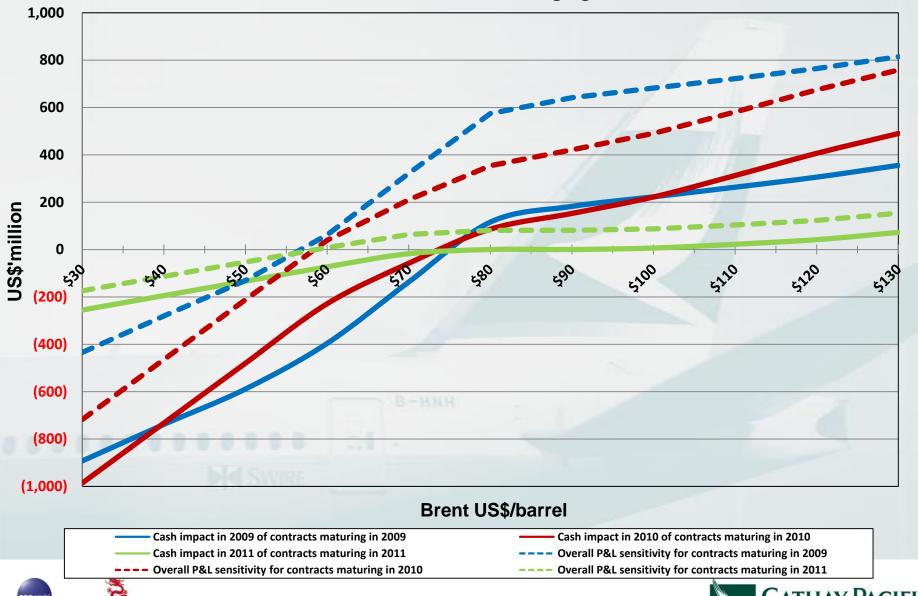








# Sensitivity analysis of cash and profit and loss impact of fuel price movements on fuel hedging contracts









# **Cost saving initiatives**

Capacity redeployment

Pax: reduction of 8% in CX and 13% in KA from May

Cargo: overall reduction of 11%

- CX Reduced capacity to London, Paris, Frankfurt, Sydney, Singapore, Bangkok, Seoul, Taipei, Tokyo, Mumbai and Dubai
- KA Reduced services to Bengaluru, Busan, Kota Kinabalu, Ningbo, Sanya, Shanghai and Taipei; suspended services to Dalian, Fukuoka, Guilin, Shenyang, Taichung and Xian
- Additional flights to Denpasar, Sapporo and Bahrain/Riyadh
- Freighter frequency reduced to 84 flights/week, down from 124/week during the 2008 peak
- Making ad hoc cancellations to align with market demand







# Cost saving initiatives (cont'd)

- Special Leave Scheme (SLS)
  - Close to 100% support from all categories

#### CX

- Ground Staff 99.9%
- Cabin Crew 96.2%
- Cockpit Crew 93%

#### KA

- Ground Staff 100%
- Cabin Crew 99.2%
- Cockpit Crew 95.9%







# Cost saving initiatives (cont'd)

- Others
  - Implementing a hiring freeze and offering voluntary unpaid leave
  - Negotiation with manufacturers to defer deliveries of new aircraft
  - Review of aircraft leases that expire
  - Deferred completion of cargo terminal from 2011 to 2013
  - Pushed back capital expenditure, eg. airport lounge renovations in HKG and LON
  - Landing charges: various reductions at airports around the world including 10% in Hong Kong for 2009







## Outlook

- General market
  - Airline industry faces continued turmoil due to economic downturn.
  - Seasonal nature of business means that second half is traditionally better than first half
  - H1N1 flu still a threat
  - Market capacity is down







### **Outlook**

- Our situation
  - Asian economic recovery still uncertain
  - Demand and yields seem to have stopped falling but not started to recover
  - Fuel has more than doubled in price since early March
  - Fluctuations in currency will continue to affect our results
  - Cargo prospects a little better due to a slight pick up in demand and reduced market capacity
  - Commitment to future expansion
  - Have not and will not cut customer-facing spend
  - Pledged to keep network integrity intact for both pax and cargo services













