

Cathay Pacific Airways

2009 Annual Results

10 March 2010



Annual Result

| | <u>2009</u> | <u>2008</u> (restated) |
|----------------------------|-------------|---------------------------|
| Group Profit/(Loss) | HK\$4,694m | (HK\$8,696m) |
| Group Turnover | HK\$66,978m | HK\$86,563m |
| Profit/(Loss) Margin | 7.0% | (10.0%) |
| Return on Capital Employed | 8.7% | (11.8%) |
| Earnings per share | HK¢119.3 | (HK¢221.0) |
| Dividends per share | HK¢10 | HK¢3 |
| <hr/> | | |
| Available tonne kilometres | 22,249m | 24,410m |
| Cost per ATK | HK\$2.76 | HK\$3.80 |
| Cost per ATK (w/o fuel) | HK\$2.00 | HK\$1.89 |
| Revenue Load Factor | 77.7% | 75.1% |
| Breakeven Load Factor | 72.8% | 87.2% |



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One-off items

- Implementation of HK (IFRIC) 13 Customer Loyalty Program
 - A reduction of HK\$1.4B in the opening retained profit of 2009
 - Profit for 2009 increased by HK\$74m
- Profit on disposal of HAECO shares of HK\$1,254m
- Aircraft impairment
 - Aircraft held for sale NBV compared to their market values
 - Provision of HK\$219m
- Operating lease charges
 - Aircraft parked and unlikely to return to service
 - Accrued the outstanding lease payments
- Provision for antitrust investigations of HK\$80m



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Airlines operating profit / (loss)

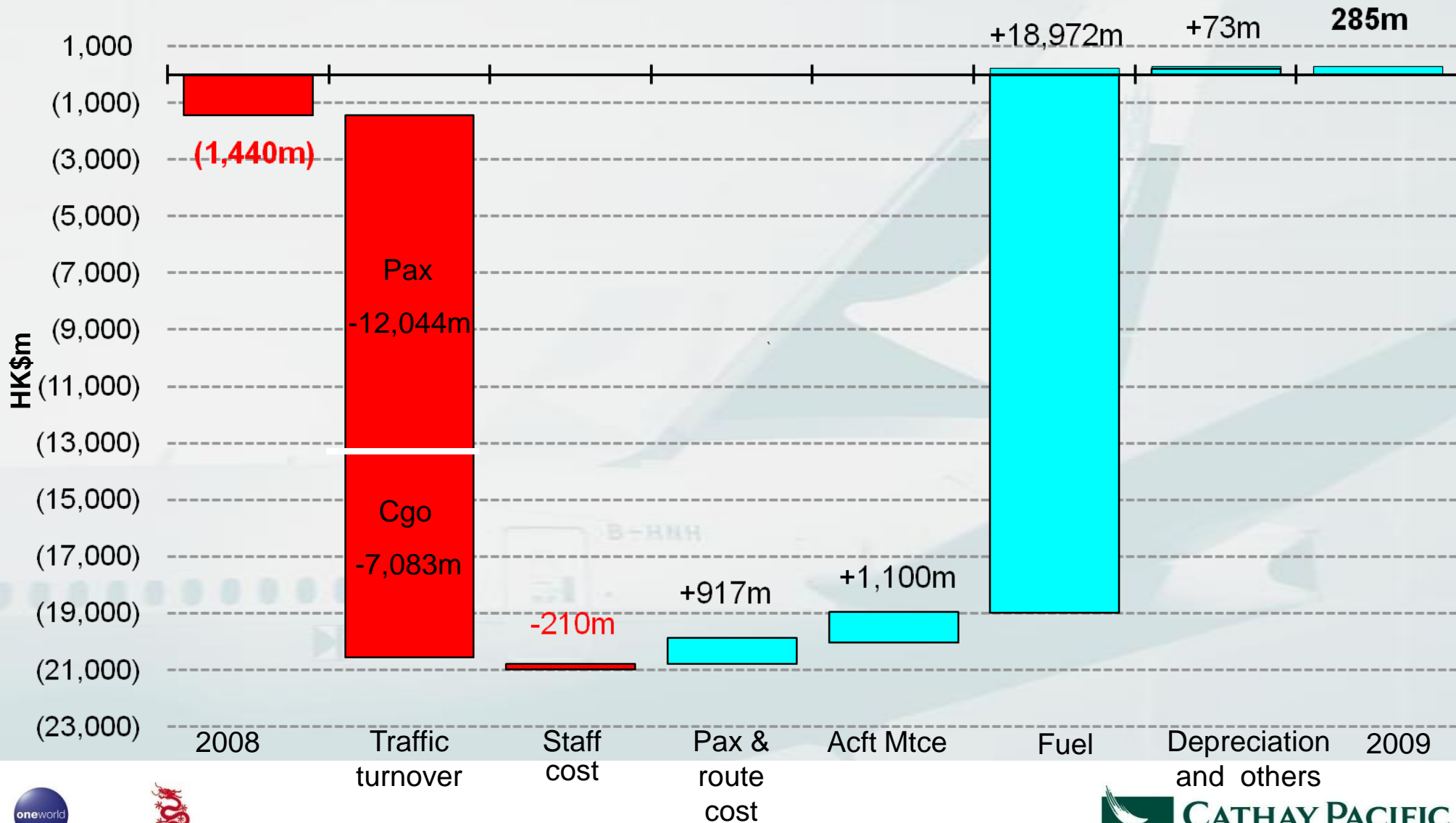
| | <u>2009</u> | <u>2008</u> <u>(restated)</u> |
|------------------------------------------------------------------------------------|--------------|----------------------------------|
| | HK\$M | HK\$M |
| Airlines opening profit/(loss) before fuel hedging, non-recurring items and tax | 285 | (1,440) |
| Profit on disposal of HAECO shares | 1,254 | - |
| Realised and unrealised fuel hedging gains/(losses) | 2,758 | (7,970) |
| Settlement of the US DOJ cargo investigations | - | (468) |
| Tax (charge)/credit | (170) | 1,476 |
| Airlines profit/(loss) after tax | 4,127 | (8,402) |
| Share of profit/loss from subsidiaries & associates | 567 | (294) |
| Consolidated profit/(loss) | 4,694 | (8,696) |



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Reconciliation of airlines' operating profit/(loss) before fuel hedging, non-recurring items and tax : 2008 to 2009



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Passenger Service - Key Numbers

| | <u>2009</u> | <u>vs 2008</u> |
|--------------------------|-------------|----------------|
| Turnover | HK\$45,920m | - 20.8% |
| Seat Capacity (ASK) | 111,167m | -3.7% |
| Passenger Number | 24.6m | -1.6% |
| Yield per Revenue Pax Km | HK¢51.1 | -19.5% |
| Load Factor | 80.5% | +1.7% pts |



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Passenger Service - by Region

| | ASK (m) | vs 2008 | Load Factor | vs 2008 | Yield Change |
|------------------------|---------|---------|-------------|-----------|--------------|
| SW Pacific & S. Africa | 17,959 | +1.5% | 80.8% | +3.8% pts | - 21.6% |
| Europe | 20,222 | + 1.0% | 85.3% | +0.9% pts | -22.5% |
| North Asia | 23,343 | - 2.9% | 72.2% | -0.8% pts | -21.9% |
| SE Asia & Middle East | 24,381 | +8.2% | 77.7% | +0.3% pts | -18.4% |
| North America | 25,262 | -19.1% | 86.7% | +5.0% pts | -14.3% |
| Systemwide | 111,167 | -3.7% | 80.5% | +1.7% pts | -19.5% |



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Passenger Yield



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Product and Services

- Rollout of new three-class cabins for our medium- and long-haul fleet was completed in November.
- Cabin refresh programme for our regional business and economy class product (for both CX and KA) is under way
- New aircraft continued to arrive and retiring older, fuel inefficient Boeing 747-200F Classics
- “Airline of the Year 2009” by Skytrax



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Passenger Services Development in 2010

- Planned to add flights to Jeddah, reinstating services to Los Angeles, Seoul and Toronto
- New passenger services to Milan and Moscow
- KA to increase frequencies to Hanoi, Nanjing, Chengdu, Changsha and Chongqing; and to upgrade aircraft to Phnom Penh and Fuzhou



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Cargo Service - Key Numbers

Group Turnover

2009
HK\$17,255m

vs 2008
- 29.9%

Cathay Pacific and Dragonair

Cargo Capacity (ACTK)

11,666m - 13.1%

- on passenger aircraft

4,296m - 11.5%

- on freighters

7,370m - 14.0%

Cargo Carried

1,528k tons - 7.1%

Yield per tonne km

HK\$ 1.86 - 26.8%

Load factor

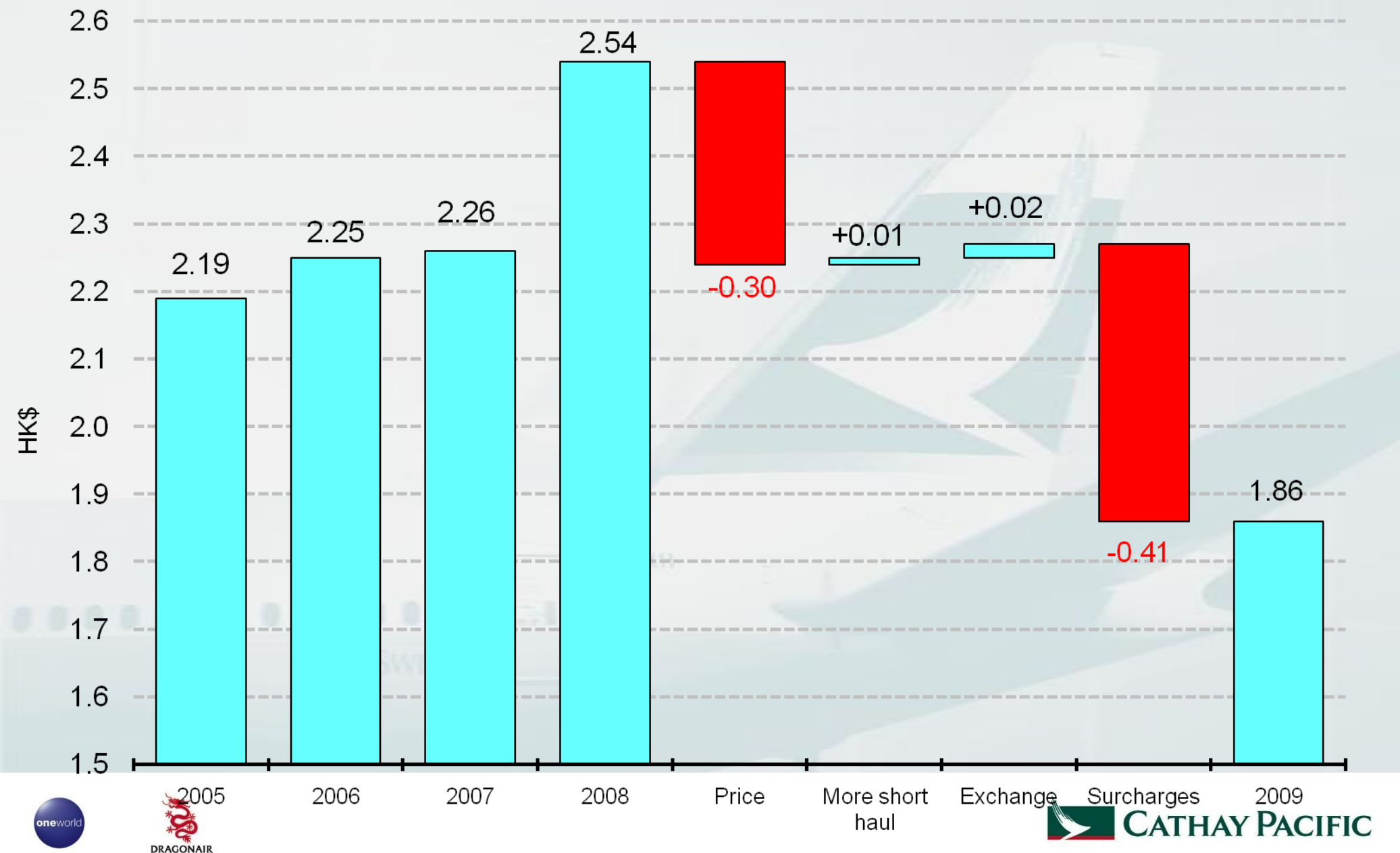
70.8% +4.9%pts



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Cargo & Mail Yield



Cargo Operating Performance 2009

- Difficult 1H, 15% reduction in capacity – 5 parked freighters
- Demand picked up 2H 2009 – Strong Peak
- Rapid yield improvement
- High Load factors
- More extra sectors

2010

- Demand firm, regional routes recovering, better balance of capacity to demand on long haul trade lanes
- Fuel price rising



Cathay Pacific Cargo Strategy

- Continue to grow our hub at HKIA, already the largest International Cargo Hub in the world
- Stay at leading edge of technology curve
 - Young efficient fleet
 - New Terminal
 - Promote 'E freight'
- Differentiate
 - Product Segmentation
 - Expert lift
 - Priority lift
- Invest in Air China Cargo so that CX is a major player in the two hub airports for Pearl River Delta & Yangtze River Delta originating export traffic



Cathay Pacific Cargo – Hub Development Strategy

New Cargo Terminal at HKIA

- HKD 5.5bm investment – operational in 2013
- 2.6m tonne phase 1 capacity
- 20 year franchise

Key Features

- Platform for growth
- Product & service improvements
 - Transshipment
 - E-freight environment
- Cost reduction potential



Air China / Cathay Pacific Cargo Joint Venture

- CX to acquire 49% economic interest in Air China Cargo (ACC)
- Active investor – both shareholders to second management to J.V.
- ACC an existing airline
 - operations in Beijing and Shanghai
 - 7 x 747 Freighters
 - sells 'Belly' space in Air China's passenger fleet
- CX investment by injecting assets into ACC
 - 4 x 747 Freighters
 - 2 spare engines

Strategic Objective: Grow Air China Cargo to become pre-eminent cargo carrier in Beijing & Shanghai



Cargo Fleet Plan

2010

- Current fleet composition
 - 25 x 747 Freighters : 6 x 747-400F, 6 x 747-400ERF and 13 x 747-400BCF

Future development

- Out of service
 - 4 x 747-400BCF to joint venture
- New delivery
 - 747-8F – 6 in 2011 and 4 in 2012



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Group Operating Cost

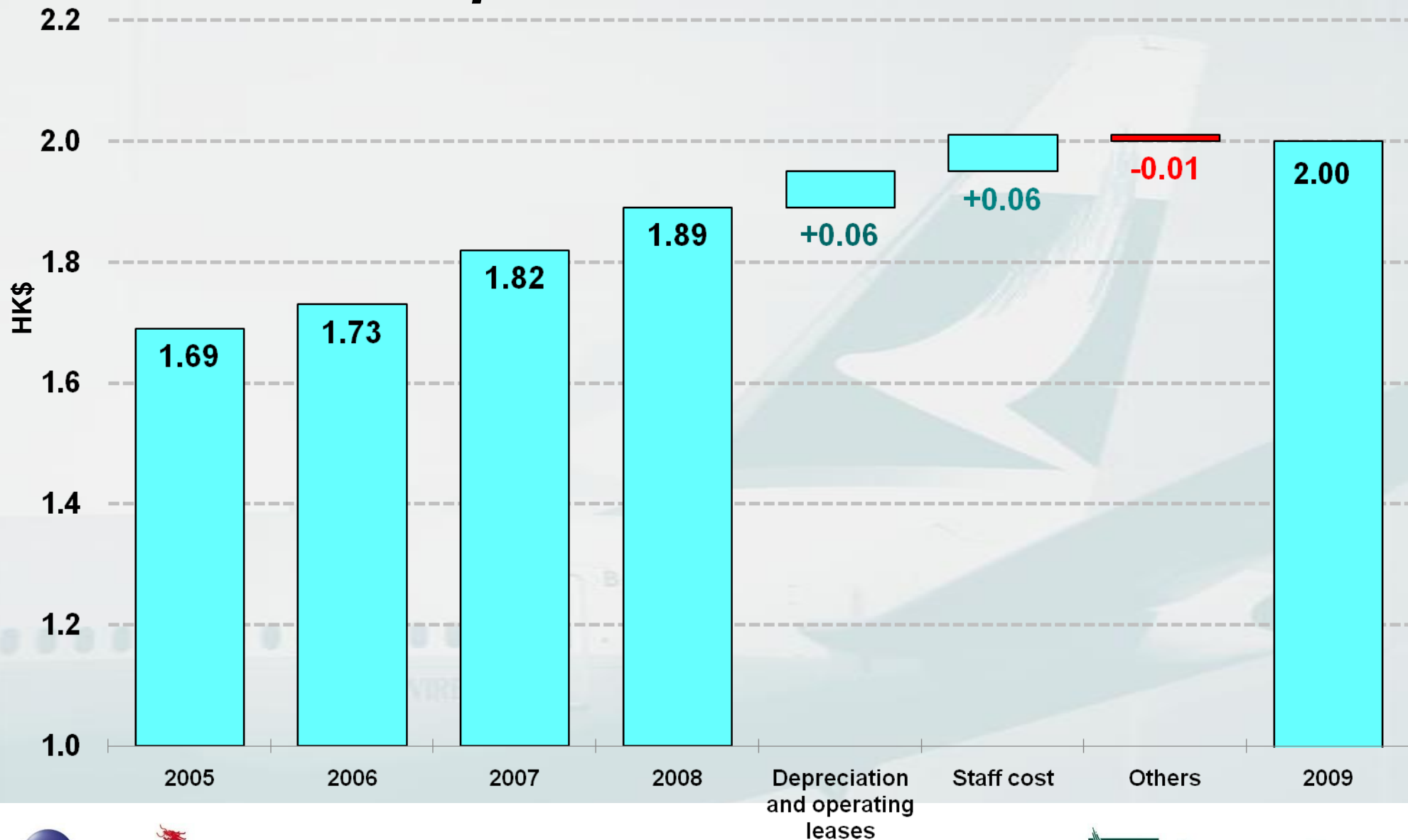
| | <u>2009</u> | <u>vs 2008</u> |
|--------------------------------------|---------------|----------------|
| Staff | 12,618 | + 1.5% |
| Inflight service & passenger | 2,915 | -12.6% |
| Landing, parking & route | 10,458 | -3.4% |
| Fuel | 17,349 | - 63.3% |
| Aircraft maintenance | 6,567 | - 14.1% |
| Depreciation & leases | 9,081 | + 9.8% |
| Net finance charges | 847 | - 16.3% |
| Others | 3,511 | - 18.5% |
| Total Operating Cost HK\$m | 63,346 | - 33.4% |



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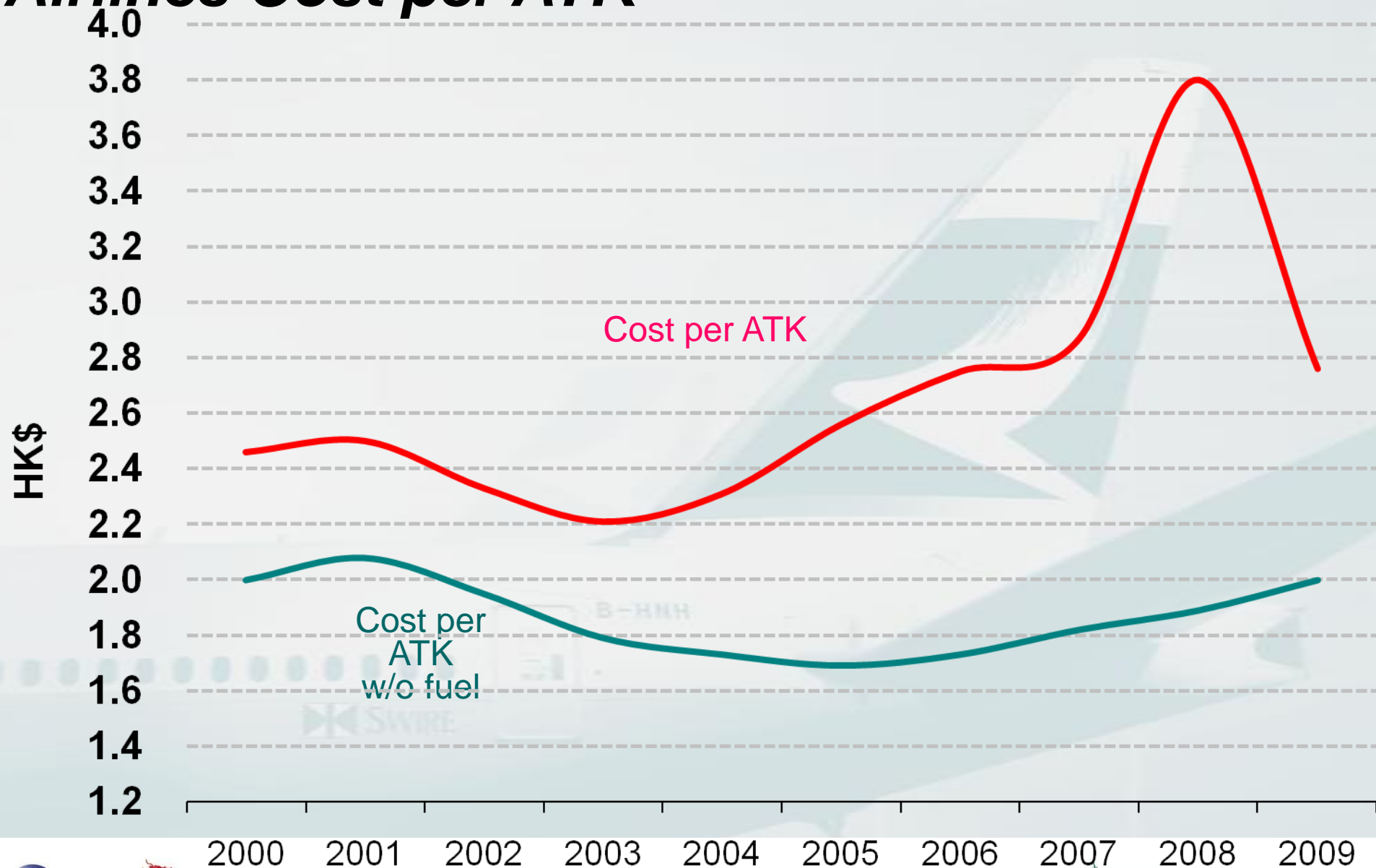
Airlines Cost per ATK without Fuel



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Airlines Cost per ATK



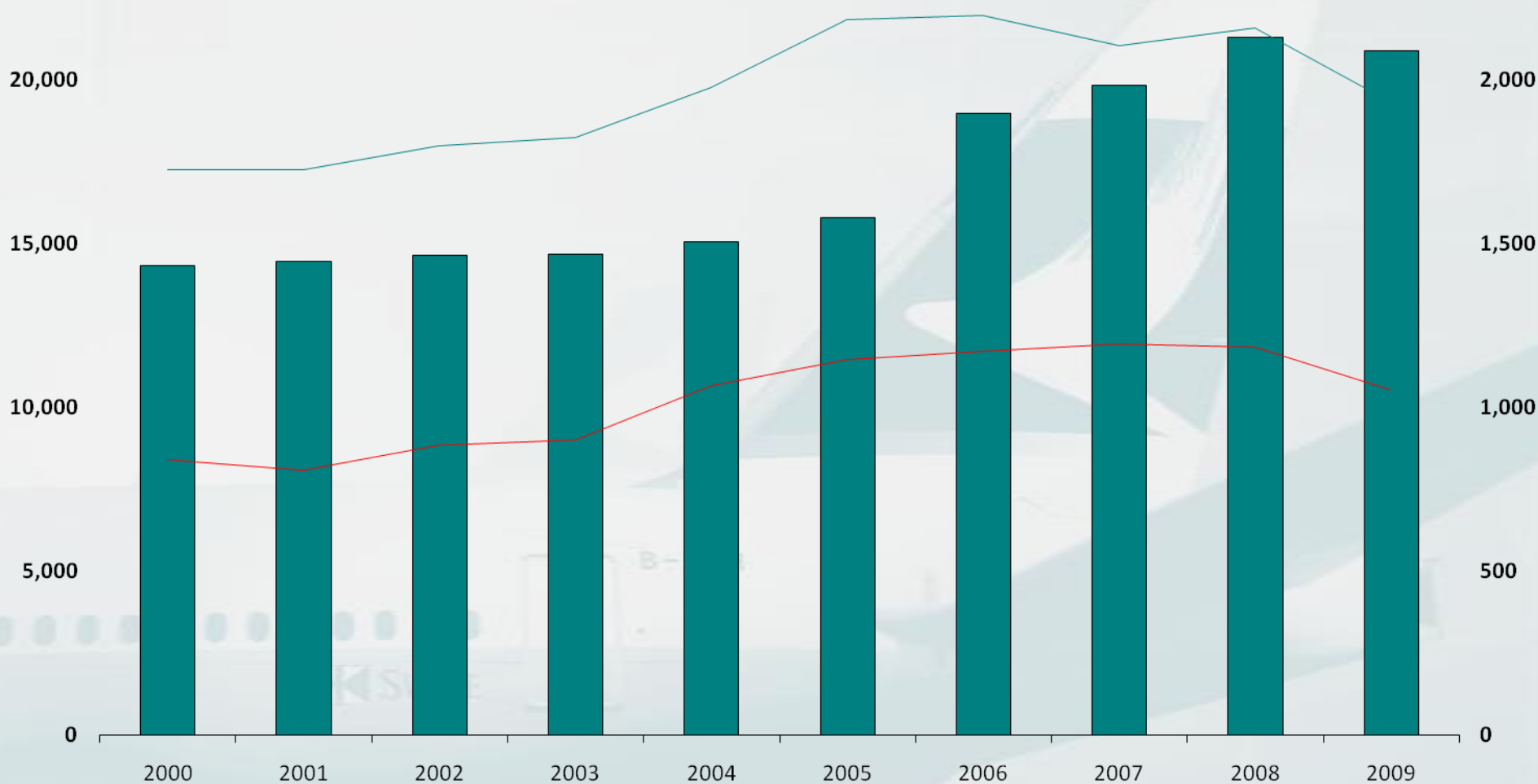
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Productivity - Staff

Staff no.
25,000

ATK
2,500



Staff no. at year end

ATK per HK\$'000 staff cost

ATK (in '000) per staff

Note: Includes KA from Oct06



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Fleet composition changes (CX/KA)

Fleet @ 31Dec2008

| | |
|------------------------------------------------------|-----|
| Deliveries (4x747-400ERF, 5x777-300ER, 1x747-400BCF) | 154 |
| Returned (2xA330-300, 1xA320-200) | 10 |
| Retired (6x747-200F) | 3 |
| | 6 |

Fleet @ 31Dec2009

| | |
|------------------------------------------------|-----|
| Parked (5x747-400BCF, 4x A340-300, 1x 747-400) | 155 |
| Leased out (1x747-400BCF to AHK) | 10 |
| | 1 |

Operating fleet @31Dec2009

| | |
|--------------------|-----|
| Passenger aircraft | 144 |
| Freighter | 125 |
| | 19 |

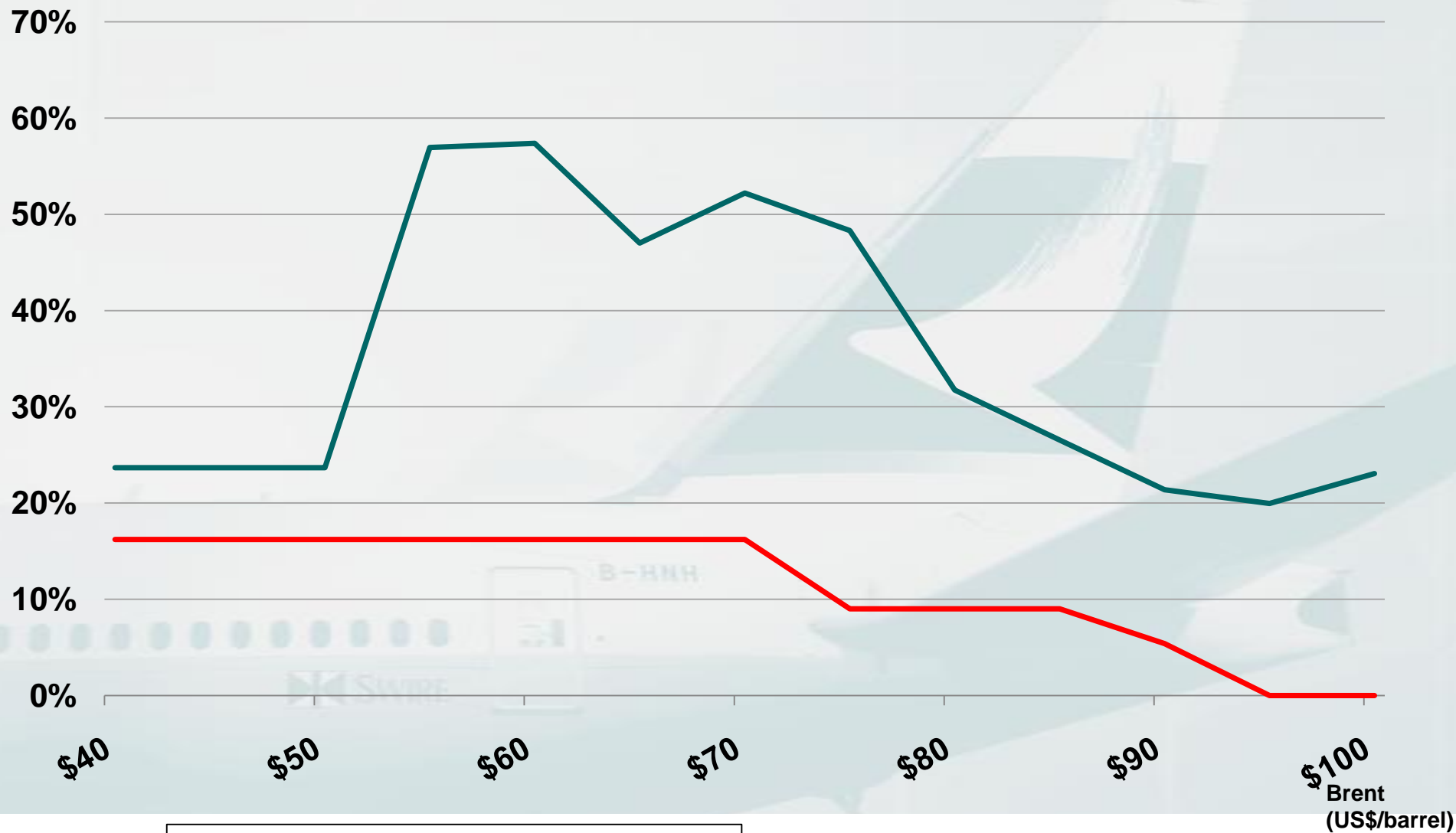


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Percentage consumption
subject to hedging contracts

Maximum fuel hedging exposure



— 2010

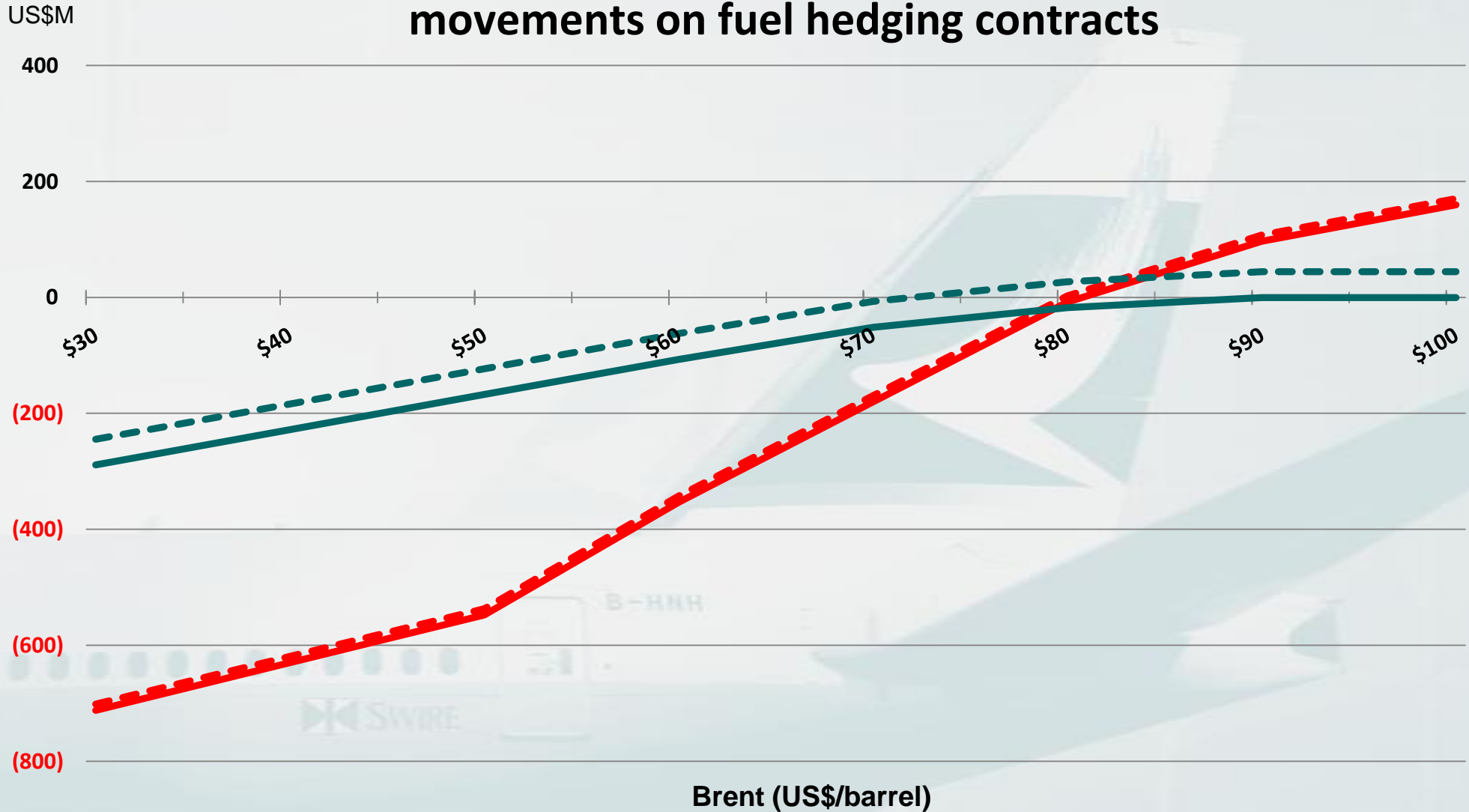
— 2011



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



— Cash impact in 2010 of contracts maturing in 2010
— Cash impact in 2011 of contracts maturing in 2011

- - - Overall P&L sensitivity for contracts maturing in 2010
- - - Overall P&L sensitivity for contracts maturing in 2011



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Balance Sheet

| | <u>31 Dec 09</u> | <u>31 Dec 08</u> <u>(restated)</u> | <u>vs Dec 08</u> |
|-----------------------------|------------------|---------------------------------------|------------------|
| Shareholders' Funds | HK\$42,238m | HK\$36,709m | 15.1% up |
| Gross Borrowings | HK\$42,642m | HK\$40,280m | 5.9% up |
| Less: | | | |
| Liquid Funds | HK\$(16,511m) | HK\$(15,082m) | 9.5% up |
| Net Borrowings | HK\$26,131m | HK\$25,198m | 3.7% up |
| Capital Employed (incl. MI) | HK\$68,516m | HK\$62,027m | 10.5% up |
| Net Debt/Equity Ratio | 0.62 | 0.69 | -0.07 times |
| Investment in Air China | HK\$7,885m | HK\$7,854m | 0.4% up |



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Liquid Fund Flow

Inflow

New financing

Operating activities

Disposals & others

Outflow

Capital expenditure

Loan repayment

Dividend paid

Net inflow/(outflow)

2009
HK\$'M

6,169

2,035

4,623

(6,776)

(4,479)

(143)

1,429

2008
HK\$'M

6,665

1,816

1,246

(9,667)

(3,919)

(2,696)

(6,555)



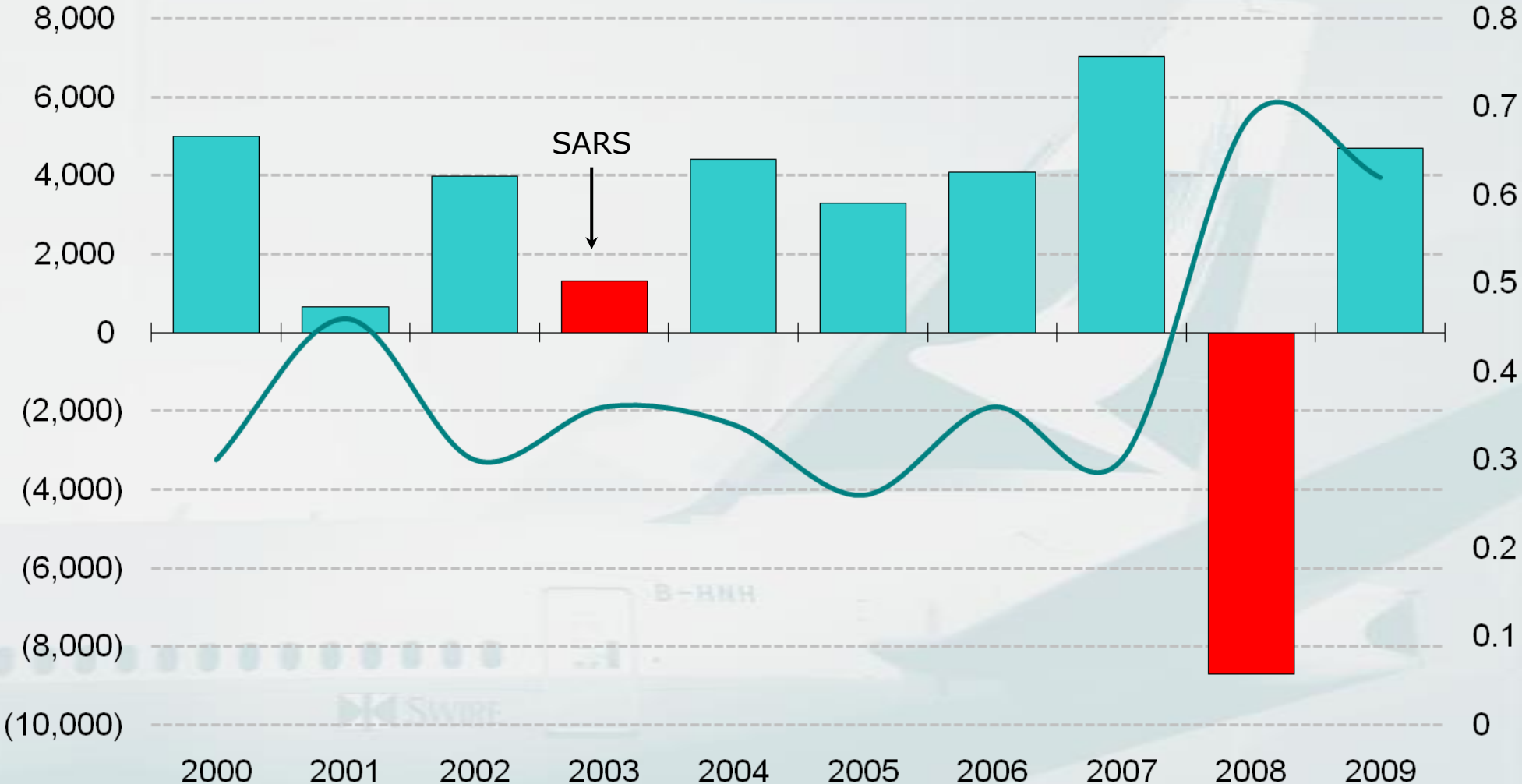
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Profit & Net Debt/Equity Ratio

Profit / (loss) - HK\$ m

D/E ratio - times



Profit/(Loss)

Net debt/equity ratio



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Major subsidiaries

- AHK Air Hong Kong
 - 60% owned by Cathay Pacific
 - Load factor increased marginally with a capacity increase of 16% but yield under pressure
 - Lower profits due to substantial yield reduction
- Cathay Pacific Catering Services
 - Produced 20.9 million meals, down 4.6% but market share increased by 1.3% pt to 63.4%
 - Lower profits as decline in business volume and cost saving initiatives of customer airlines reduced profit margin

Asia Miles

- More than 3 million members, net growth of 10% in 2009
- 20 airline partners and 465 non-airline partners



Air China

- CA made a significant operating loss in 4Q 08 and a profit of RMB3,811m (under PRC GAAP) for Jan-Sep 09
- Positive profit alert for the 2009 annual results
- Air China Cargo (ACC) joint venture
- Joint venture operations on Beijing, Shanghai, Chengdu and Chongqing
- Looking at other initiatives



Summary

- Operating profitably – bolstered by one-off gains
- Passenger revenue improves but from a low base
 - front end demand still below levels prior to the downturn
 - yields remain low but loads are high
- Cargo revenue started to pick up
- Fuel price remains stubbornly high



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This map is for indication purposes only and is not to scale. Destinations are subject to change without notice. Valid as of 10 November 2009.



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