

# *Cathay Pacific Airways*

## *2012 Analyst Briefing*

*28 June 2012*



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# Airline Strategy

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



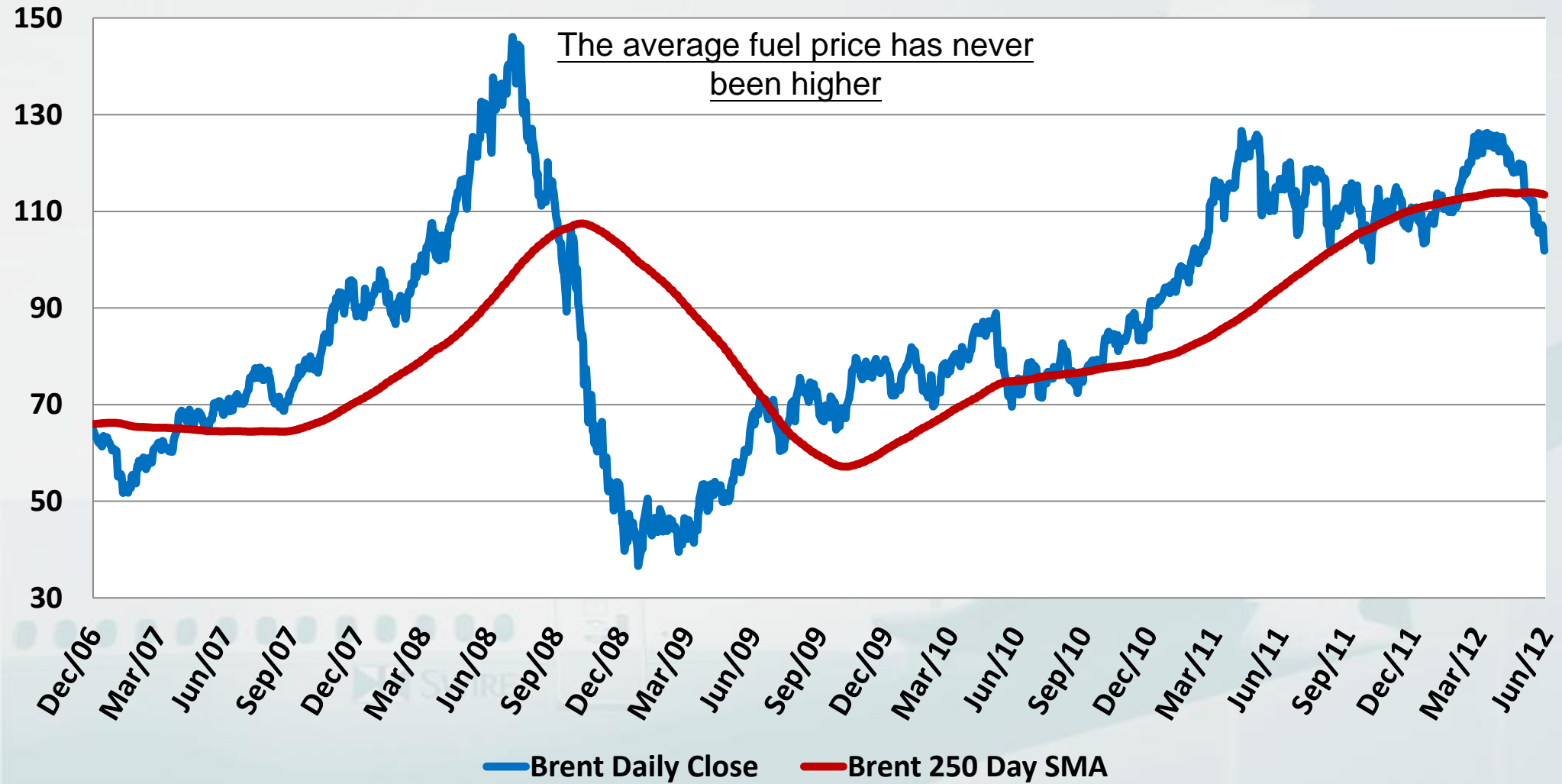
# Operating Performance

- Issued Trading Statement on 9<sup>th</sup> May 2012
- Stubbornly high price of jet fuel, despite the recent decline
- Softening yield in the passenger cabins
- Persistent weak demand in the air cargo markets
- Introduction of cost saving measures
- Gearing and liquidity remain strong





# USD/Bbl - Brent-Daily Closing Price and 250 Day Simple Moving Average 2007-2012



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# Operating Performance - Passenger

- Passenger volume growth exceeds capacity growth
- Premium traffic is under increasing pressure with yield softening
- Demand in economy class met expectations but yield continues to decline



# Performance to May 12 - Capacity Data

| CATHAY PACIFIC/ DRAGONAIR COMBINED CAPACITY | Cumulative<br>May 2012 | % change<br>YTD |
|---|------------------------|-----------------|
| China                                       | 4,440,511              | 8.1%            |
| North East Asia                             | 6,951,363              | 8.9%            |
| South East Asia                             | 7,159,918              | 12.4%           |
| India, Middle East, Pakistan & Sri Lanka    | 4,717,872              | 3.2%            |
| Europe                                      | 9,019,546              | -3.3%           |
| South West Pacific & South Africa           | 8,053,399              | 0.8%            |
| North America                               | 14,433,774             | 18.6%           |
| ASK ('000)                                  | 54,776,383             | 7.6%            |
| Passenger load factor                       | 79.6%                  | 0.8%pt          |
| Available cargo and mail tonne km ('000)    | 5,611,488              | -4.1%           |
| Cargo and mail load factor                  | 64.0%                  | -4.7%           |
| ATK ('000)                                  | 10,820,620             | 1.2%            |



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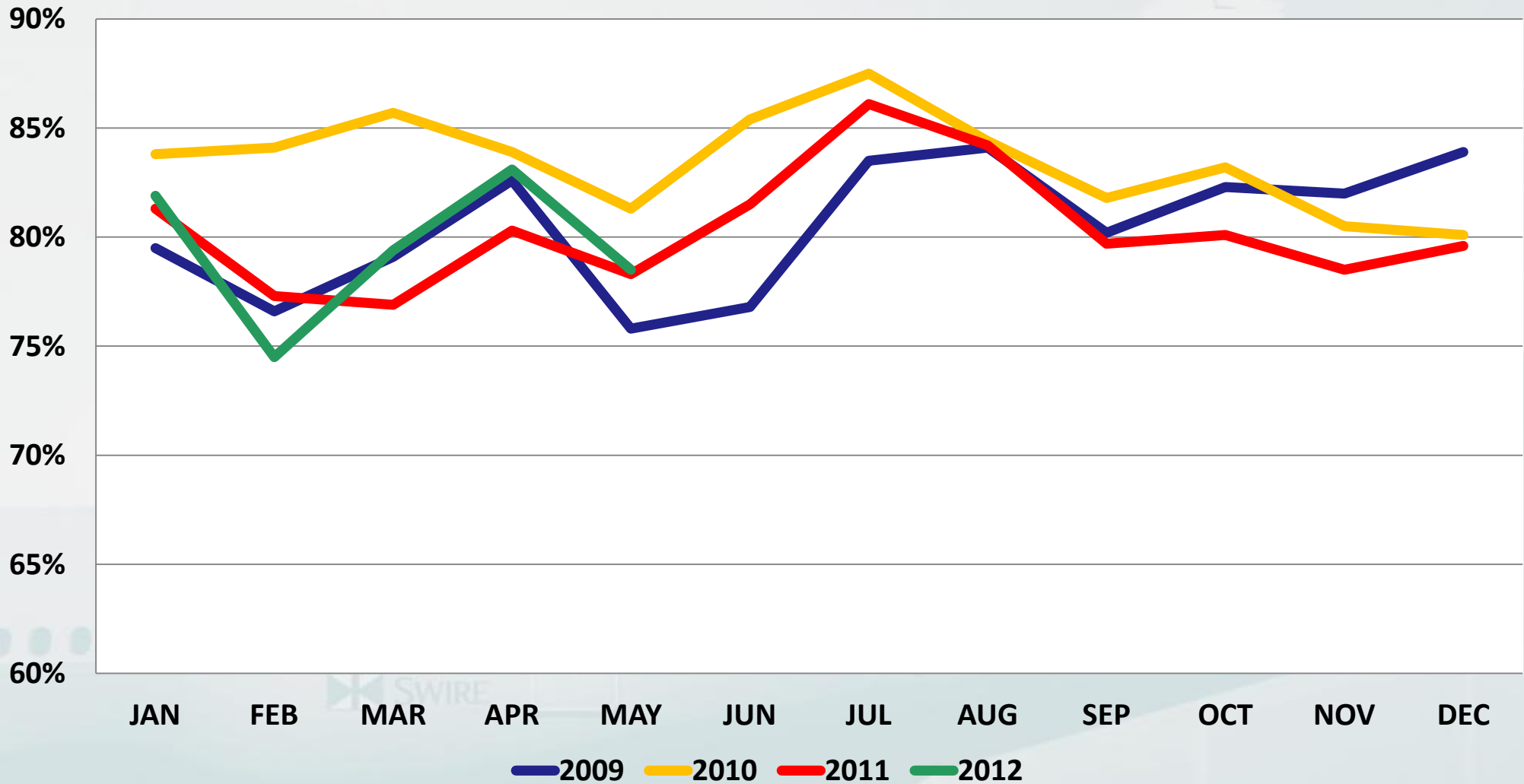
# Performance to May 12 - Traffic Data

| CATHAY PACIFIC AND DRAGONAIR COMBINED TRAFFIC | Cumulative May 2012 | % change YTD |
|---|---------------------|--------------|
| China   | 3,216,435           | 11.6%        |
| North East Asia                               | 4,990,937           | 15.2%        |
| South East Asia                               | 5,730,209           | 9.4%         |
| India, Middle East, Pakistan & Sri Lanka      | 3,596,970           | 3.7%         |
| Europe  | 7,478,346           | -0.2%        |
| South West Pacific & South Africa             | 6,077,755           | 3.5%         |
| North America                                 | 12,486,487          | 15.0%        |
| RPK ('000)                                    | 43,577,139          | 8.5%         |
| Passengers carried                            | 11,898,012          | 9.1%         |
| Cargo and mail revenue tonne-km ('000) (RTK)  | 3,590,261           | -10.7%       |
| Cargo and mail carried kg ('000)              | 626,203             | -10.7%       |
| Number of flights                             | 27,756              | 6.9%         |



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# PASSENGER LOAD FACTOR (JAN 2009 - MAY 2012)



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# Operating Performance - Cargo

- Weak demand in most major markets throughout the first half of 2012
- Significant drop in demand out of our key markets, Hong Kong and Mainland China, with temporary boost in March
- General air cargo market remains weak, especially to Europe
- Profitability on our freighter flights materially affected by high fuel prices, particularly on long-haul routes
- Zhengzhou added to our freighter network in March
- Expands cargo presence in India with new service to Hyderabad and increased frequency to Bengaluru



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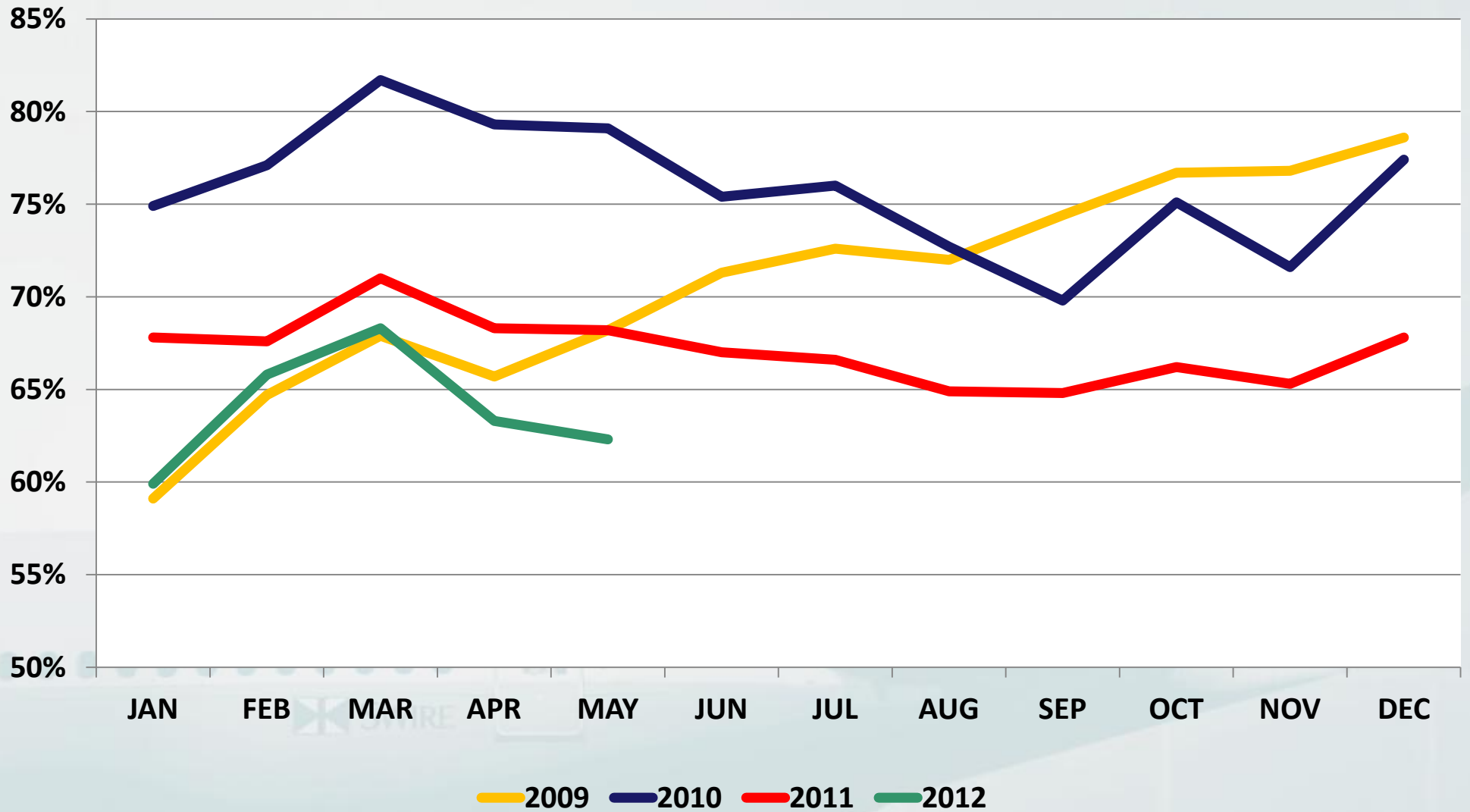
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| Number of flights                             | 27,756              | 6.9%         |



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# CARGO AND MAIL LOAD FACTOR (JAN 2009 - MAY 2012)



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# Cost-Saving Measures

- Reduce passenger and cargo capacity
- Deploy more fuel-efficient aircraft on long-haul flights
- Accelerate the retirement of the old Boeing 747-400
- Hiring freeze on new or replacement ground staff except those who are critical to operations
- Offer voluntary unpaid leave for cabin crew
- Cancel all non-essential business travel
- Reduce marketing and IT spend





# ***Fleet & Scheduling - CX***

- Reduce frequencies on long-haul routes to North America and Europe
- Added regional flights to Taipei, Kuala Lumpur, Penang, Bangkok, Nagoya and Singapore in March
- Increase services between Seoul and Hong Kong from five to six flights daily effective from 15 July
- Increase frequencies between Chennai and Hong Kong from four flights a week to daily effective from 1 September



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# ***Fleet & Scheduling – KA***

- Added flights to Ningbo, Qingdao and Okinawa
- Used larger aircraft for some flights on the Xiamen, Guangzhou and Kunming routes
- Resumed services to Xi'an in April and to Guilin and Taichung in May
- New services to Jeju and Clark were introduced in May
- New service to Chiang Mai will run from 1 July to end of September
- Intends to introduce service to Kolkata later in the year



# Cargo Scheduling

- New freighter service to Zhengzhou in Henan Province, Central China in March
- Introduced new service to Hyderabad, India in May
- Added flights to Bengaluru, India, from two to three flights a week
- Reduce freighter frequencies to Europe and North America



# CX and KA Fleet Plan 2012

|                             | In operation |           |       | Parked    |           |       |
|-----------------------------|--------------|-----------|-------|-----------|-----------|-------|
|                             | Passenger    | Freighter | Total | Passenger | Freighter | Total |
| 31 Dec 2011                 | 138          | 27        | 165   | 2         | -         | 2     |
| New deliveries              | 8            | 1         | 9     | -         | -         | -     |
| Return to lessors           | -            | -         | -     | (2)       | -         | (2)   |
| Dry leased to Air Hong Kong | -            | (3)       | (3)   | -         | -         | -     |
| Parked aircraft             | -            | (2)       | (2)   | -         | 2         | 2     |
| Deregistered                | -            | -         | -     | -         | (1)       | (1)   |
| 30 Jun 2012<br>(projected)  | 146          | 23        | 169   | -         | 1         | 1     |



# Fleet & Scheduling - 744 Retirement Plan

As of 28 June 2012

| Exit date | Number | Remaining |
|-----------|--------|-----------|
| Sep 12    | -3     | 18        |
| Mar 13    | -2     | 16        |
| Jun 13    | -1     | 15        |
| Sep 13    | -1     | 14        |
| Nov 13    | -1     | 13        |
| Jan 14    | -1     | 12        |



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# Cargo Fleet Plan

## 2012

- Forecast fleet composition as at 30 Jun 2012
  - 24 x 747 Freighters :
    - 6 x 747-400F, 6 x 747-400ERF , 7 x 747-400BCF and 5 x 747-8F

## Latest development

- Sale – 2 x 747-400BCF to Air China Cargo in second half of 2012
- New delivery
  - 747-8F – 4 in 2012 and 2 in 2013
  - 777-200F – 4 in 2014, 2 in 2015 and 2 in 2016



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# ***New Aircraft as at June 2012***

|   |           |
|---|-----------|
| <b>Orders brought forward at 1 Jan 2012</b> | <b>93</b> |
| Delivered                                   | (9)       |
| New Orders in January 2012                  | 8         |
| <b>Total as at 28 Jun 2012</b>              | <b>92</b> |



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# Aircraft Delivery Plan as at June 2012

|              | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | 2018      | 2019     |           |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-----------|
| B747-8F      | 3         | 2         |           |           |           |           |           |          | 5         |
| B777-200F    |           |           | 4         | 2         | 2         |           |           |          | 8         |
| A320-200     | 2         |           |           |           |           |           |           |          | 2         |
| A330-300     | 4         | 5         | 5         | 3         |           |           |           |          | 17        |
| A350-900     |           |           |           | 2         | 10        | 10        | 12        | 4        | 38        |
| B777-300ER   | 1         | 9         | 7         | 5         |           |           |           |          | 22        |
| <b>Total</b> | <b>10</b> | <b>16</b> | <b>16</b> | <b>12</b> | <b>12</b> | <b>10</b> | <b>12</b> | <b>4</b> | <b>92</b> |



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# Key Cost Savings

- Aircraft maintenance
- Navigation and overflying charges
- Staff costs
- Potential fuel costs savings derived from the replacement of the old and less fuel-efficient Boeing 747-400



# Product and Services

- Introduction of the new Premium Economy Class





# Product and Services (Continued)

## New long-haul Economy Class seats



## New Business Class seats



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# Product and Services (Continued)

- Reopened Business Class Lounge of The Wing in January



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# Product and Services (Continued)

- Launch of Mobile Boarding Pass service



- Upgrade of new passenger reservation system



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# Cargo Development

## Cargo Terminal

- HK\$5.9 billion investment, spend to May 2012 HK\$4.9 billion
- Good progress in construction and operation preparation, topping-out ceremony on 17 Nov 2011
- On schedule for opening early 2013
- It will greatly enhance the competitiveness and efficiency of Hong Kong as an airfreight hub



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## ***Air China***

- Air China publishes its results on a quarterly basis and the loss for the 6 months period from 1 Oct 2011 to 31 March 2012 amounted to RMB 0.6bn, compared to profit RMB 3.8bn for the same period last year

## ***Air China Cargo***

- Performance of Air China Cargo has been weak but remains strategically important



# Shanghai Airport Ground Handling Joint Venture

- Strategic Objective – to leverage on the resources & management expertise of each of the shareholders to enhance the hub operations and efficiency of ground handling services at the two Shanghai airports
- Shanghai International Airport Services Co., Limited is jointly owned and managed by Shanghai Airport Authority, Shanghai International Airport Co., Ltd., Air China Limited and Cathay Pacific Airways
- CX Group injected RMB90 million for 25% shareholding
- Expected to commence operations in the fourth quarter of 2012 subject to approval by the relevant Chinese government authorities





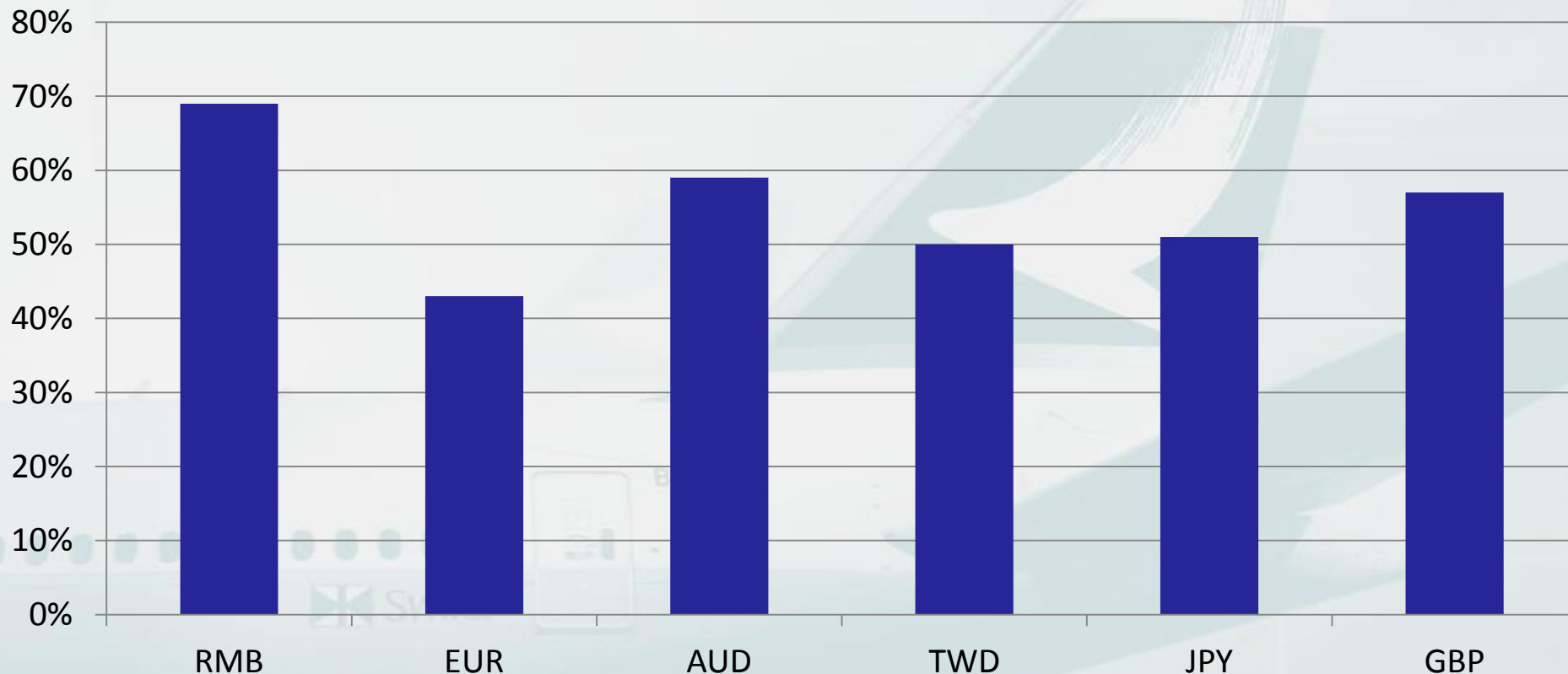
# Financial Risk Management

- Currency
  - All major currencies are hedged in compliance with our policy
- Liquidity
  - A total of HK\$2.7billion with tenors of 5 or 7 years raised through MTN programme since first issue in Oct 2011
  - Unpledged liquid funds and undrawn committed lines HK\$21bn as at 31 May 2012
- Interest rates
  - Overall cost of debt remains low.
  - Margins have widened, but yield curve at historically attractive levels
  - Strategic management of fixed / floating ratio – taking advantage of low fixed rates to lock in aircraft financing



# Financial Risk Management (Continued)

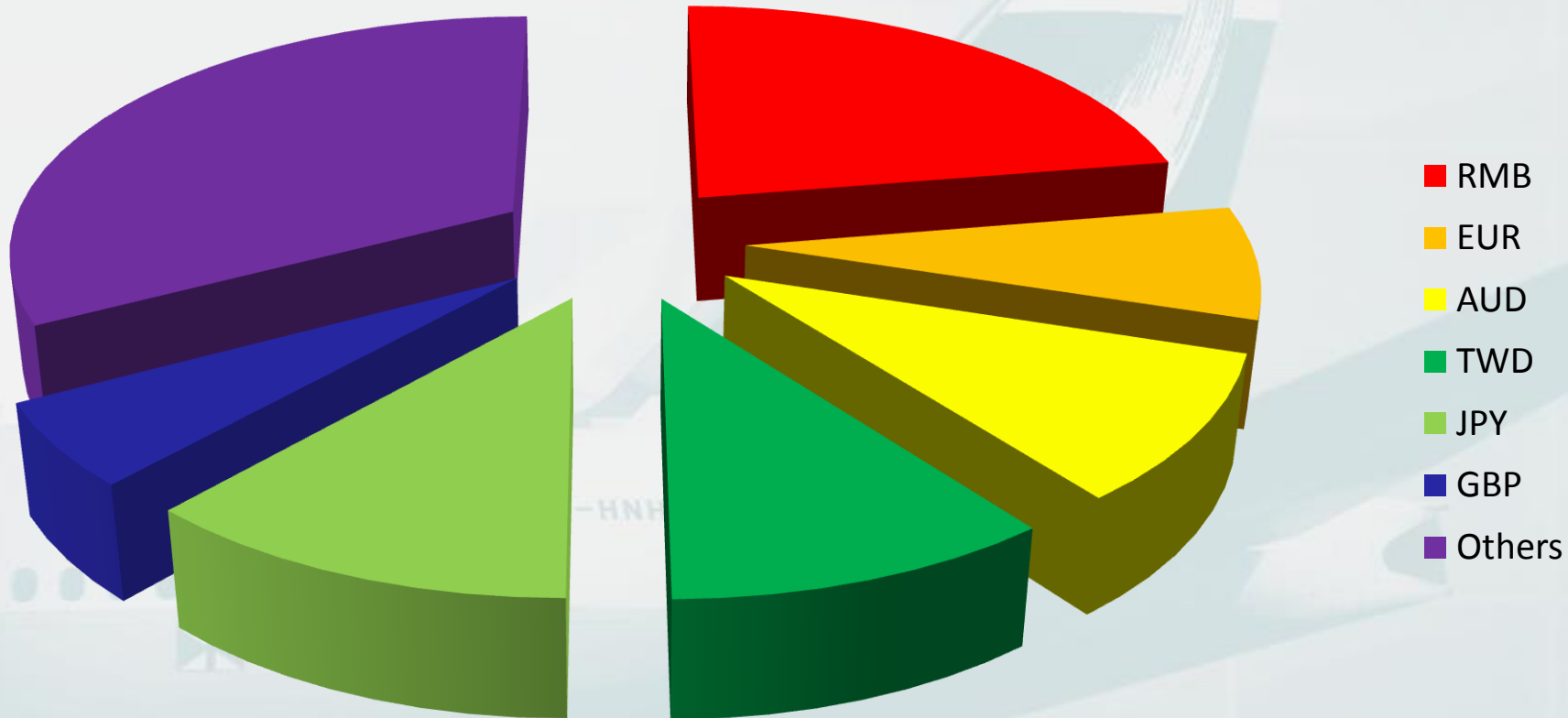
Net exposure (after hedging) of major currencies – next 12 months



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# Financial Risk Management (Continued)

Projected Composition of forex exposure (after hedging)  
– next 12 months



# Net debt to equity ratio

| May 2012 | Dec 2011 | Dec 2010 | Dec 2009 | Dec 2008 | Dec 2007 | Dec 2006 | Dec 2005 |
|----------|----------|----------|----------|----------|----------|----------|----------|
| 0.57     | 0.43     | 0.28     | 0.62     | 0.69     | 0.30     | 0.36     | 0.26     |

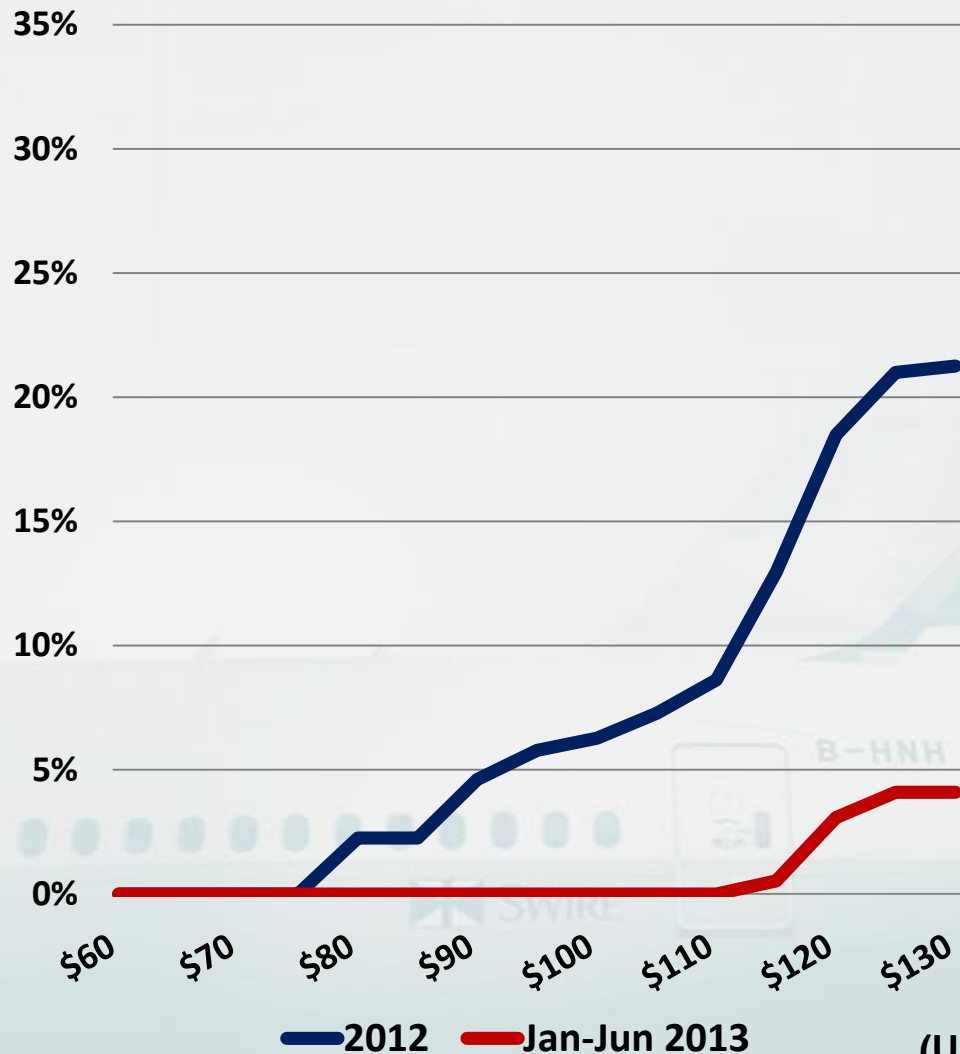
- Continue to adopt prudent financial strategy, maintain adequate cash reserves
- CAPEX on new aircraft , product enhancement and cargo terminal will be over HK\$46B in the next 3 years



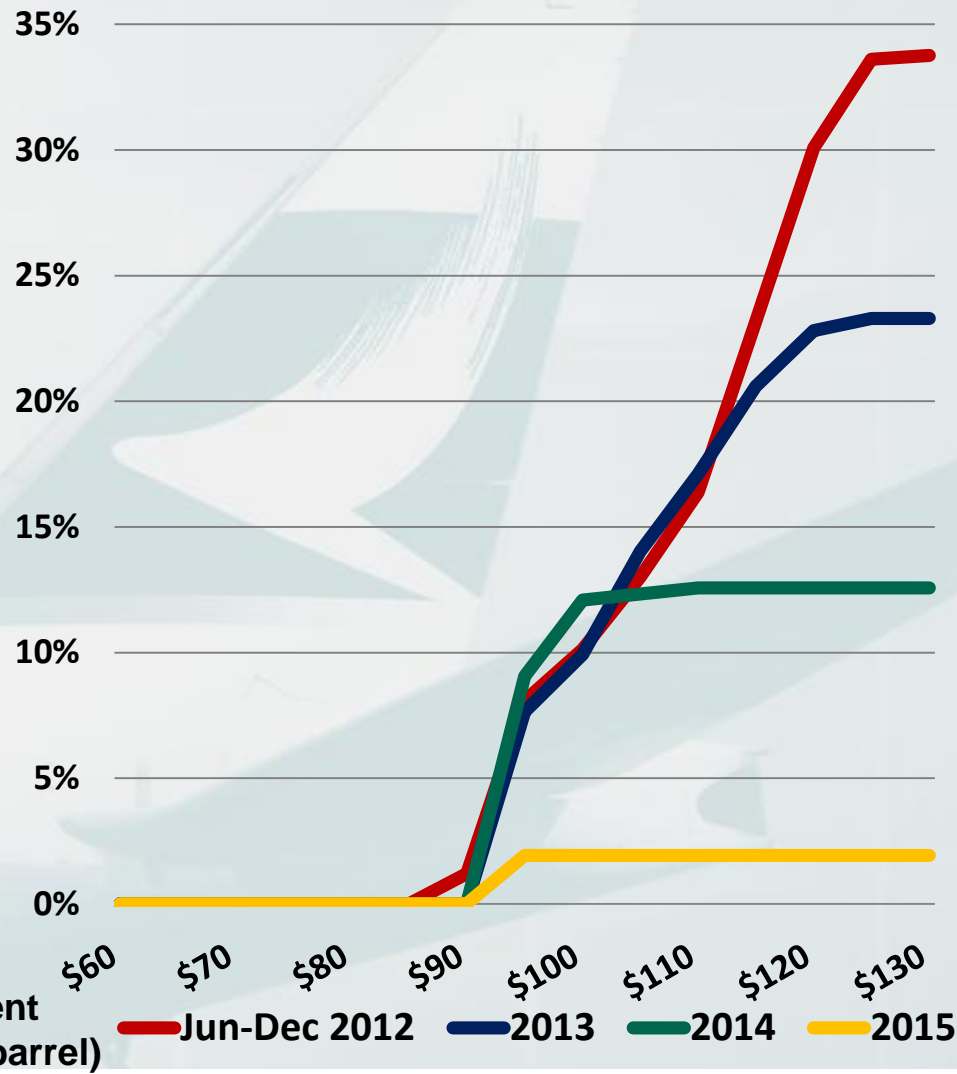
# Fuel Hedging

Fuel hedging coverage

As at 14 March 2012



As at 26 June 2012



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# Outlook

- Global economic uncertainties continue into the second half, impacting passenger demand
- Cargo demand remains weak
- Fuel price remains high, but we benefit from the recent decline
- Cost cutting measures will be realised in the second half
- Continued enhancement of products and services to strengthen our competitive edge





# Q & A

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



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