Cathay Pacific Airways

2014 Analyst Briefing

28 May 2014

oneworld

DRAGONAIR

CATHAY PACIFIC

Now you're really flying

Operating Performance

- The challenging business environment continues into the first half of 2014.
- Revenue performance is below expectation.
- Passenger demand is good but, due to stimulatory measures, putting yield under pressure.
- Cargo business, has continued to be weak, with over-capacity putting enormous pressure on rates.
- Listed associated company, Air China Limited, has announced reduced profits.

Performance to Apr 14 - Capacity Data

CATHAY PACIFIC/ DRAGONAIR COMBINED CAPACITY	Cumulative Apr 2014	% change YTD
Mainland China	3,729,091	-0.8%
North East Asia	5,844,934	4.0%
South East Asia	5,965,673	-0.3%
India, Middle East, Pakistan & Sri Lanka	3,653,640	2.5%
South West Pacific & South Africa	5,979,849	0.3%
North America	11,155,732	16.3%
Europe	6,854,217	1.7%
ASK ('000)	43,183,136	4.7%
Passenger load factor	83.1%	+2.1%pt
Available cargo and mail tonne km ('000)	4,793,517	10.1%
Cargo and mail load factor	62.7%	-0.3pt
ATK ('000)	8,900,177	7.6%

Performance to Apr 14- Traffic Data

CATHAY PACIFIC AND DRAGONAIR COMBINED TRAFFIC	Cumulative Apr 2014	% change YTD
Mainland China	2,799,215	3.6%
North East Asia	4,684,590	10.1%
South East Asia	4,846,607	2.1%
India, Middle East, Pakistan & Sri Lanka	2,777,458	5.4%
South West Pacific & South Africa	5,101,065	6.1%
North America	9,751,443	15.8%
Europe	5,930,162	2.2%
RPK (‘000)	35,890,540	7.5%
Passengers carried	10,230,610	5.8%
Cargo and mail revenue tonne-km (‘000) (RTK)	3,007,528	9.7%
Cargo and mail carried kg (‘000)	525,046	5.7%
Number of flights	24,317	4.7%

Operating Performance - Passenger

- Passenger demand is strong on long-haul routes for all classes.
- Capacity increased followed by new services to Newark in the USA and Doha in the Middle East.
- Weak passenger yields in both front- and back-end.
- The Asia Pacific region affected by political unrest in Thailand and Vietnam.
- Inbound China traffic disappointing.

Passenger Services Development in 2014 Cathay Pacific

- Launched new services to Newark in the U.S.A. in March 2014.
- Launched new services to Doha in Qatar in late March 2014, and cease flying to Abu Dhabi and Jeddah at the same time.
- Frequencies to Los Angeles will be increased from 3 to 4 daily starting from June 2014 and Chicago will be increased from 7 to 10 weekly starting from August 2014.
- Will introduce new four-times-weekly service to Manchester in the United Kingdom in December 2014.
- Announced the new daily service to Zurich in the Switzerland from March 2015.

Passenger Services Development in 2014 Dragonair

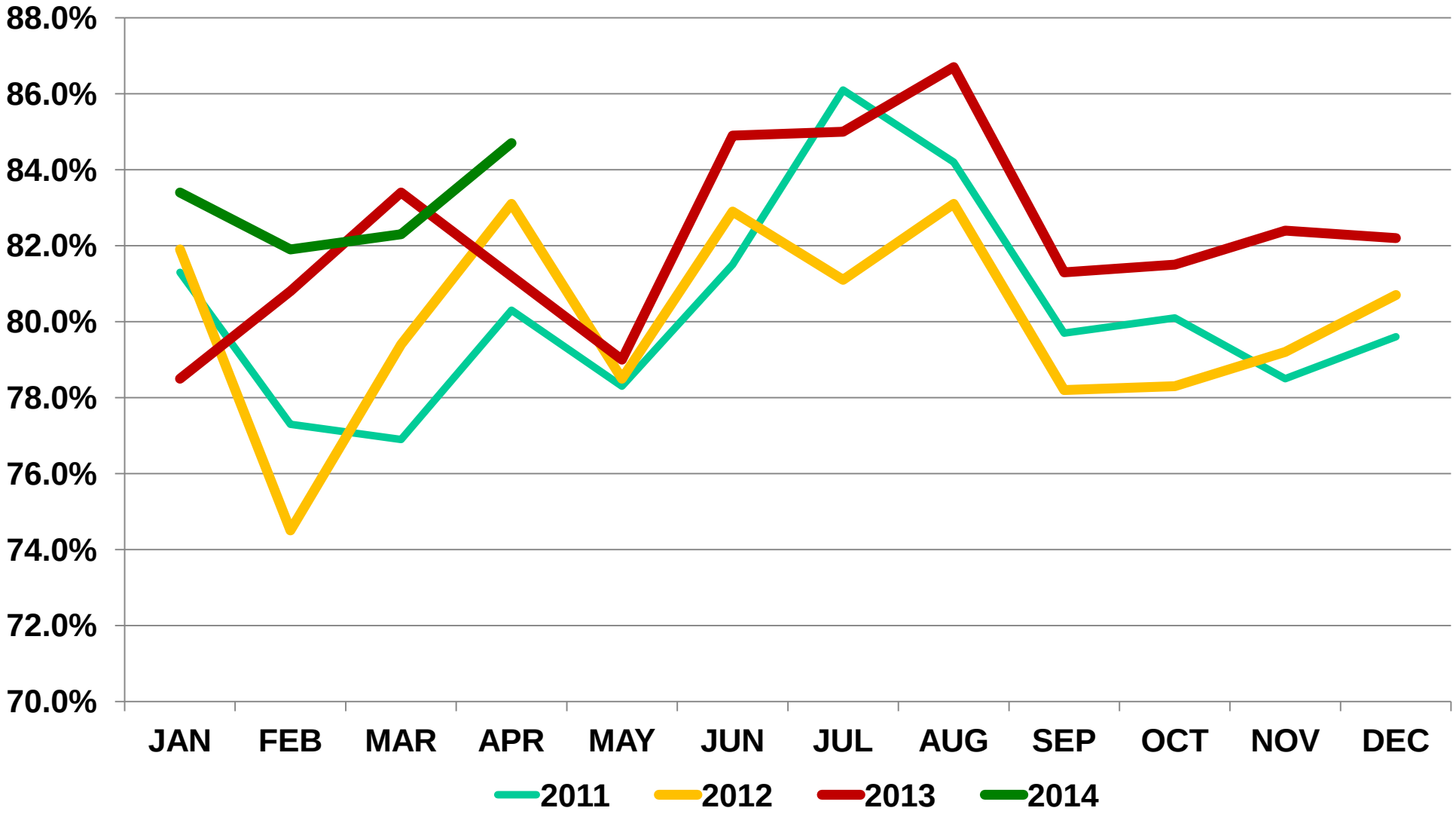
New services

- Launched new services to Penang in March 2014
- Launched new services to Denpasar, Bali in April 2014.

Frequency increases

- Da Nang was increased from 4 to 7 weekly in March 2014

PASSENGER LOAD FACTOR (JAN 2011 – APR 2014)



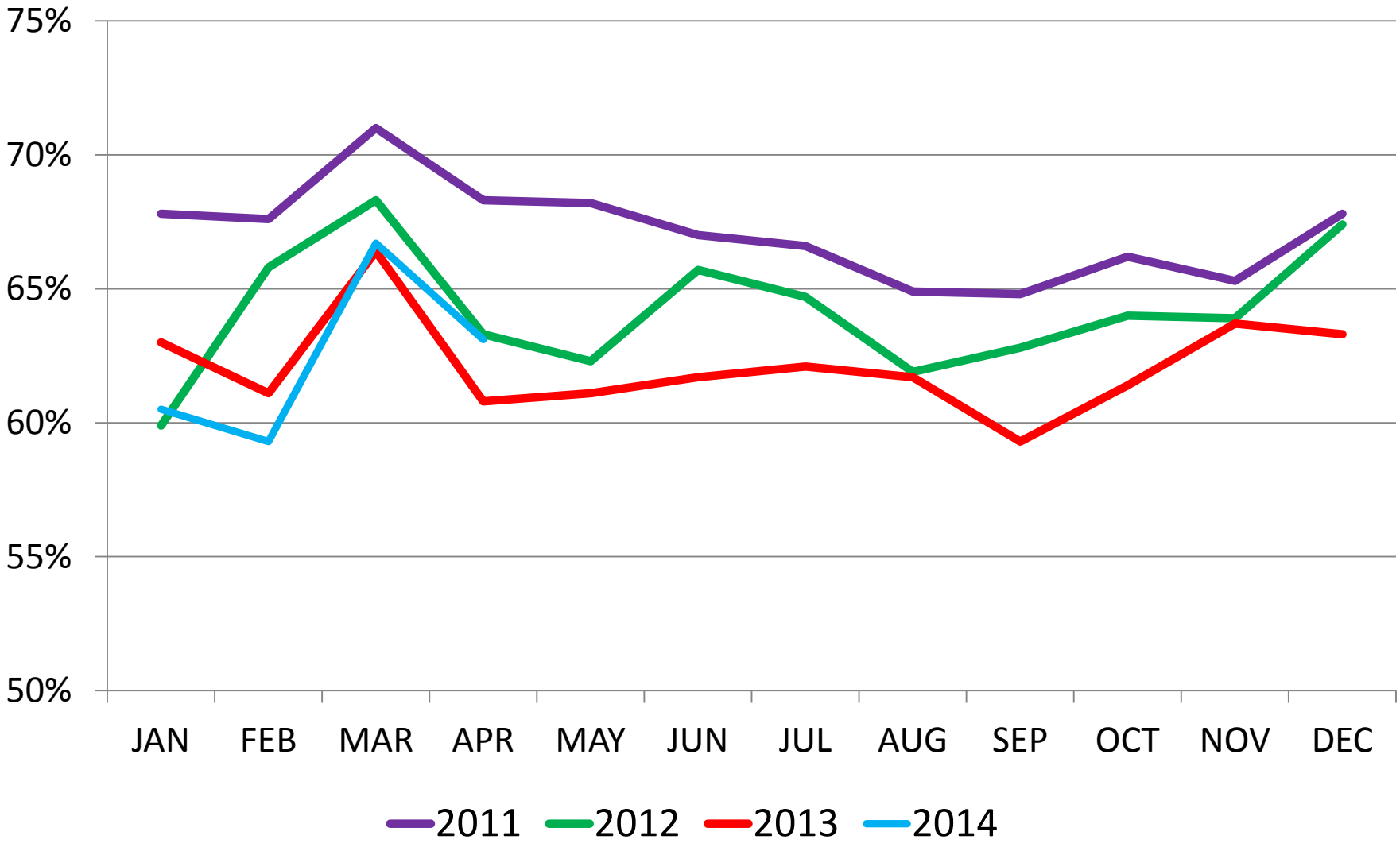
Operating Performance - Cargo

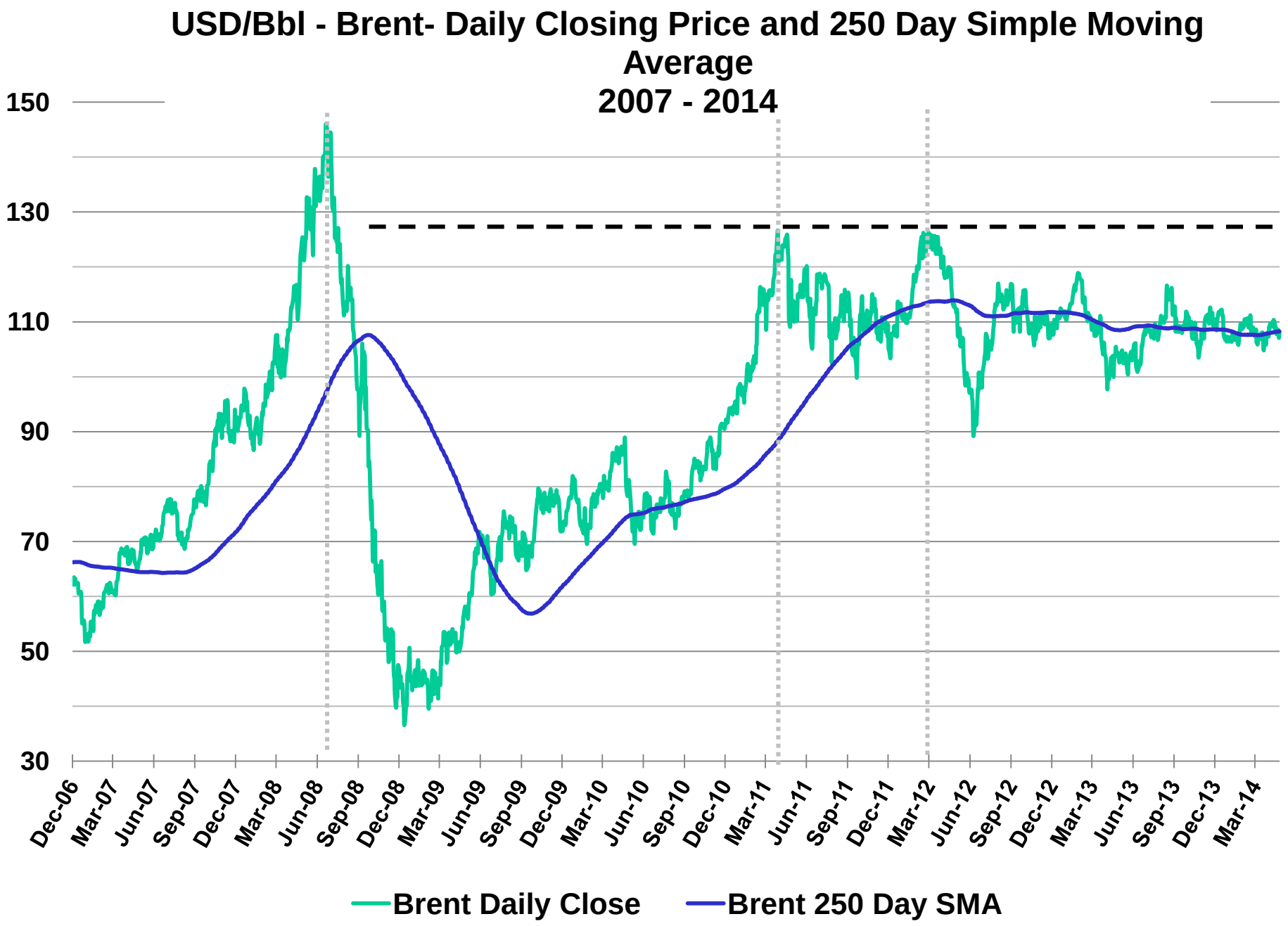
- Over capacity in all major markets continues through the first half of 2014.
- Some growth from key markets including China and America, however yield is a continuing concern.
- General air cargo market remains weak, particularly in Europe.
- Transpacific routes held up better with good support from Hong Kong, China and Southeast Asia.
- Demand on routes within Asia is relatively robust especially Vietnam.
- Thirteen 747-8Fs drive ATK growth despite reduced freighter frequencies.

Cargo Services Development

- Launched new freighter services to Guadalajara in Mexico in October 2013. This was extended to three-times-weekly in March 2014 and at the same time Cathay Pacific extended this service to Mexico City.
- Launched new freighter services to Columbus in the United States in late March 2014.

CARGO AND MAIL LOAD FACTOR (JAN 2011 – APR 2014)




USD/Bbl - Brent- Daily Closing Price and 250 Day Simple Moving Average
2007 - 2014
150
130
110
90
70
50
30
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
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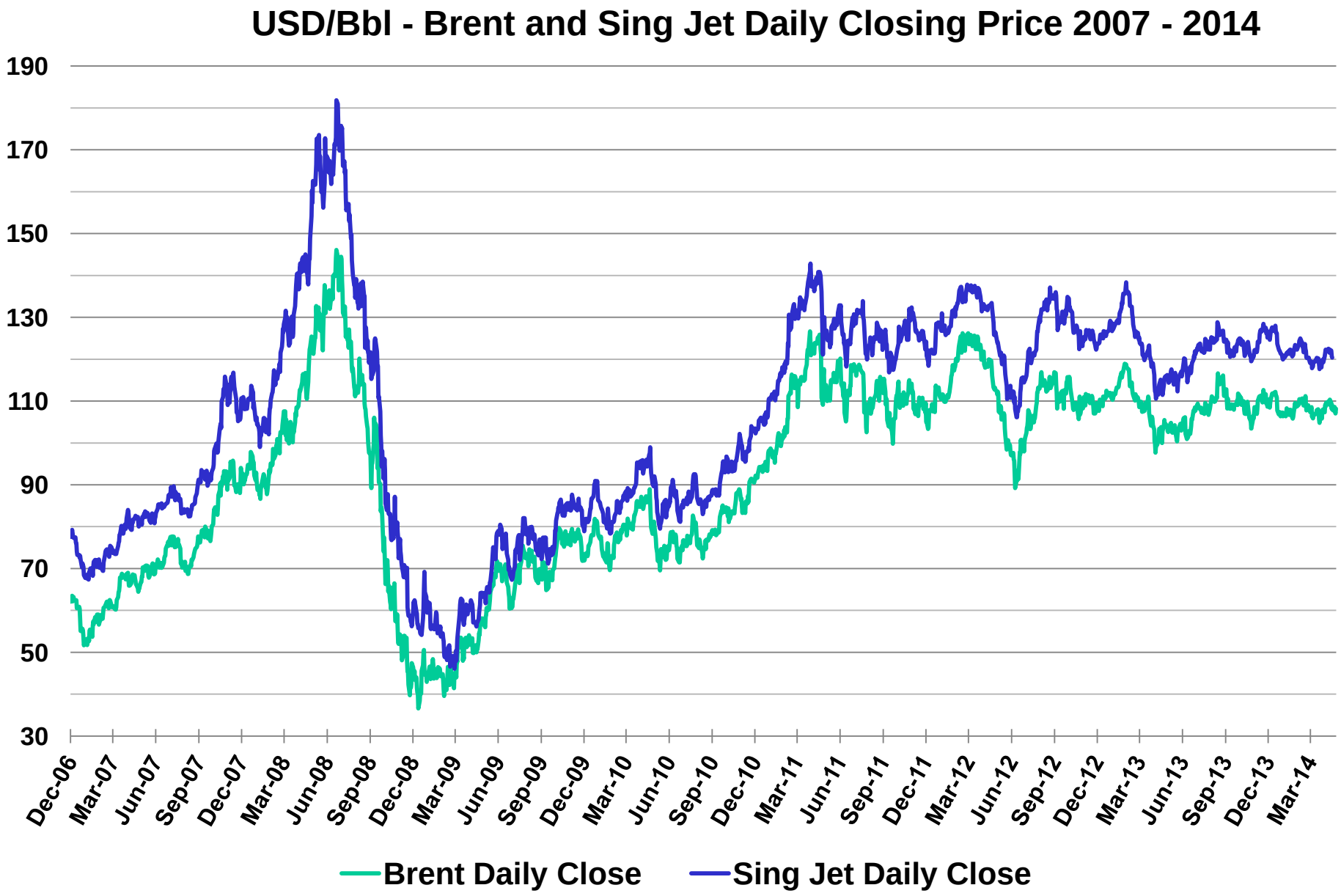
Dec-13
Mar-14
Brent Daily Close
Brent 250 Day SMA


USD/Bbl - Brent and Sing Jet Daily Closing Price 2007 - 2014
190
170
150
130
110
90
70
50
30
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
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Mar-14
Brent Daily Close
Sing Jet Daily Close

CX and KA Fleet Plan as at 30 April 2014

	In operation			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
31 Dec 2013	155	24	**179**	-	2	**2**
New deliveries	3		**3**			
Return to lessors	(2)	-	**(2)**	-	-	**-**
Parked aircraft	-	(3)	**(3)**	-	3	**3**
Deregistered	(1)	-	**(1)**	-	-	**-**
30 April 2014	155	21	**176**	**-**	**5**	**5**

CX Fleet Profile as at 30 April 2014

Aircraft type (includes parked aircraft)	**Owned**	**Finance Leased**	**Operating Leased**	**Total**
A330-300	15	15	6	36
A340-300	6	5		11
747-400	11		1	12
747-400F	6			6
747-400BCF			1	1
747-400ERF		6		6
747-8F	2	11		13
777-200	5			5
777-300	8	4		12
777-300ER	9	11	19	39
Total	62	52	27	141

KA Fleet Profile as at 30 April 2014

Aircraft type	**Owned**	**Finance Leased**	**Operating Leased**	**Total**
A320	5		10	15
A321	2		5	7
A330	7	1	10	18
Total	14	1	25	40

Aircraft Delivery Plan as at 23 May 2014

Aircraft									Total
	2014	2015	2016	2017	2018	2019	2020	2021 and beyond	
B747-8F			1						1
A321-200	1								1
A330-300	4	3							7
A350-900			12	10					22
A350-1000					6	10	10		26
B777-300ER	8	6							14
B777-9X								21	21
Total	13	9	13	10	6	10	10	21	92

Fleet & Scheduling - 744 Retirement Plan

As at 30 April 2014		
Exit date	**Number**	**Remaining**
Oct 13	-1	13
Jan 14	-1	12
May 14	-1	11
Remaining months of 2014	-4	7

Cargo Fleet Plan

2014

- Fleet composition:

	As at 30 April 2014		
Fleet	Number	Parked	In operation
747-400F	6*	(4)	2
747-400ERF	6		6
747-400BCF	1	(1)	-
747-8F	13		13
Total	26	(5)	21

*These six Boeing 747-400F was sold to Boeing in the December 2013 deal.

Development in 2014

Passenger

- 16 aircraft deliveries in 2014, 3 already delivered.
- Projected ASK growth in 2014 is approximately 7.0%.

Cargo

- Projected overall DLATK growth in 2014 is approximately 9.6%.

Air China

- Cathay Pacific has a 20% interest in Air China, and reports their results 3 months in arrears.
- Profits from Air China in the 6 months to 31 March 2014 were significantly down compared to the same period 2013.
- Air China issued profit warning for Q1 results on 21 April 2014, with decrease in the results due to exchange losses resulting from the substantial depreciation of Renminbi.

Air China / Cathay Pacific Cargo Joint Venture

Operating performance

- Cathay Pacific recorded a smaller loss from Air China Cargo in the first four months of 2014 and reported a profit for April.
- Air China Cargo operates a fleet of ten freighters, with scheduled freighter services to seven countries and regions.
- Expect a decrease in loss in the first half of 2014 compared with first half of 2013.
- Freighter business difficult on weak cargo market.

Cargo Terminal

- HK$5.9bn investment, commenced in three stages.
- Opened in 3 phases over February to October 2013.
- The new terminal has an annual handling capacity of 2.6 million tonnes.

- CX group cargo tonnage was below original forecast.
- Now operating smoothly and has secured first 3rd party customer – Air Asia.

Major subsidiaries

- **AHK Air Hong Kong**
  - Operates a fleet of eight owned Airbus A300-600F, three Boeing 747-400BCF dry-leased from Cathay Pacific and two wet-leased Airbus A300-600F freighters
  - Expect an increase in profit in the first half of 2014 compared with first half of 2013
- **Cathay Pacific Catering Services**
  - Growth in the number of meals produced
  - Expect an increase in profit in the first half of 2014 compared with first half of 2013
- **Asia Miles**
  - Membership exceeds 6 million worldwide
  - Increase in redemptions by Asia Miles members. More than 90% of Cathay Pacific flights carry passengers who have redeemed frequent flyer miles through the Asia miles programme

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.
- Improve productivity.
- Continue to develop the strategic relationship with Air China.
- Maintain a prudent approach to financial risk management.

Inflight Products

Skytrax – Best Business Class

CX is the winner of the world's Best Business Class Airline award at the 2012 World Airline Awards held at Farnborough Air Show

Seats

FB2 (from Mar11)

PEY (from Mar12)

LH EYCL (from Mar12)
KA Regional EYCL (from Feb13)

Refresh JCL (from Nov12)

Regional JCL (from Jan13)

FRCL Refresh (from Jul13)

KA New FRCL

New IFE GUI

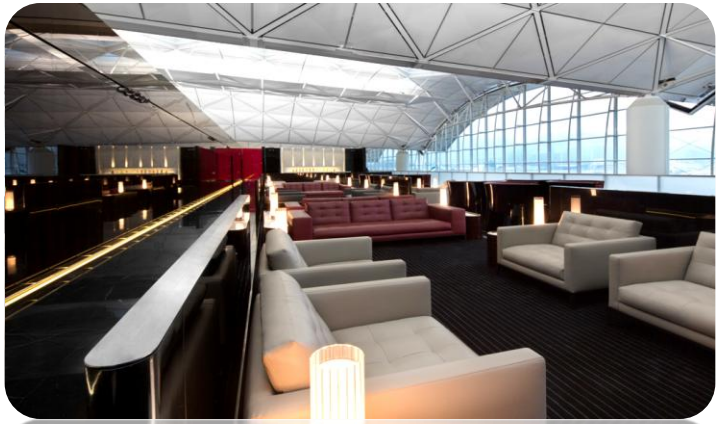
Studio cx
Welcome Aboard
Hong Kong (HKG) to Paris (CDG)
Weather at CDG 18°
Local time at CDG 8:41am
CATHAY PACIFIC
oneworld
ENTER
English
繁體中文
简体中文
日本語
한국어
Français
Deutsch

Ground Products

Recent Lounge Development in HKIA

The Cabin Refresh (Oct11)

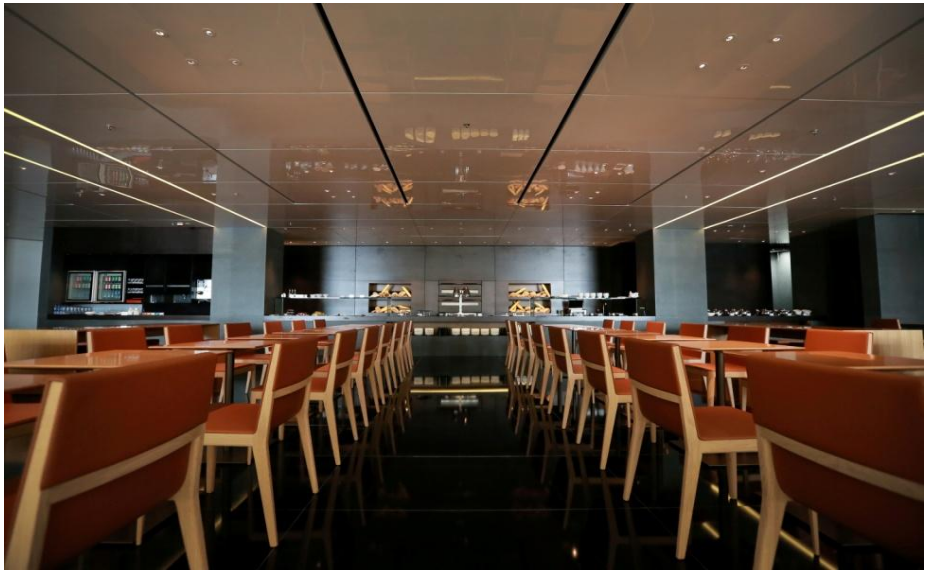
The Wing JCL Refresh (Mar12)



The Wing FRCL Refresh (Feb13)

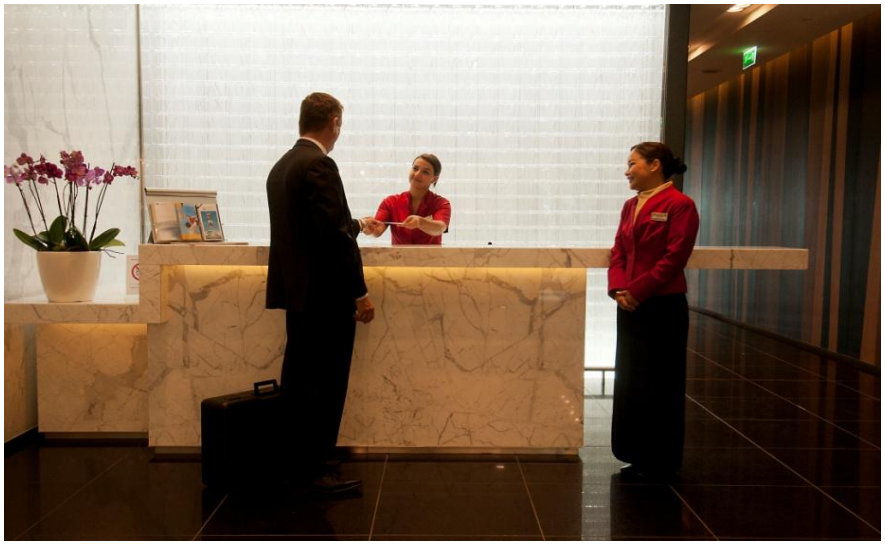
The Bridge (Oct13)

The Bridge – Oct 2013



Outport Lounge Development

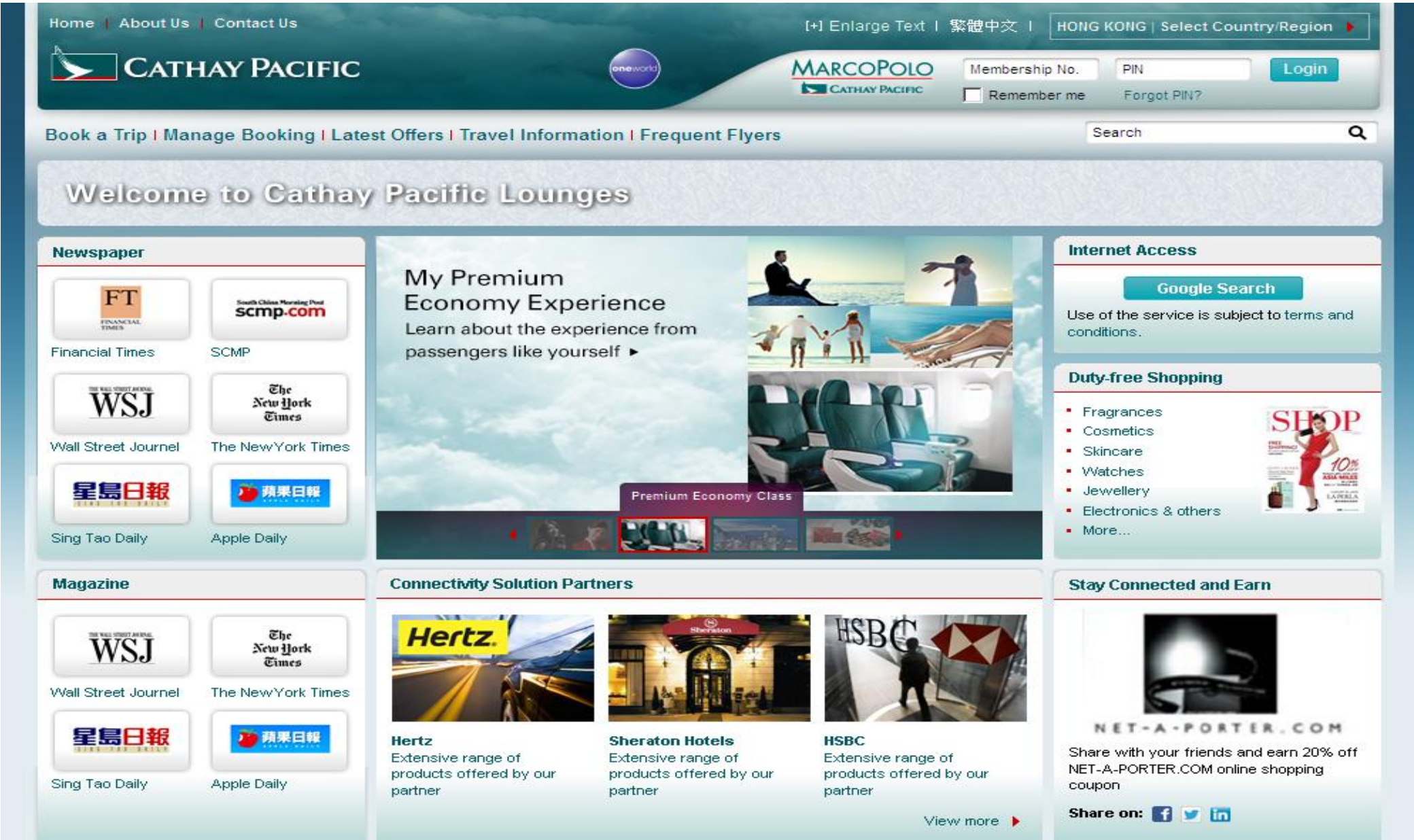
SFO Lounge



CDG Lounge

PEN Lounge

Lounge Wifi Landing Page



Other Initiatives

Products and Services

- Launch of Mobile Boarding Pass service

- Upgrade of new passenger reservation system

Regional Proposition – Snack box

CX: CEB, SGN
MNL and TPE (hot box only)

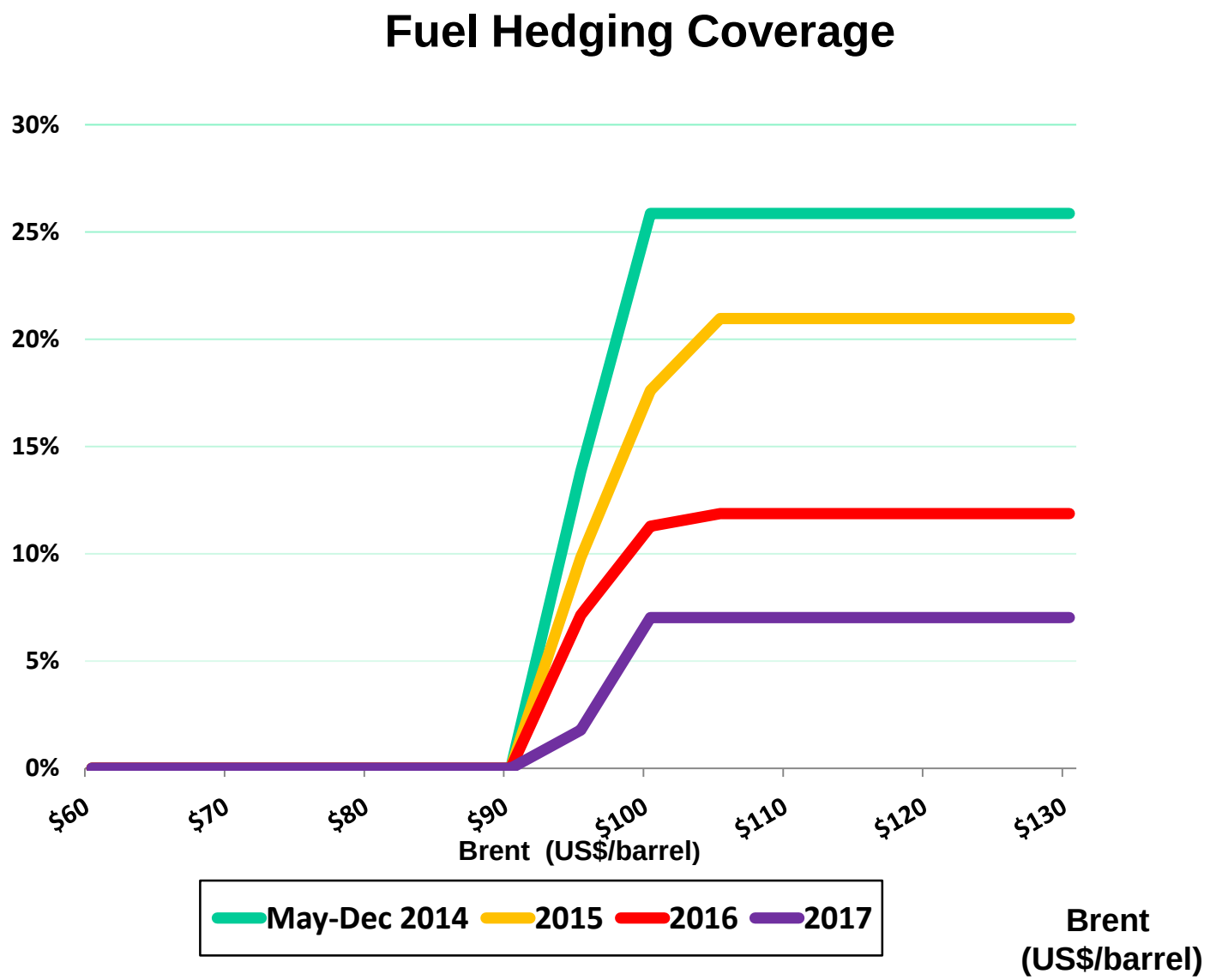
KA: CNX, DAD
MNL and TPE (hot box only)

Financial Risk Management

- Currency
  - All major currencies are hedged in compliance with our policy.
- Liquidity
  - A total of HK$3.2 billion with tenors of 5 or 10 years raised through MTN programme since first issue in Oct 2012.
  - Unpledged liquid funds and committed undrawn lines HK$18.9 billion as at 31 March 2014.
- Interest rates
  - Overall cost of borrowing remains low.
  - During the year, margins have compressed.
  - Strategic management of fixed / floating ratio.

Fuel Hedging

Fuel hedging Coverage



Outlook

- Revenue performance for the first half is expected to be disappointing.
- Second half is traditionally stronger.
- Strong demand for passenger business should continue, with focus on improving yields. South East Asia is a concern.
- Cargo business remains difficult, with projected DLATK growth of 9.6% in 2014 in a market of excess supply and weak demand.
- Fuel price remains high, but 26% hedged in 2014 at an average Brent price of USD95.
- Subsidiaries and associates should see improved performance in 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