



Analysts Briefing

15 March 2017

Cathay Pacific Airways Limited



Annual Results - 2016

Group Financial Statistics

		2016	2015	% Var
Group Revenue	HK\$m	92,751	102,342	-9.4%
Group attributable profit/(loss)	Million	(575)	6,000	-109.6%
Earning/(loss) per share	HK¢	(14.6)	152.5	-109.6%
Dividend per share	HK¢	0.05	0.53	-90.6%

Group Operating Statistics

		2016	2015	% Var
Available tonne kilometres (ATK)	Million	30,462	30,048	+1.4%
Available seat kilometres (ASK)	Million	146,086	142,680	+2.4%
Revenue passengers carried	'000	34,323	34,065	+0.8%
Cost per ATK (with fuel)	HK\$	3.02	3.14	-3.8%
Cost per ATK (without fuel)	HK\$	2.12	2.06	+2.9%

Operating performance - overview



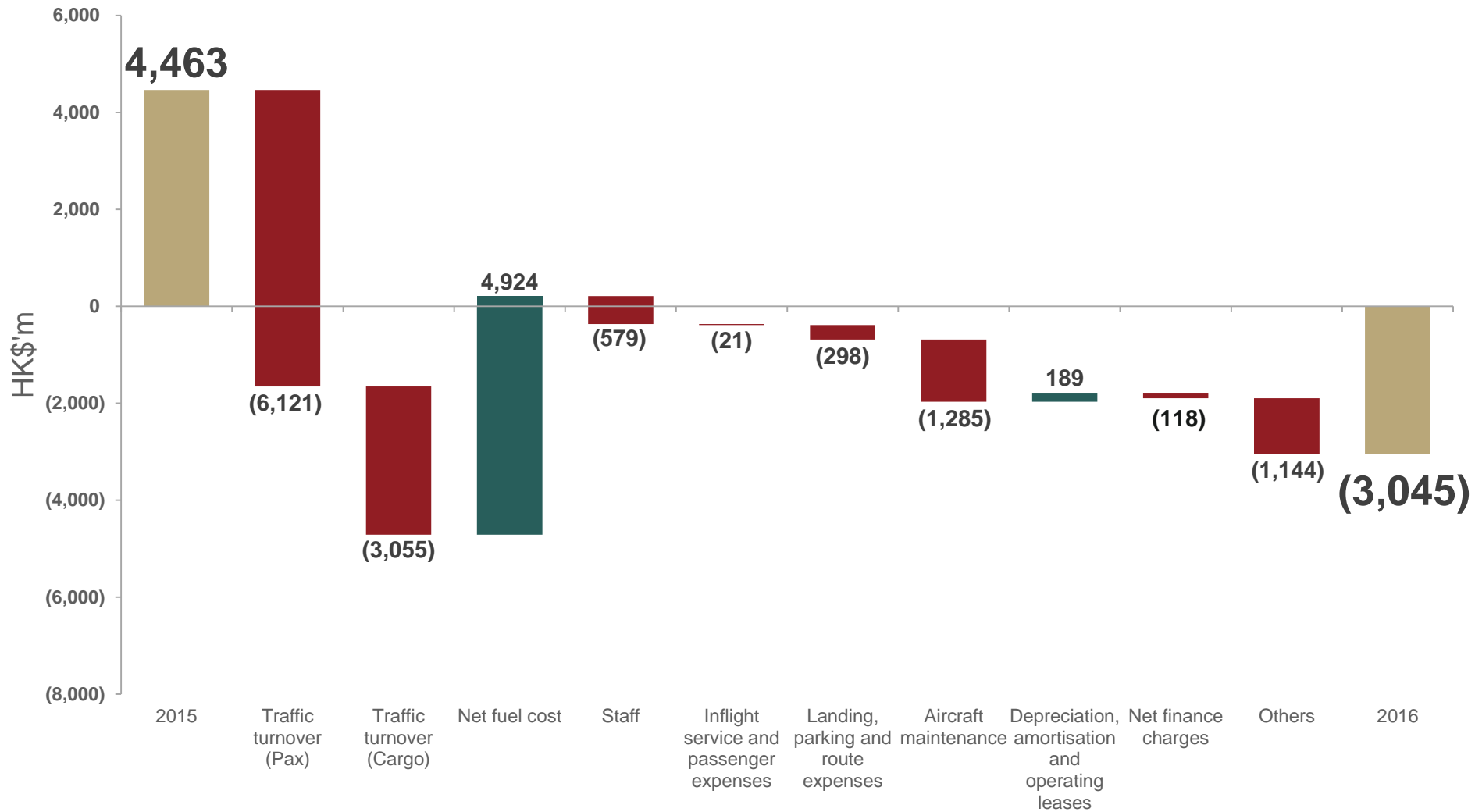
- Difficult business environment.
- Intense competition and significant competing capacity.
- Competitors increased the availability of direct flights from Mainland China to international destinations.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China.
- Reduction in numbers of visitors to Hong Kong.
- Strength on the Hong Kong dollar made our home hub an expensive destination.
- Severe pressure on yields.
- Overcapacity in cargo market.
- Low net fuel costs, but the benefit was reduced by fuel hedging losses.
- Satisfactory performance from our share in associate companies.
- Announcement of a critical review of the business, resulting in a three year transformational programme.

Annual Results - 2016



HK\$ million	2016	2015	% change
Airlines' (loss)/profit before tax	(3,045)	4,463	-168.2%
Taxation	(318)	(891)	-64.3%
Airlines' (loss)/profit after tax	(3,363)	3,572	-194.1%
Share of profits from subsidiaries & associates	2,788	2,428	+14.8%
Group attributable (loss)/profit	(575)	6,000	-109.6%

Reconciliation of profit before tax



Passenger Services

A photograph of an airplane cabin interior. In the foreground, a woman with long dark hair, wearing a white long-sleeved shirt, is seated and smiling while eating from a white tray. The tray contains several compartments with food, including rice, meat, and vegetables, along with a small bread roll. She is holding a white napkin. In the background, other passengers are visible, including a man and a woman wearing headphones, suggesting an in-flight entertainment or service environment. The cabin has blue seats and white pillows. The text "Passenger Services" is overlaid in a white box on the left side of the image.

Operating performance - Passenger

		2016	2015	% Var
Revenue	HK\$m	66,926	73,047	-8.4%
ASK	Million	146,086	142,680	+2.4%
Passengers carried	'000	34,323	34,065	+0.8%
Passenger yield	HK¢	54.1	59.6	-9.2%
Passenger load factor	%	84.5	85.7	-1.2%pt

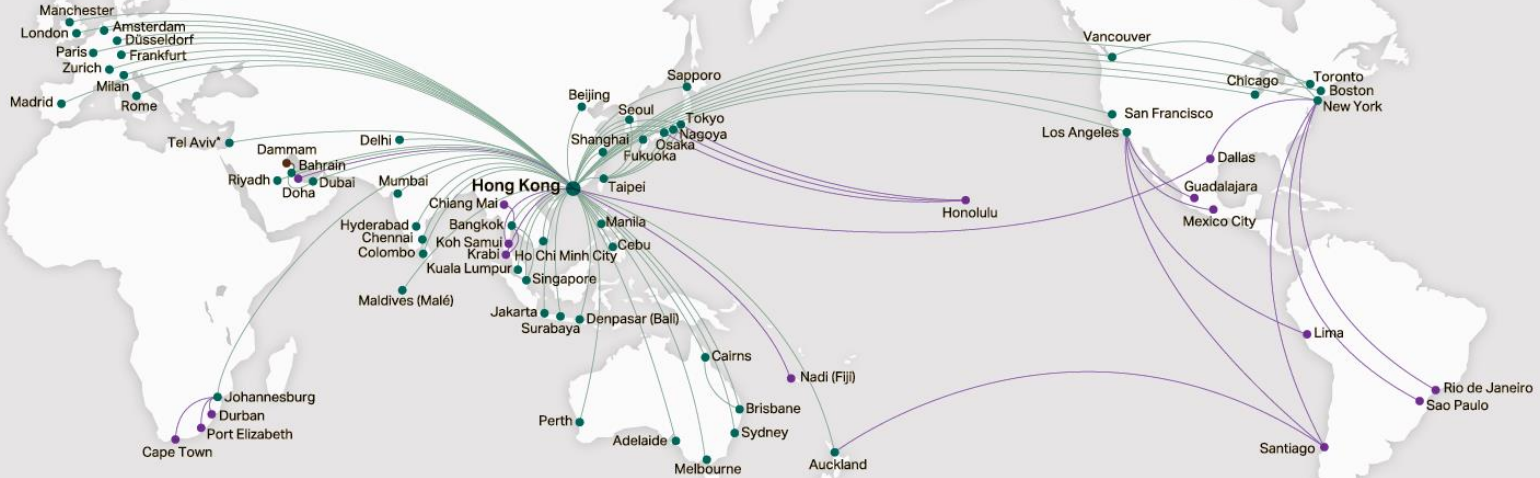
Yields decline on:

- Intense and increasing competition.
- Increased capacity in the market.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China, and reduction in visitors to Hong Kong.
- Strength of Hong Kong dollar made Hong Kong an expensive destination.
- Decline in premium class demand.
- Weak foreign currencies.



Operating performance – Regions

Cathay Pacific Group Network

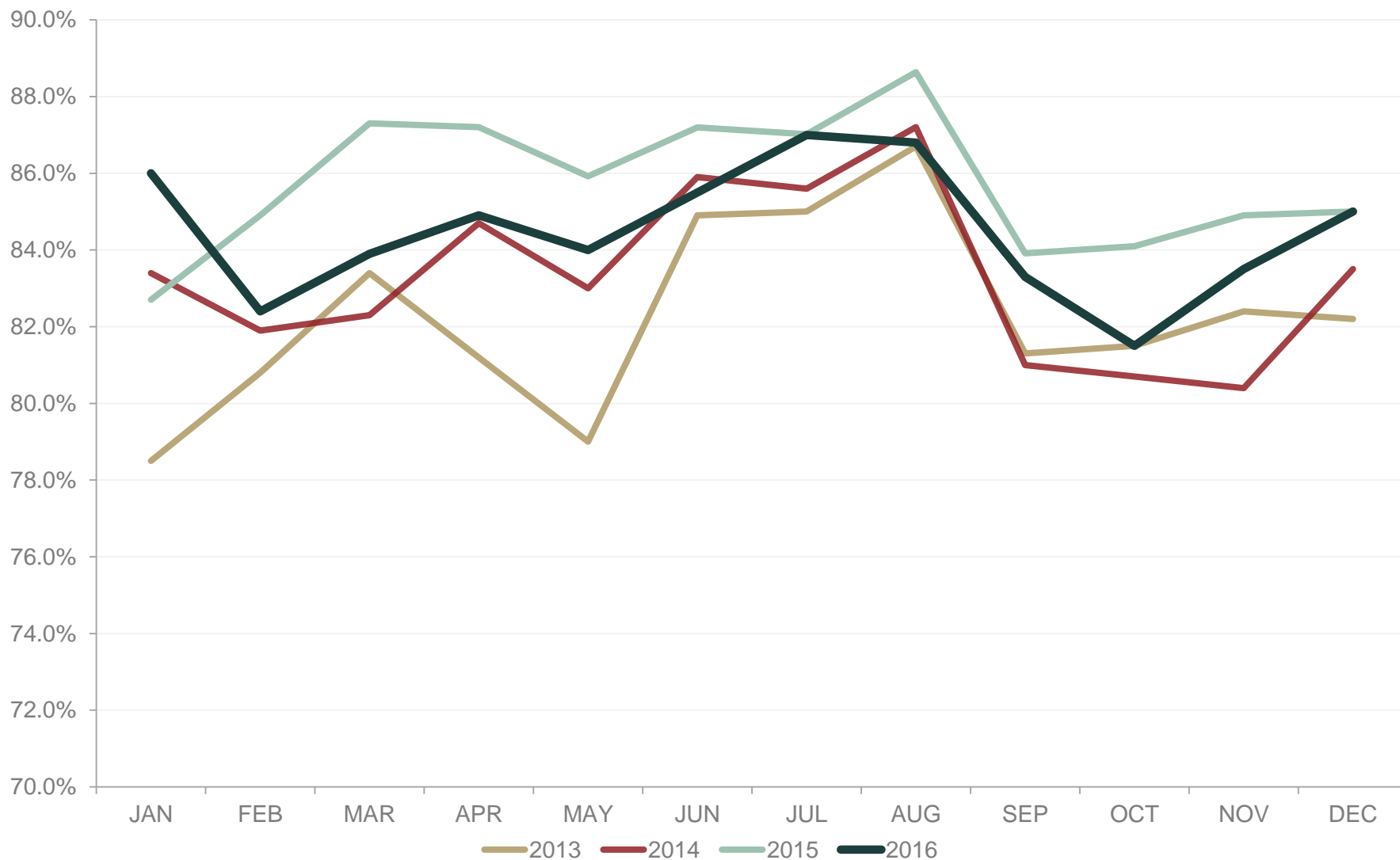


Cathay Dragon Network



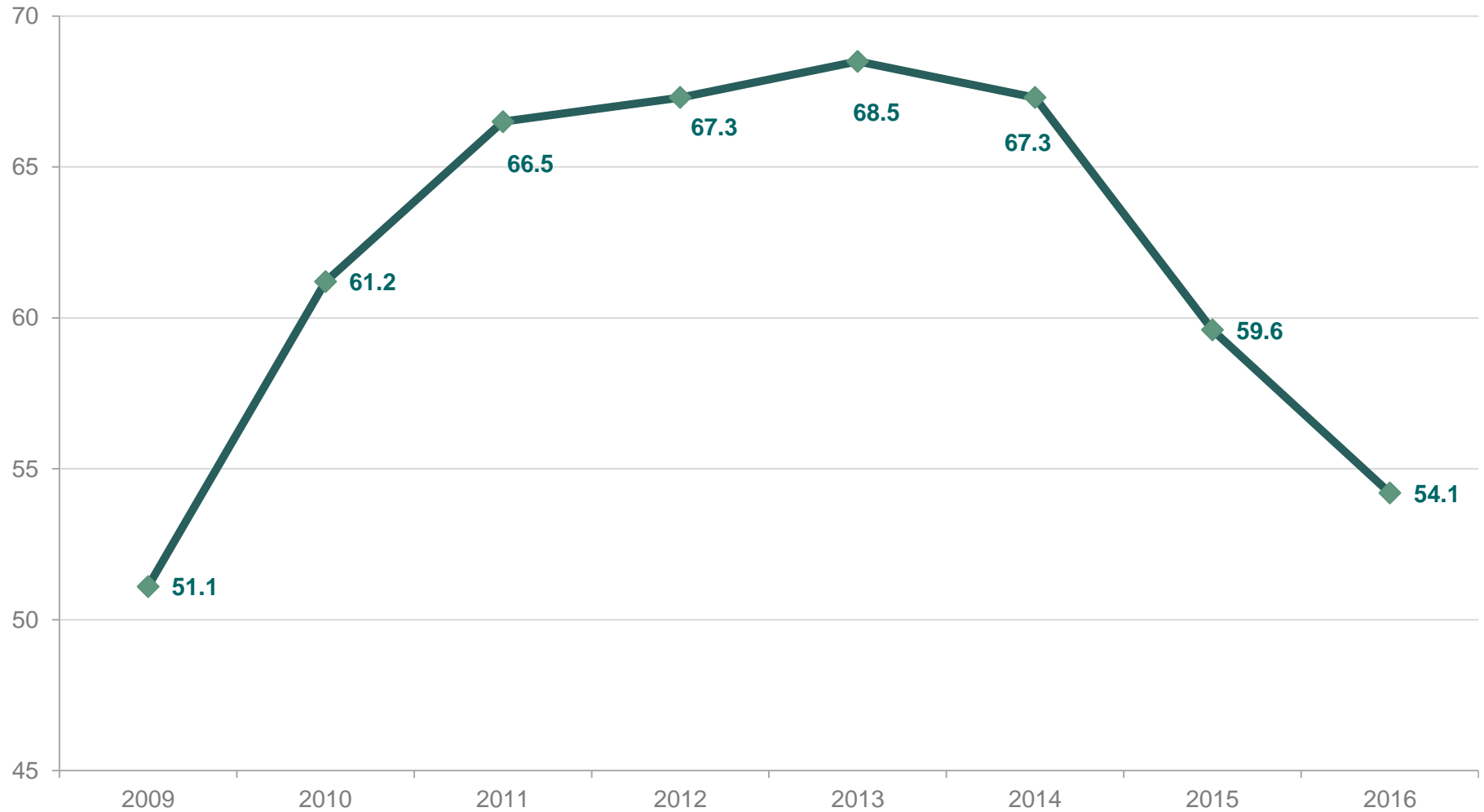
<u>Europe</u>	<u>Southwest Pacific & South Africa</u>	<u>India, Middle East & Sri Lanka</u>	<u>Southeast Asia</u>	<u>North Asia</u>	<u>North America</u>
ASK: +8.3% LF: -1.9%	ASK: +1.8% LF: -1.5%	ASK: -9.4% LF: -3.6%	ASK: +2.5% LF: +1.0%	ASK: +1.8% LF: -1.1%	ASK: +2.5% LF: -1.6%

Passenger Load Factors



Passenger Yield

HKcents



Network Development – Cathay Pacific



2016

Mar	▪ Seasonal increase of one additional flight per week on the Sapporo route
May	▪ Seasonal increase of frequency on the Boston route to a 5-times-weekly service
June	▪ Introduced a 4-times-weekly service to Madrid
Sept	▪ Introduced a 4-times-weekly service to London Gatwick
Oct	▪ Announced a new 4-times-weekly service to Tel Aviv to commence in March 2017

Network Development – Cathay Dragon

2016

May

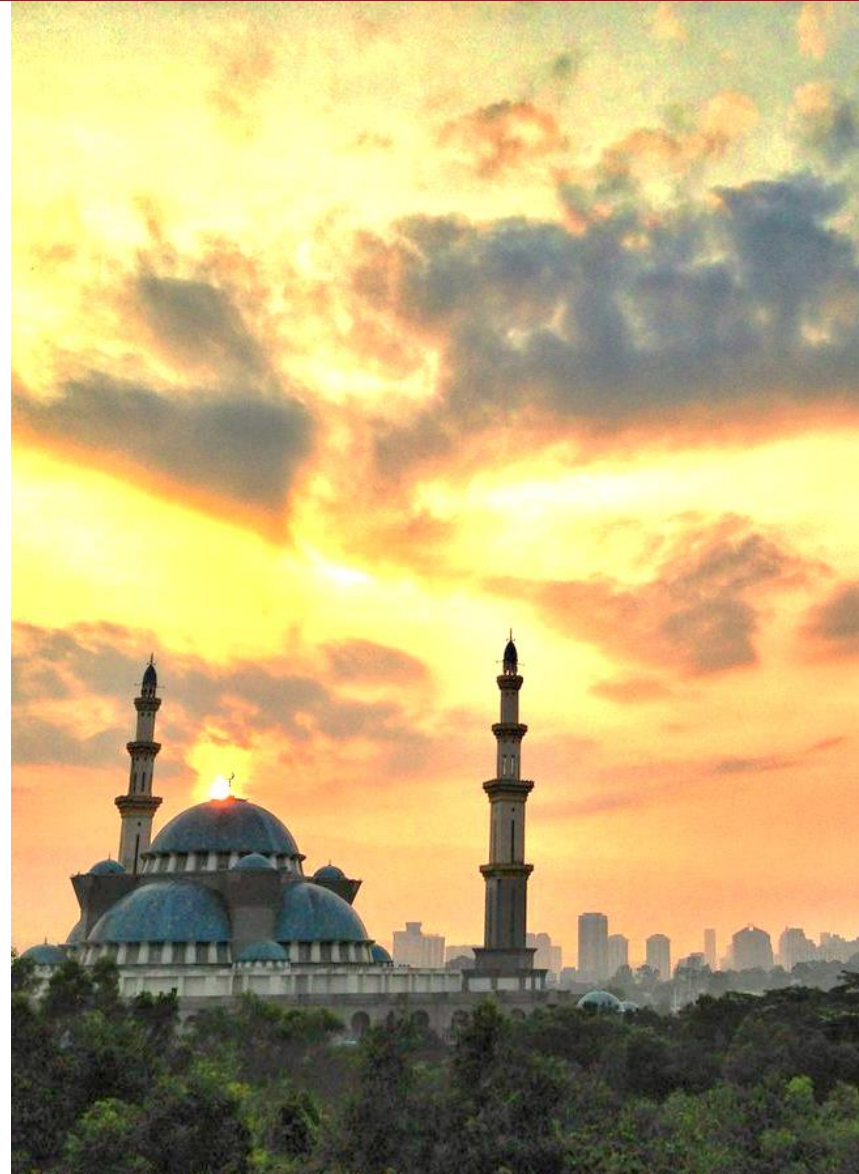
- Increased service to **Wenzhou** to 10 flights per week.

Aug

- Announced that Cathay Dragon will operate flights to **Kuala Lumpur** from March 2017

Sept

- Increased service to **Phnom Penh** to 14 flights per week.



Cargo Services



Operating performance – Cargo

		2016	2015	% Var
Group Revenue	HK\$m	20,063	23,122	-13.2%
Cathay Pacific and Cathay Dragon				
Revenue	HK\$m	17,024	20,079	-15.2%
Cargo capacity	Million	16,572	16,481	+0.6%
Cargo & mail carried	'000 tonnes	1,854	1,798	+3.1%
Cargo & mail yield	HK\$	1.59	1.90	-16.3%
Cargo & mail load factor	%	64.4	64.2	+0.2%pt

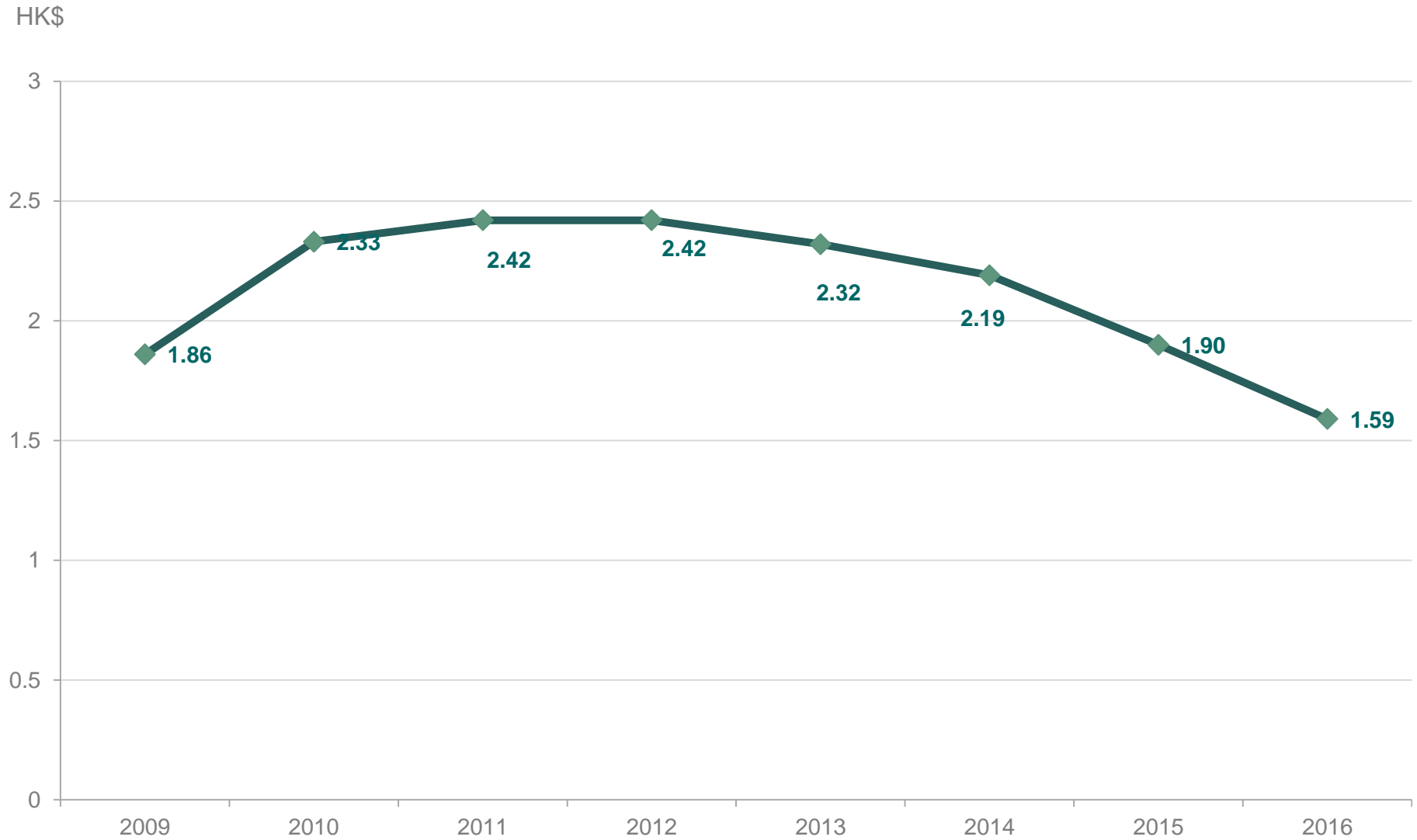
- Increase in capacity.
 - Introduced new freighter services to Portland (2 fpw) and to Brisbane West Wellcamp (1 fpw).
- Yields decline on:
 - Strong competition.
 - Overcapacity in the market.
 - Suspension of Hong Kong fuel surcharge.



Operating performance – Cargo Load Factors



Cargo Yield





Operating costs

Operating Costs - Group

- Lower net fuel costs.
- Cost per ATK (excluding fuel) increased by 2.9%.

	2016	2015	% Var
Staff	19,770	18,990	+4.1%
Inflight service and passenger expenses	4,734	4,713	+0.4%
Landing, parking and route expenses	14,985	14,675	+2.1%
Fuel, including hedging losses	27,953	32,968	-15.2%
Aircraft maintenance	8,856	7,504	+18.0%
Depreciation, amortization and operating leases	13,008	13,193	-1.4%
Net finance charges	1,301	1,164	+11.8%
Others (including commissions)	3,970	3,635	+9.2%
Total operating costs	94,577	96,842	-2.3%

Financial Risk Management - Fuel

Fuel expenditure

	2016	2015
	HK\$M	HK\$M
Gross fuel cost	19,497	24,494
Fuel hedging losses (gains)	8,456	8,474
Fuel cost	27,953	32,968

Fuel hedging coverage (as at 31st Dec 2016)

Year	% coverage	Average Brent strike price (US\$)
2017	53.8%	\$89.63
2018	46.0%	\$80.73
2019	8.0%	\$75.40

Fuel Hedging - Fuel prices

USD/Bbl - Brent- Daily Closing Price and 250 Day Simple Moving Average 2005 – 2016

USD/BBL

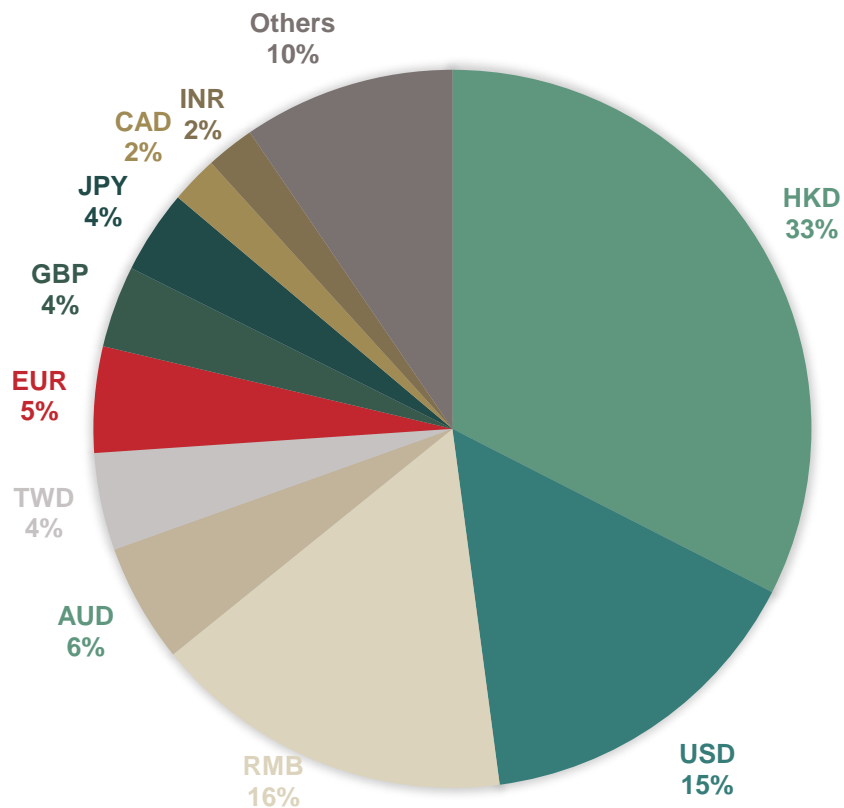


Financial Risk Management - Currency

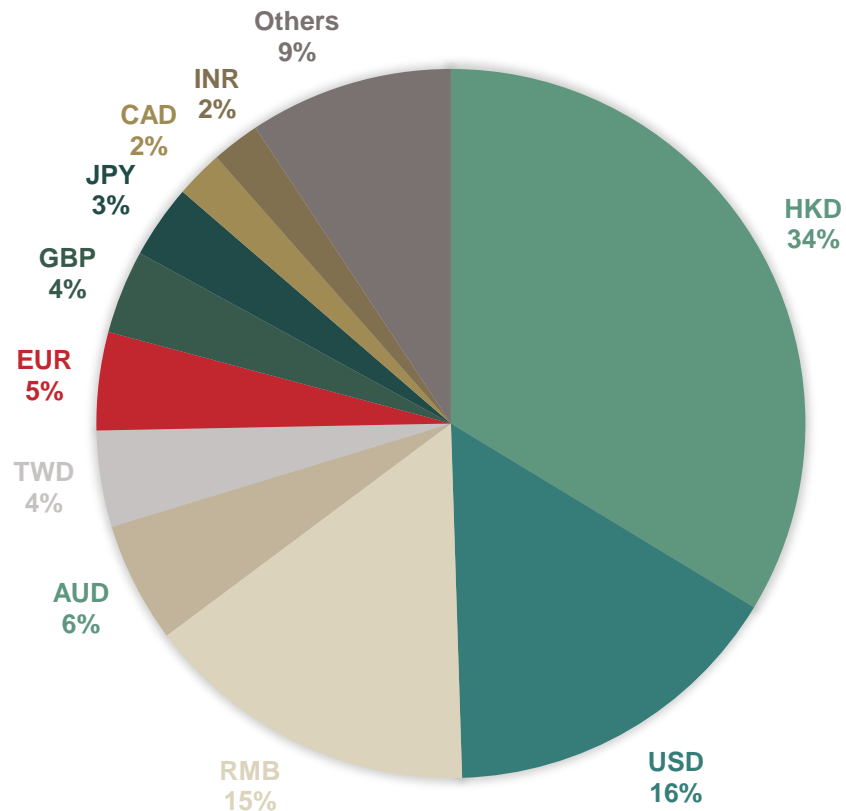
- 52% of the Group's revenue is denominated in currencies other than the USD or HKD.
- Where cost-effective, foreign exchange exposure is managed by matching receipts and payments in each currency.
- In addition, the Group hedges a percentage of its forecast net foreign currency cash flows to reduce its exposure to foreign exchange risk.
- Instruments for hedging are limited to deliverable and non-deliverable currency forwards.
- The Group generates a surplus in most of its revenue currencies, except the USD (on account of fuel and aircraft purchase payments).
- Surplus funds are therefore converted to and managed in USD and HKD.

Revenue mix – by currency

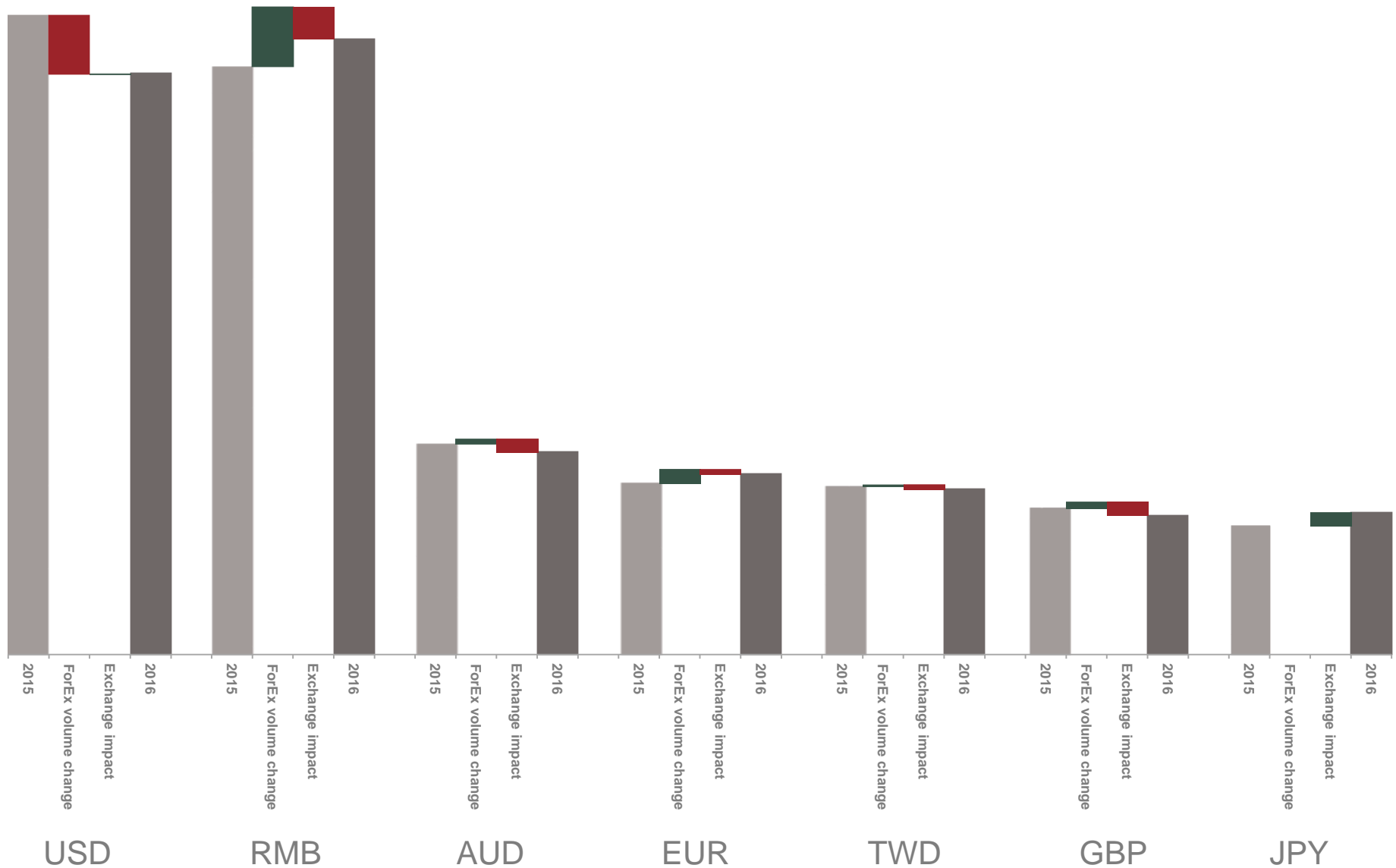
Full year 2016



Full year 2015



Currency movement impacts on sales revenue



Foreign Currency Movements – 8 Biggest

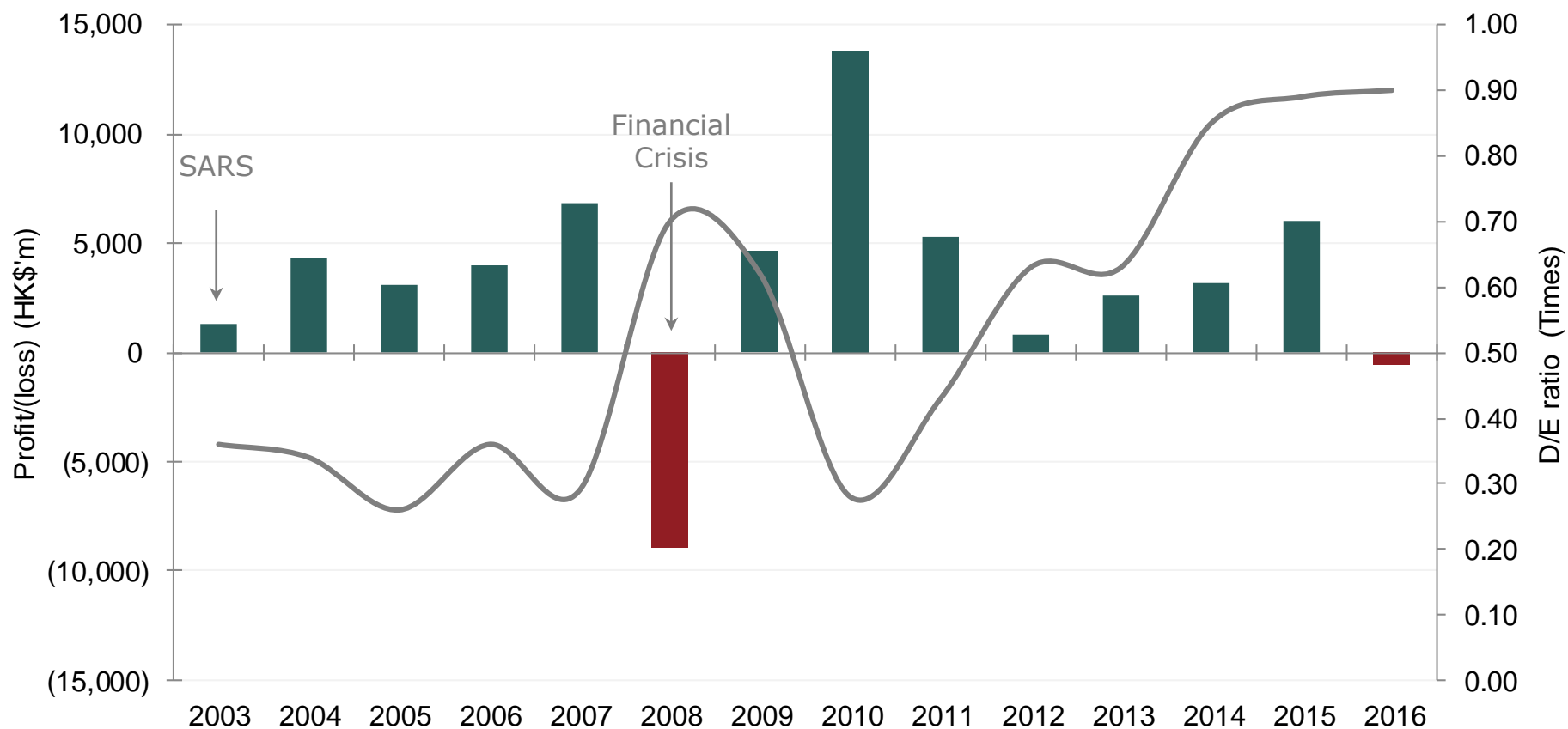
	From 1 st January to 31 st December 2016	From 1 st January to 31 st December 2015
RMB	-5.93%	-4.40%
AUD	-1.30%	-10.96%
TWD	1.57%	-3.73%
EUR	-3.12%	-10.26%
GBP	-16.32%	-5.45%
INR	-2.63%	-4.23%
JPY	3.07%	-0.40%
IDR	2.65%	-9.02%

Source: All currencies are market rates against USD obtained from Bloomberg.

Extract of Consolidated Statement of Financial Position

	2016 HK\$ million	2015 HK\$ million	% Var
Shareholders' Funds	55,365	47,927	+15.5%
Gross Borrowings	70,169	63,105	+11.2%
Less: Liquid Funds	(20,290)	(20,647)	-1.7%
Net Borrowings	49,879	42,458	+17.5%
Capital Employed (including non-controlling interests)	105,405	90,525	+16.4%
Net Debt/Equity Ratio	0.90	0.89	+0.01 times
Investment in Air China	19,770	19,164	+3.2%

Profit and Net Debt/Equity Ratio



Group Profit Margin	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
%	4.0	10.2	6.2	6.5	9.1	(10.4)	6.9	15.5	5.4	0.9	2.6	3.0	5.9	(0.6)

Sources and Uses of Cash

	31 Dec 2016 HK\$ million	31 Dec 2015 HK\$ million
Inflow		
Operating activities	6,108	15,995
Proceeds from sales of fixed assets and others	2,148	1,080
New financing	20,146	8,268
Net cash benefit from financing arrangements	894	-
Repayment of loans to associates	19	-
Outflow		
Capital expenditure	(14,886)	(13,179)
Purchase of shares in an associate	-	-
Loans to associates	(12)	(77)
Loan and finance lease repayments	(13,346)	(10,050)
Dividends paid	(1,447)	(2,329)
Net inflow/(outflow)	(376)	(292)
Total Liquid Funds	20,290	20,647



Fleet Profile

CX and KA Fleet Profile

	In operations			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
1 Jan 2016	164	23	187	-	1	1
New deliveries	10	1	11	-	-	-
Return to lessors	-	-	-	-	-	-
Parked aircraft	-	-	-	-	-	-
Deregistered	(6)	(3)	(9)	-	(1)	(1)
31 December 2016	168	21	189	-	-	-

Fleet Profile – as at 31 December 2016

Aircraft type (includes parked aircraft)	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	33	12	16	61
A340-300	4	-	-	4
A350-900	5	3	2	10
747-400BCF	-	-	1	1
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
Total	88	43	58	189

Aircraft Delivery & Retirement Plans

Deliveries of new aircraft

Aircraft type	2017	2018	2019	2020	>2021	Total
A350-900	12					12
A350-1000		8	8	10		26
B777-9X					21	21
Total	12	8	8	10	21	59

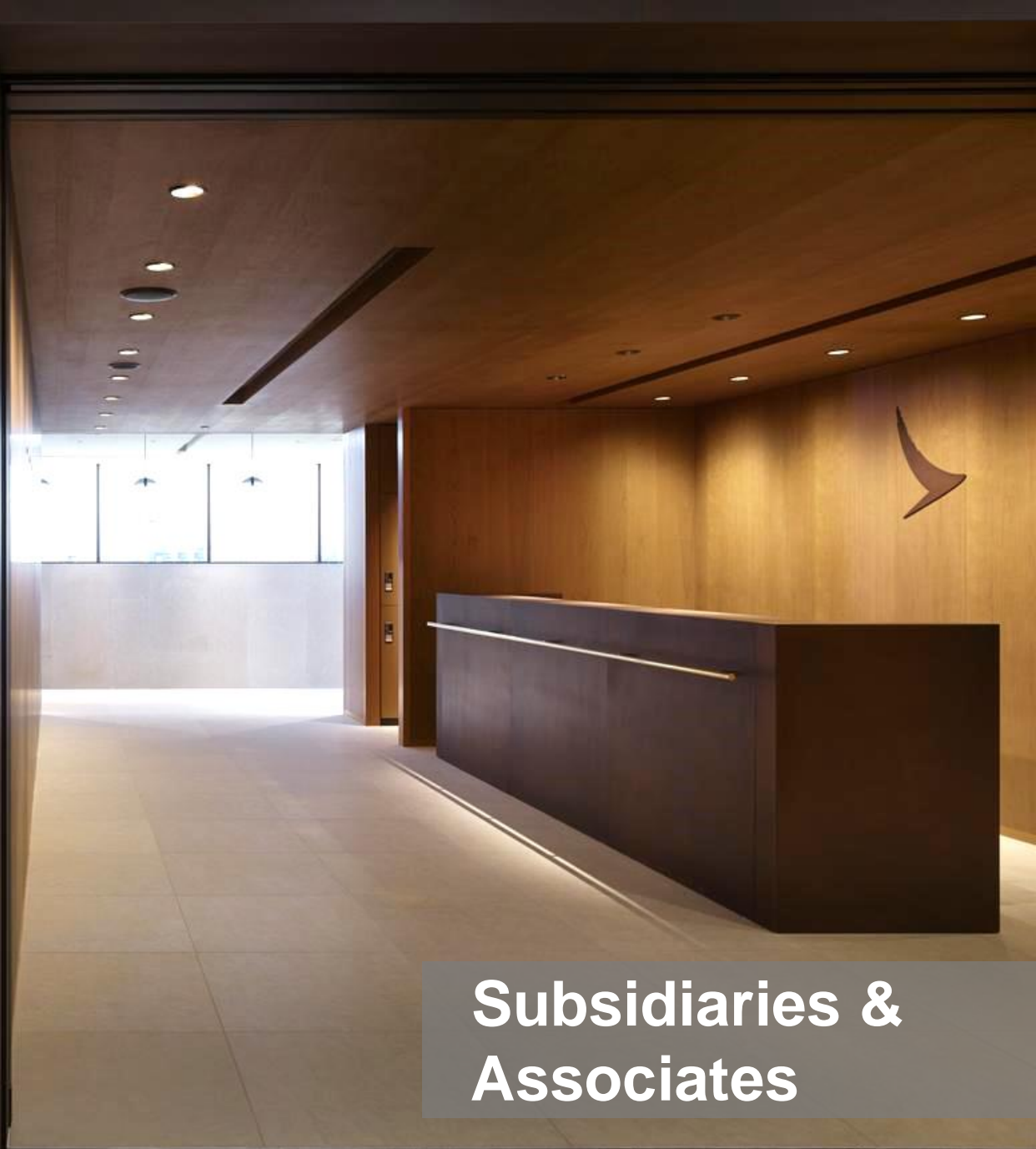
Retirements

A340 - by the end of 2017

Exit date	Number	Remaining
2017	-3	0



CATHAY PACIFIC



**Subsidiaries &
Associates**

Associates

Air China



- As at 31st Dec 2016, Cathay Pacific had a **20.13%** interest in Air China.
- Increased profits from Air China compared with prior year.
- There was a benefit from low fuel prices and strong passenger demand.
- Results impacted by the weakening of the RMB.
- Cathay Pacific accounts for Air China's results three months in arrears.
- On the 10th March 2017, Air China completed the issuance of 1,440,064,181 A-shares. As a consequence, Cathay Pacific's shareholding in Air China was diluted from 20.13% to 18.13%.

Air China Cargo



- Improved results from Air China Cargo compared with prior year.
- Savings from low fuel prices, offset partially by exchange losses.
- Strong competition in the air cargo market.

Major Subsidiaries

AHK Air Hong Kong



- Capacity increased by 0.1%, load factor decreased by 1.2%pts and RTK decreased by 1.6%.
- Marginal increase in profit compared to 2015.

Cathay Pacific Catering Services



- Growth of 2.5% in the number of meals produced.
- Higher turnover compared to 2015, but a decrease in profit due to increased costs.

Asia Miles



- Membership approaching nine million worldwide.
- An increase in profit in 2016 compared with 2015.

Cathay Pacific Services Limited (Cargo Terminal)



- Provided cargo handling services to 15 airlines in 2016. Seven airlines became new customers in the year.
- Handled 1.8 million tonnes of cargo, out of the maximum capacity of 2.6 million tonnes.
- The 2016 financial results were better than those of 2015. This reflected the addition of new customers and effective management of operating costs.

Investments in our Customer Experience





Airbus A350-900



Cathay Dragon



Vancouver lounge

Opened May 2016



The Pier – Business Class lounge

Reopened June 2016



First & Business Class lounges – London Heathrow

Opened December 2016



Premium Fanfare offers



Self service and kiosk bag tagging



Enhanced baggage policy



Create your own travel combinations...

NAGODIVES

Nagoya

Maldives

Vantage Pass promotion

2017 Outlook



- Operating environment in 2017 expected to remain challenging.
- Strong competition from other airlines expected to continue.
- Strength of the Hong Kong dollar expected to impact the travel sentiment to Hong Kong.
- Continued heavy pressure on yield.
- Overcapacity in the cargo market is expected to persist.
- We expect to continue to benefit from low fuel prices, but to a lesser extent than prior periods.
- Business is expected to grow in the long term.
- Continued investment in new and more fuel efficient aircraft will increase productivity and reduce costs.
- Starting on a three year programme of corporate transformation.

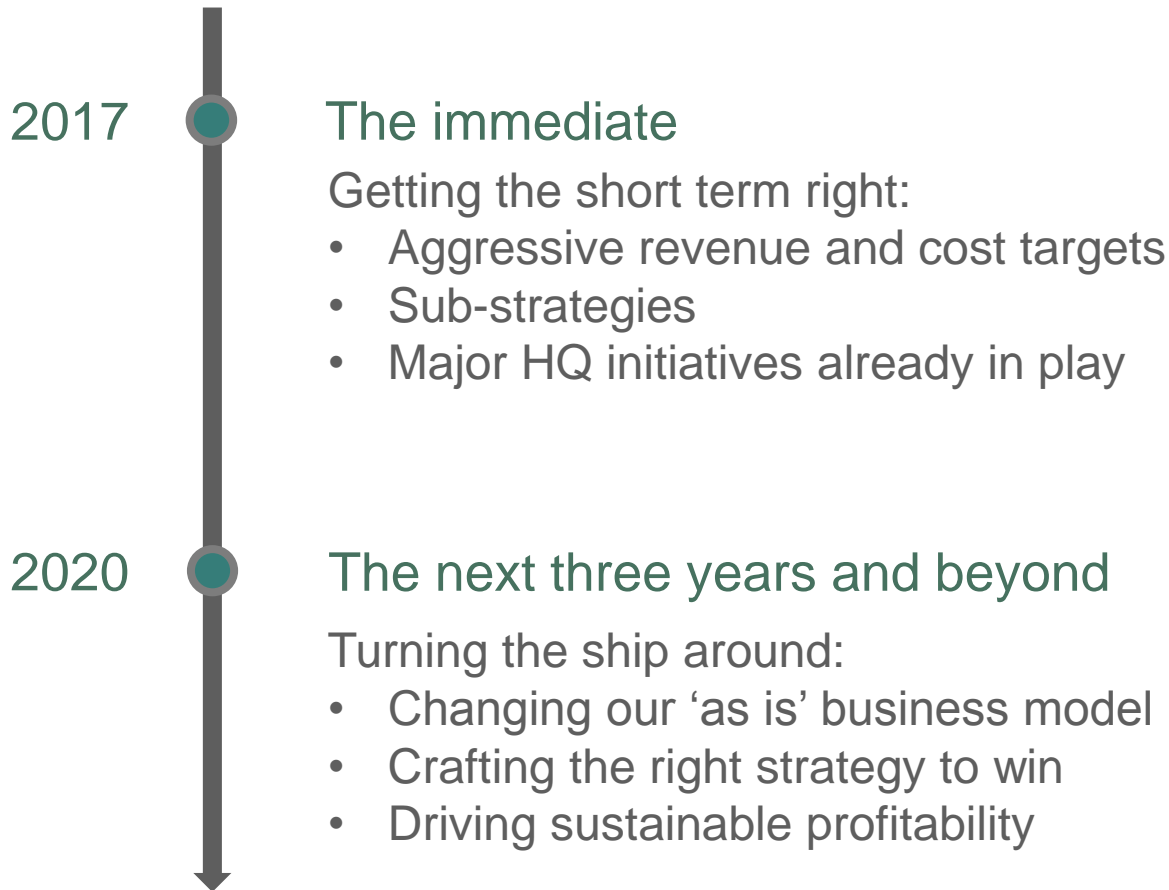


Corporate Transformation Programme

Transformation Programme

- Starting a 3 year programme of corporate transformation.
- ASK and DLATK expected to grow over this period.
- Targeting returns above our cost of capital.
- A more agile and competitive organisation.
- Continued investment in our brand and customers, but more effectively through use of digital analytics.
- Targeting to reduce our unit costs (ex fuel) over next 3 years.
- Our organisation will become leaner.

Two time horizons



Hub, Fleet & Network strategy

■ Fleet rationalisation

- Maximise the use of the available slots in HKIA.
- Drive productivity and efficiency gains.
- Allows growth without additional airframe or crew resources.

■ Continued aircraft investment

- The A350-900 fleet helped to open up new markets.
- The A350-1000 scheduled for 2018-20 will provide further capacity, range and lower trip cost.
- The Boeing 777-9X scheduled for 2021-24 will reinforce our position in the transpacific market.
- The five additional Boeing 777-300 joining the fleet in 2018/19 will bolster the regional capacity.

■ Fleet simplification

- Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.



Improving our customer experience

Customer Insights Team



- New centralised function from mid-2017
- Will provide actionable business insights

Project Zenith



- Dine-on-demand service for Business Class customers
- First trials this year

A350-900s



- 11 currently in service
- 10 more this year
- 11%pt increase in seat comfort scores in 2016

Customer Centric

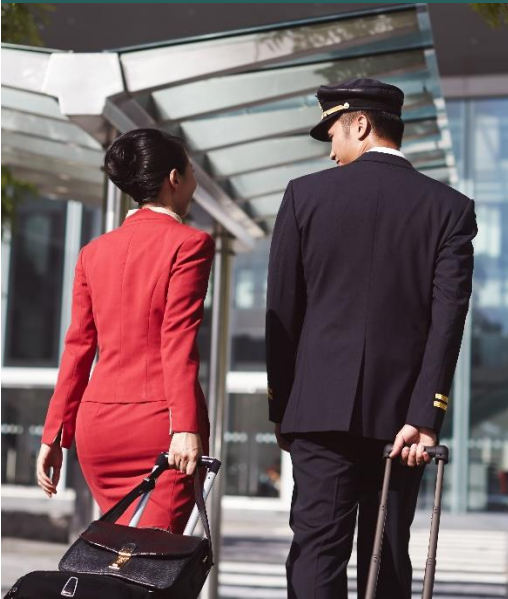
Operational Excellence

Productivity and Value Focused

High Performance Culture

Delivering to an exacting schedule

Crew Management Programme



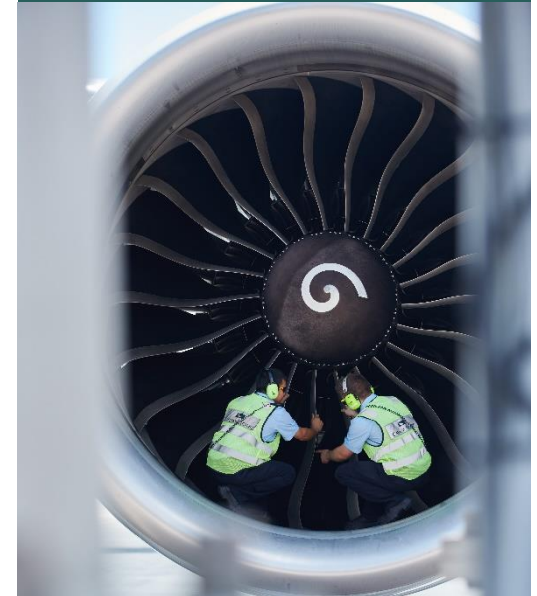
- Improved crew satisfaction
- Increased airline productivity

Improved On-Time Performance



- On-the-dot departures for CX & KA rose 12%pts year-on-year in the first two months of 2017

AA Collaborative Decision Making



- Stakeholder information sharing
- Optimised aircraft movement & departure

Customer Centric

Operational
Excellence

Productivity and
Value Focused

High Performance
Culture

Continuous productivity gains

Enterprise Portfolio Management Office



- Improving timeliness, value and efficiency of all projects

Shared Services



- Driving out wasteful and duplicative functions

Category Management



- Procurement category planning via Ariba system to drive efficiency and savings

Customer Centric

Operational
Excellence

Productivity and
Value Focused

High Performance
Culture

Getting the best from our people

Employee Experience Review



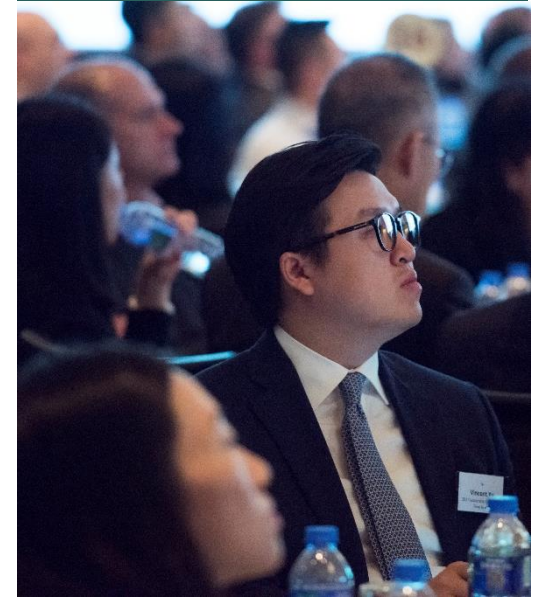
- End-to-end employee experience review

Performance Management System



- Effective tracking and feedback
- New recognition and reward framework

Revamping Internal Communications



- New communication channels
- People oriented communications

Customer Centric

Operational
Excellence

Productivity and
Value Focused

High Performance
Culture

Organisational efficiency

Head Office



- Leaner
- More agile
- More accountable

Airports



- Future Airport Experience
- Rapid advance of self-service technology

Inflight



- Working with the unions to improve productivity

Customer Centric

Operational
Excellence

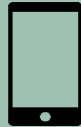
Productivity and
Value Focused

High Performance
Culture

Digital Transformation



Data & Analytics



Mobile



IoT



Social

Apply on



Operation

- Service Delivery Consistency
- Structural Cost Change



Customer

- Personalizing Service
- Reassuring Operation
- Enticing Retail Experience
- Enriching Customer Insight



Commercial

- Extend Customer Reach
- Shorten Speed-to-Market
- Increase targeting efficiency
- Improve profitability of sales

Proof-of-Concept

#1: Operation Insight

#2: Operation Research

#3: Internet-Of-Things

#3: Internet-Of-Things

#5: Customer Data Model Design

#4: Omni-Channel Tool Stack Rationalization

#6 : Customer Value Model

Strategy on a page



Our unique
positioning

Brand-led, relentlessly focused on enabling a
Life Well Travelled for our customers

Our call to
action

It's Time to Win

By being digitally enabled and insights-driven

Our pillars

**CUSTOMER
CENTRIC**

**OPERATIONAL
EXCELLENCE**

**PRODUCTIVITY
AND VALUE
FOCUSED**

**HIGH
PERFORMANCE
CULTURE**

Our focus

Experience
Loyalty
Advocacy

Safety
Efficiency
Consistency

Smart working
Resource management
Continuous improvement

Accountability
Opportunity
Experience

Success for
our customers

"You have my lifetime
loyalty"

"You are a brand I trust"

"You keep improving
what you do to keep
me travelling well"

"Your employees are
service-oriented and
focused on enhancing
my travel experience"



Q&A

For more information, please visit our website
www.cathaypacific.com