



Analysts Briefing

2017 Annual Results

14 March 2018

Agenda



- Briefing highlights
- Operating performance
 - Passenger Services
 - Cargo Services
 - Operating costs
 - Subsidiaries and Associates
 - Other financials
- Fleet Profile
- Transformation Programme update
- Financial Outlook
- Q&A

Hosted by:

- Rupert Hogg, Chief Executive Officer
- Martin Murray, Chief Financial Officer
- Paul Loo, Chief Customer and Commercial Officer



Briefing highlights

Fundamental structural changes continue to influence the business...



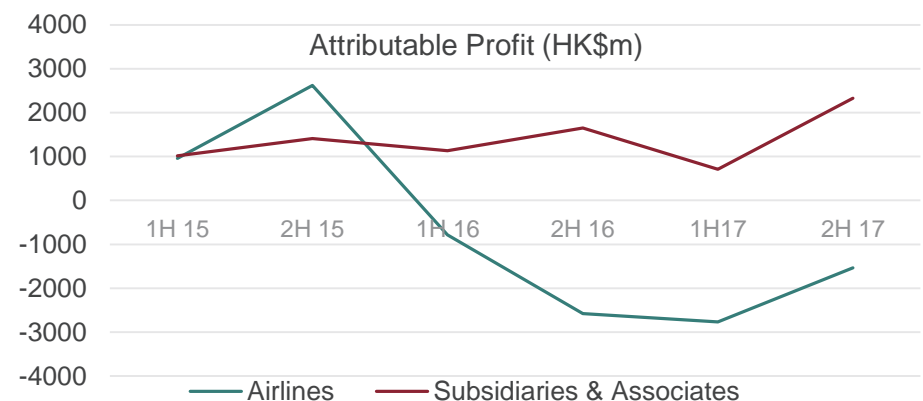
HK\$ million	2017	2016	% change
Airlines' (loss)/profit before tax	(4,200)	(3,045)	+37.9%
Taxation	(103)	(318)	-67.6%
Airlines' (loss)/profit after tax	(4,303)	(3,363)	+28.0%
Share of profits from subsidiaries and associates	3,044	2,788	+9.2%
Group attributable (loss)/profit	(1,259)	(575)	+119.0%

- Passenger business remained under intense competition, particularly in the back end.
- Higher oil price and difficult operating conditions.

...but a stronger second half performance as transformation programme impacts revenue and costs



- Improved demand for premium cabins.
- Yield decline on prior year reduced in second half.
- Strong cargo growth throughout the year against all metrics.
- New weekly and monthly record highs for tonnage carried.
- Underlying cost per ATK (without fuel and before exceptional items) held flat.



Stronger second half performance



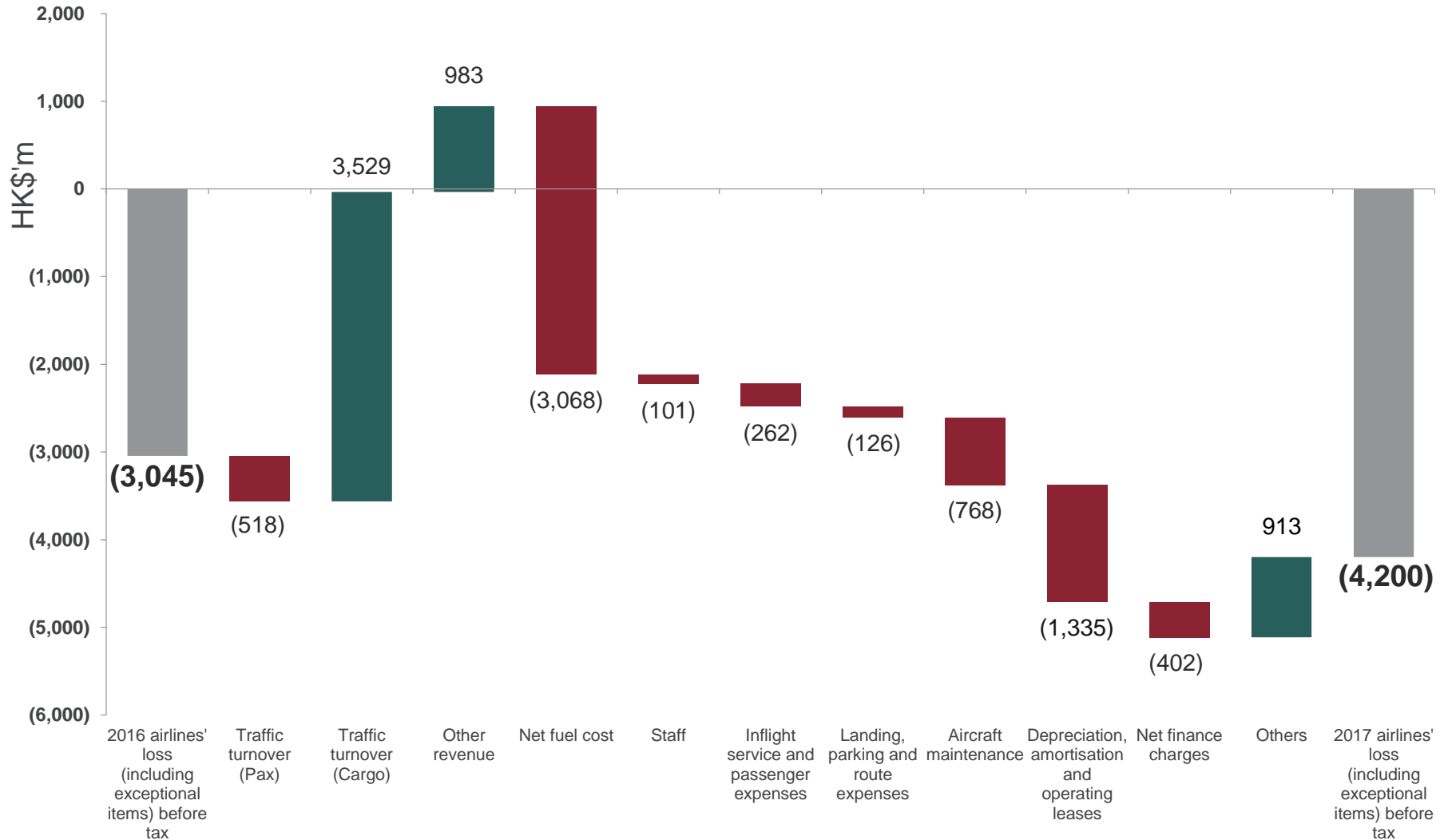
Group Financial Statistics

		1H 2016	2H 2016	1H 2017	2H 2017
Group Revenue	HK\$m	45,683	47,068	45,858	51,426
Airlines' loss after taxation	HK\$m	(783)	(2,580)	(2,765)	(1,538)
Group attributable profit/(loss)	HK\$m	353	(928)	(2,051)	792

CX and KA Operating Statistics

		1H 2016	2H 2016	1H 2017	2H 2017
Available tonne kilometres (ATK)	Million	14,929	15,533	15,190	16,249
Available seat kilometres (ASK)	Million	72,647	73,439	73,444	76,694
Passenger yield	HK¢	54.3	53.9	51.5	53.1
Cargo yield	HK\$	1.59	1.60	1.66	1.86
Cost per ATK (with fuel)	HK\$	2.98	3.06	3.14	3.10
Cost per ATK (without fuel)	HK\$	2.11	2.13	2.17	2.12
Underlying cost per ATK (without fuel and before exceptional items)	HK\$	2.11	2.13	2.12	2.11

Strong cargo revenue, pressure on passenger yield, rising fuel costs





Operating performance

Passenger Services

Passenger revenue improved in 2H with stable load factor and better yield



- Increased capacity (ASK)
 - Full year effect of 2016 new services.
 - Frequency and destination growth in 2017.
 - Year on year ASK increase of 2.8%, with strong growth in 2H17 of 4.4% over 1H17.
- Improvement in yield in 2H
 - Yield pressure most pronounced in 1H, but still a factor in 2H (2H17 vs 1H17 +3.1%).
 - Revenue efficiency improvement in 2H reflecting stronger demand, particularly in premium cabins.
- Stable year-on-year load factor

		1H 2016	2H 2016	1H 2017	2H 2017
Passenger Revenue	HK\$m	33,413	33,513	32,105	34,303
ASK	Million	72,647	73,439	73,444	76,694
Passengers carried	'000	17,249	17,074	17,163	17,657
Passenger yield	HK¢	54.3	53.9	51.5	53.1
Passenger load factor	%	84.5	84.6	84.7	84.0
Efficiency: Passenger Revenue per ASK	HK¢	46.0	45.6	43.7	44.7

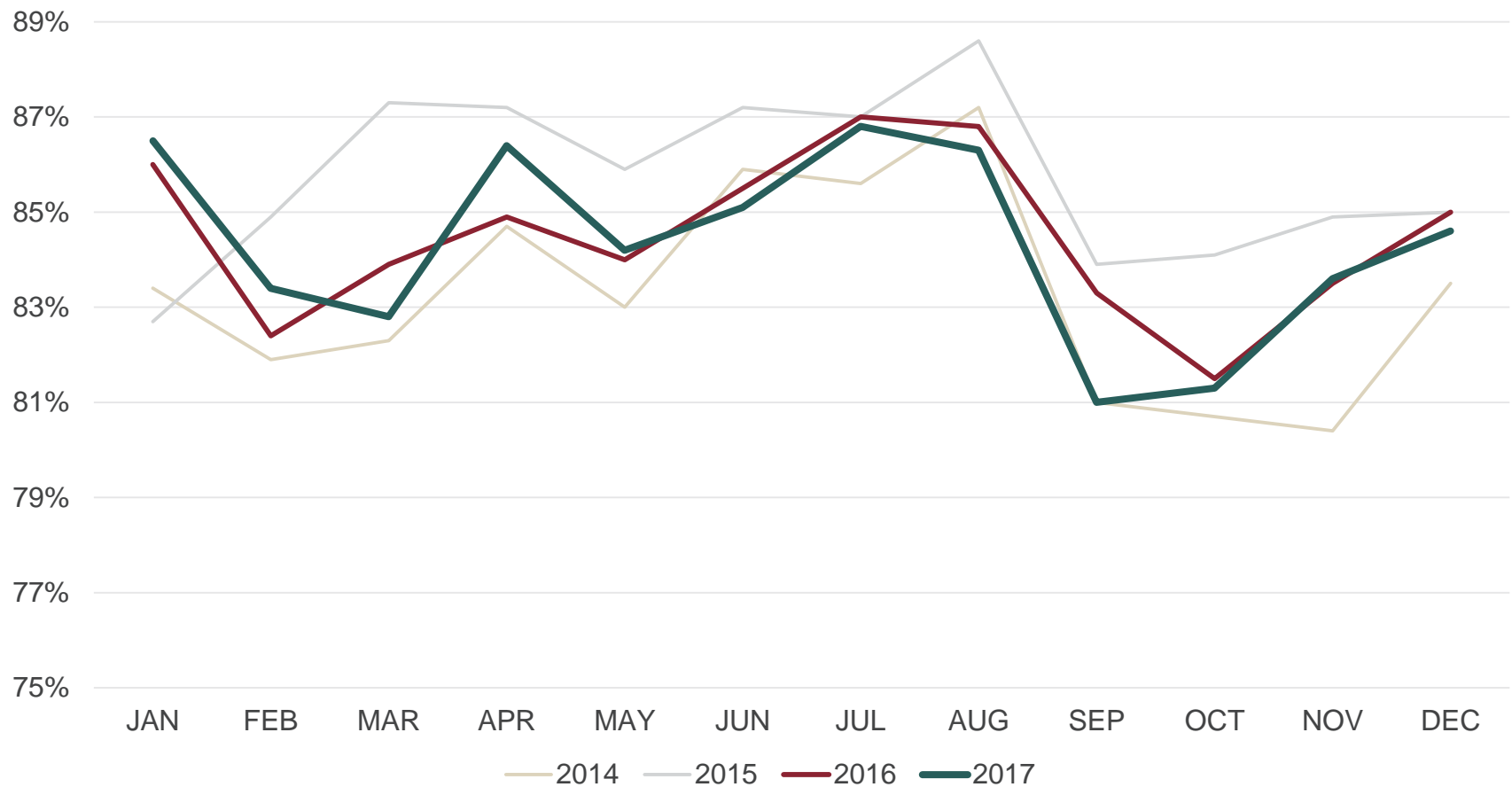
Overall passenger load factor similar to 2016



Annual load factor

2017 : 84.4%

2016 : 84.5%



Passenger Revenue and Yield – recovery in 2H



Capacity growing and Revenue Efficiency 2H upturn



Regional operating performance



Europe

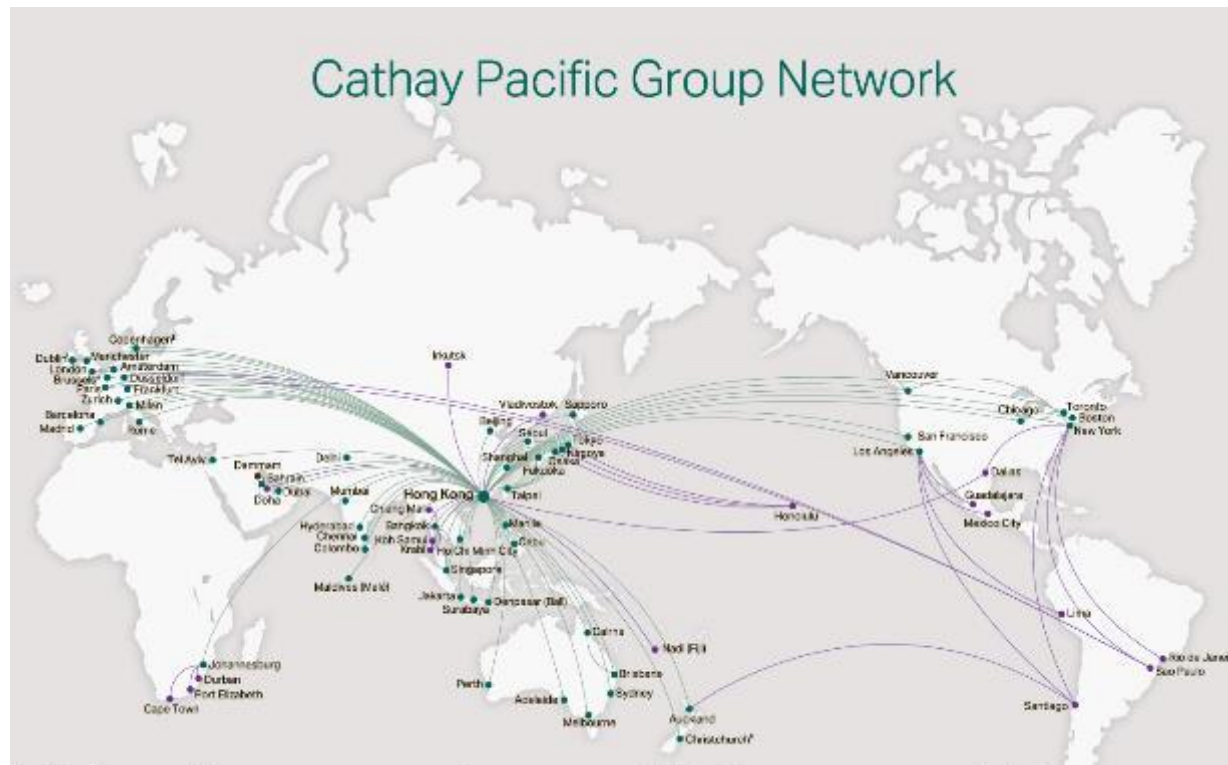
ASK: **+11.6%**
LF: **+0.9%pts**
Yield: **-2.7%**

Southwest Pacific and South Africa

ASK: **+4.1%**
LF: **-3.0%pts**
Yield: **-3.2%**

North America

ASK: **+2.8%**
LF: **-1.8%pt**
Yield: **-5.0%**



India, Middle East and Sri Lanka

ASK: **-7.8%**
LF: **+3.5%pts**
Yield: **-1.4%**

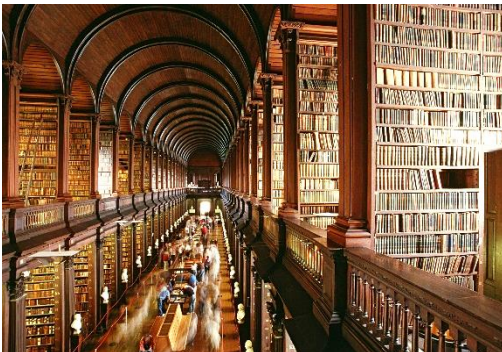
Southeast Asia

ASK: **-0.5%**
LF: **-0.2%pt**
Yield: **-2.9%**

North Asia

ASK: **-0.1%**
LF: **+1.5%pt**
Yield: **-2.8%**

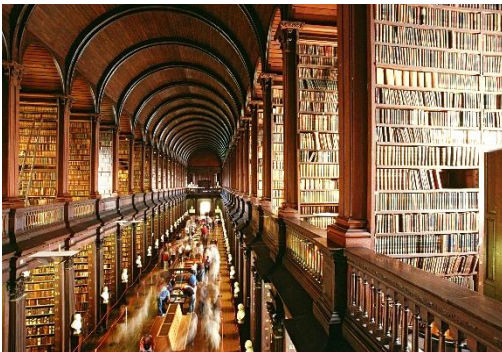
Modern long-haul fleet enables agility, expansion and strengthening of the Hong Kong hub



2017

March	<ul style="list-style-type: none"> Introduced a four-times weekly service to Tel Aviv Increased frequency of the Boston route to daily Increased frequency of the Vancouver service to 17 flights per week
June	<ul style="list-style-type: none"> Increased frequency of the London Gatwick route to daily Increased frequency of the Manchester service to five-times weekly
July	<ul style="list-style-type: none"> Introduced a seasonal service to Barcelona between July and October. This service will become year round in April 18 Increased frequency of Hanoi route to 12-times weekly Increased frequency of Ho Chi Minh City route to 19-times weekly
August	<ul style="list-style-type: none"> Announced a new service to Brussels commencing in March 18 Announced a new service to Dublin commencing in June 18 Announced a seasonal service to Copenhagen commencing May 18
October	<ul style="list-style-type: none"> Increased frequency of the Madrid route to five-times weekly Increased frequency of the San Francisco route to three times daily
November	<ul style="list-style-type: none"> Announced a new service to Nanning commencing in January 18
December	<ul style="list-style-type: none"> Introduced a seasonal service to Christchurch Increased frequency of the Manchester route to daily Increased frequency of the Paris service to 11 flights per week Announced a new service to Washington DC commencing September 18

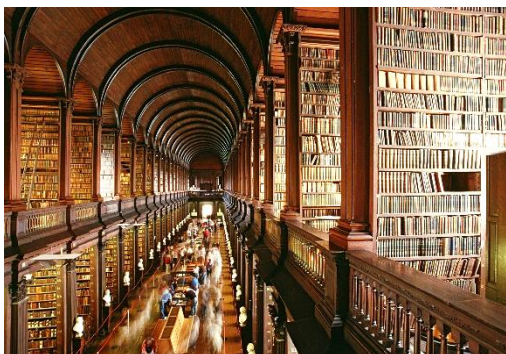
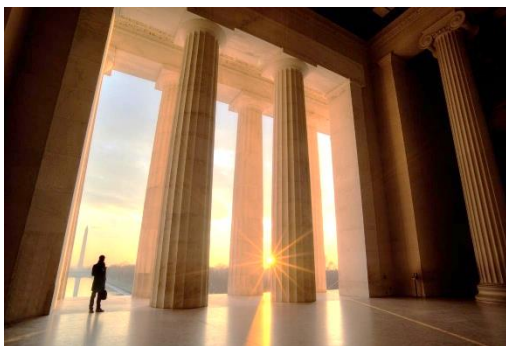
New non-stop services out of Hong Kong to destinations that no other airline serves



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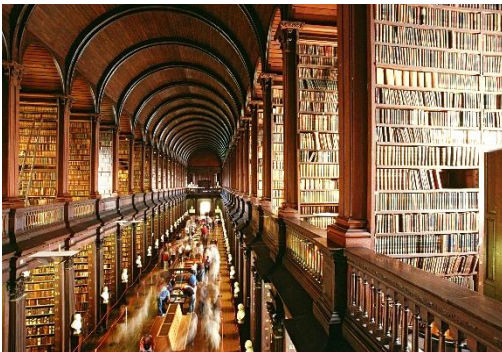
Other new non-stop services to the Cathay Pacific network



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Increased frequencies on existing routes, and greater agility on new seasonal routes



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Operating performance

Cargo Services

Strong year-on-year improvement in Cargo



- Increased capacity
 - A joint business agreement with Lufthansa Cargo between Hong Kong and Europe started from February 2017.
 - A strategic partnership with Atlas Air started from June 2017, providing additional capacity and access to new markets.
- Increase in yield
 - Resumption of cargo fuel surcharges from April 2017.
- Increase in load factor
 - Strong demand on improving global economics.
 - Volumes increased both in-bound and out-bound.

		FY 2017	FY 2016	% Var
Group Cargo Revenue	HK\$m	23,903	20,063	+19.1%
<u>Cathay Pacific and Cathay Dragon</u>				
Cargo Revenue	HK\$m	20,553	17,024	+20.7%
Cargo capacity	Million	17,163	16,572	+3.6%
Cargo and mail carried	k tonnes	2,056	1,854	+10.9%
Cargo and mail yield	HK\$	1.77	1.59	+11.3%
Cargo and mail load factor	%	67.8	64.4	+3.4%pt
Efficiency: Cargo Revenue per AFTK	HK\$	1.20	1.03	+16.5%

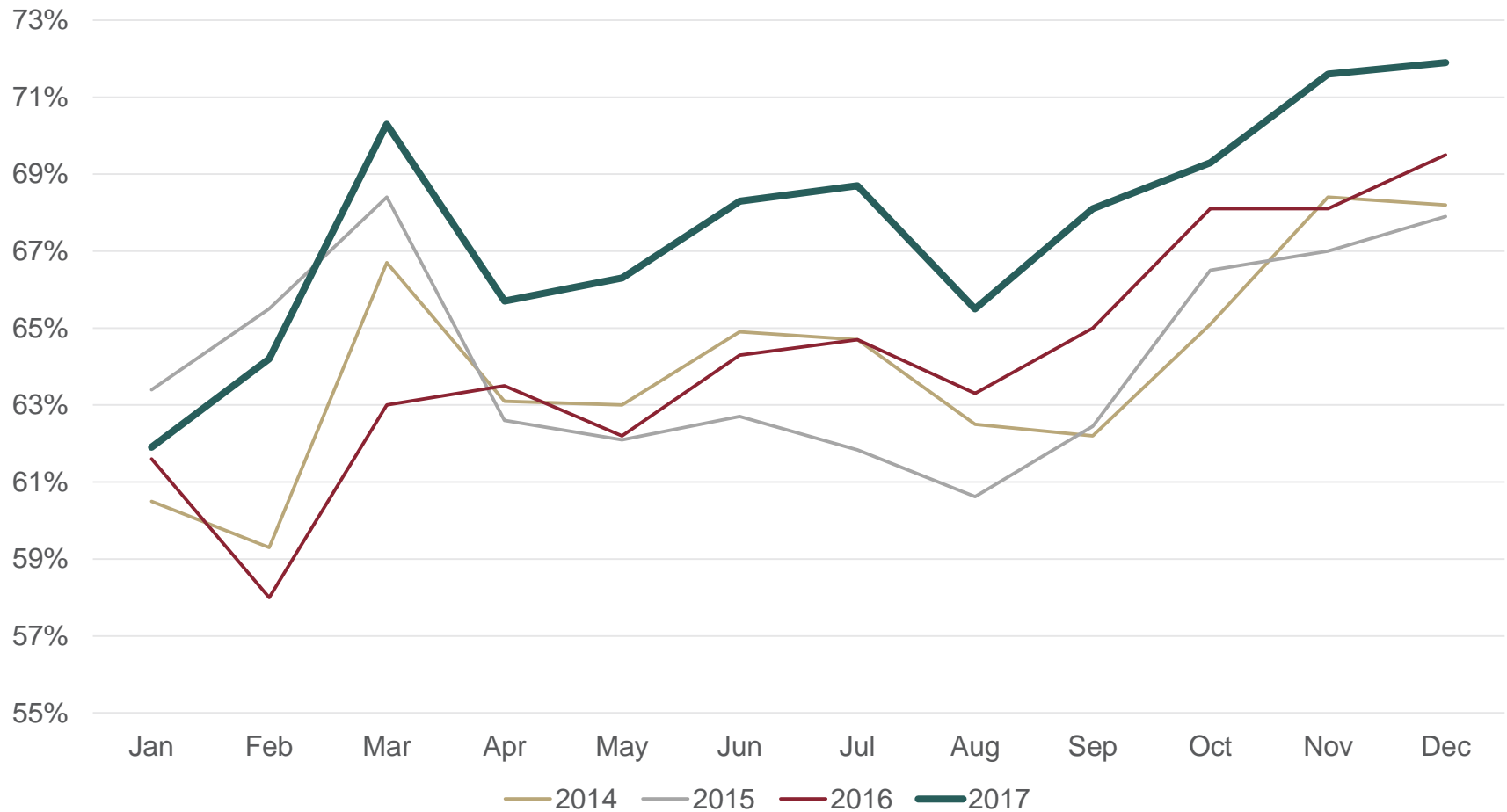
Improved demand drives load factors



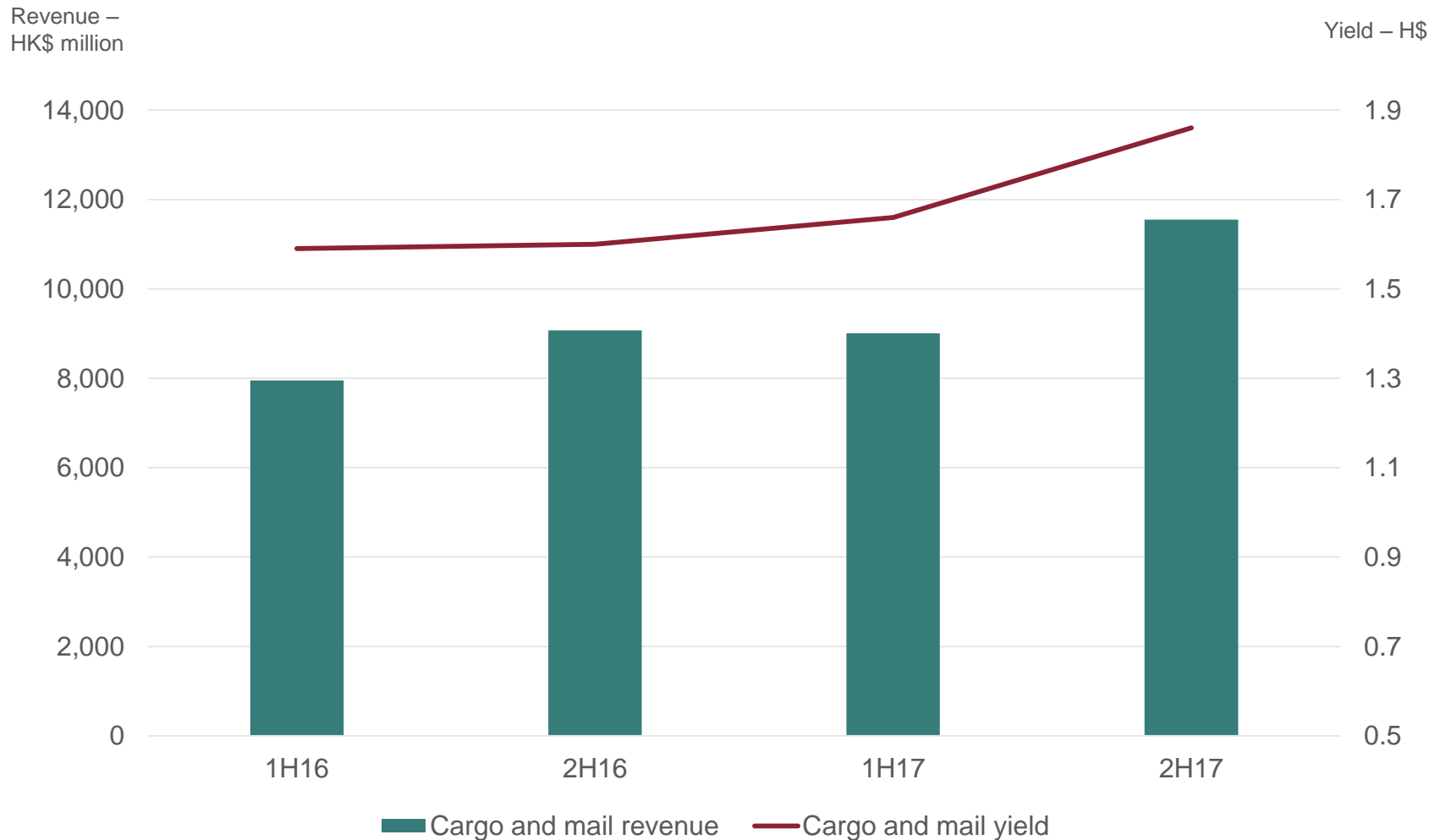
Annual load factor

2017 : 67.8%

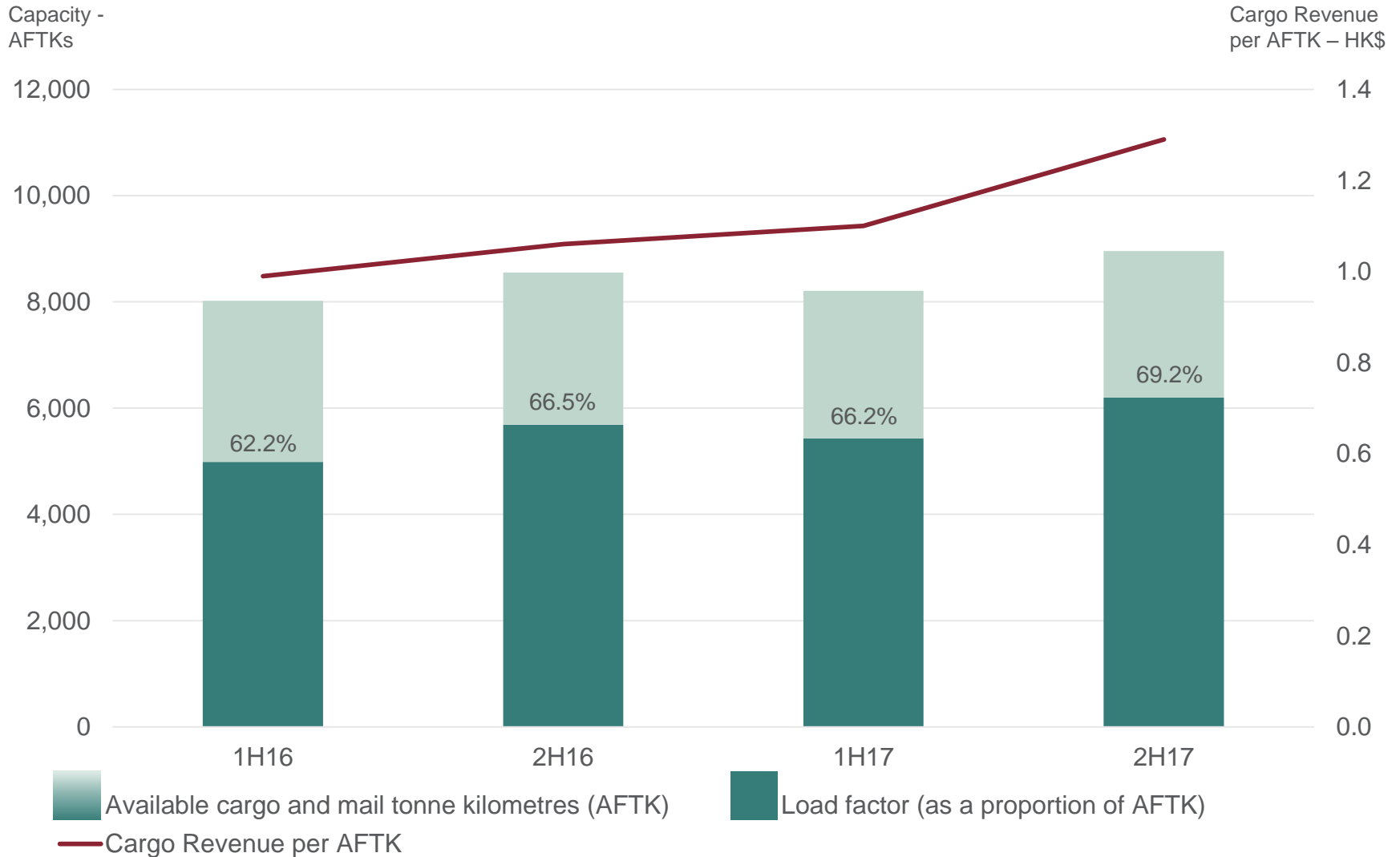
2016 : 64.4%



Cargo Revenue and Yield – substantial growth in 2H



Capacity, Load Factor and Revenue Efficiency growth

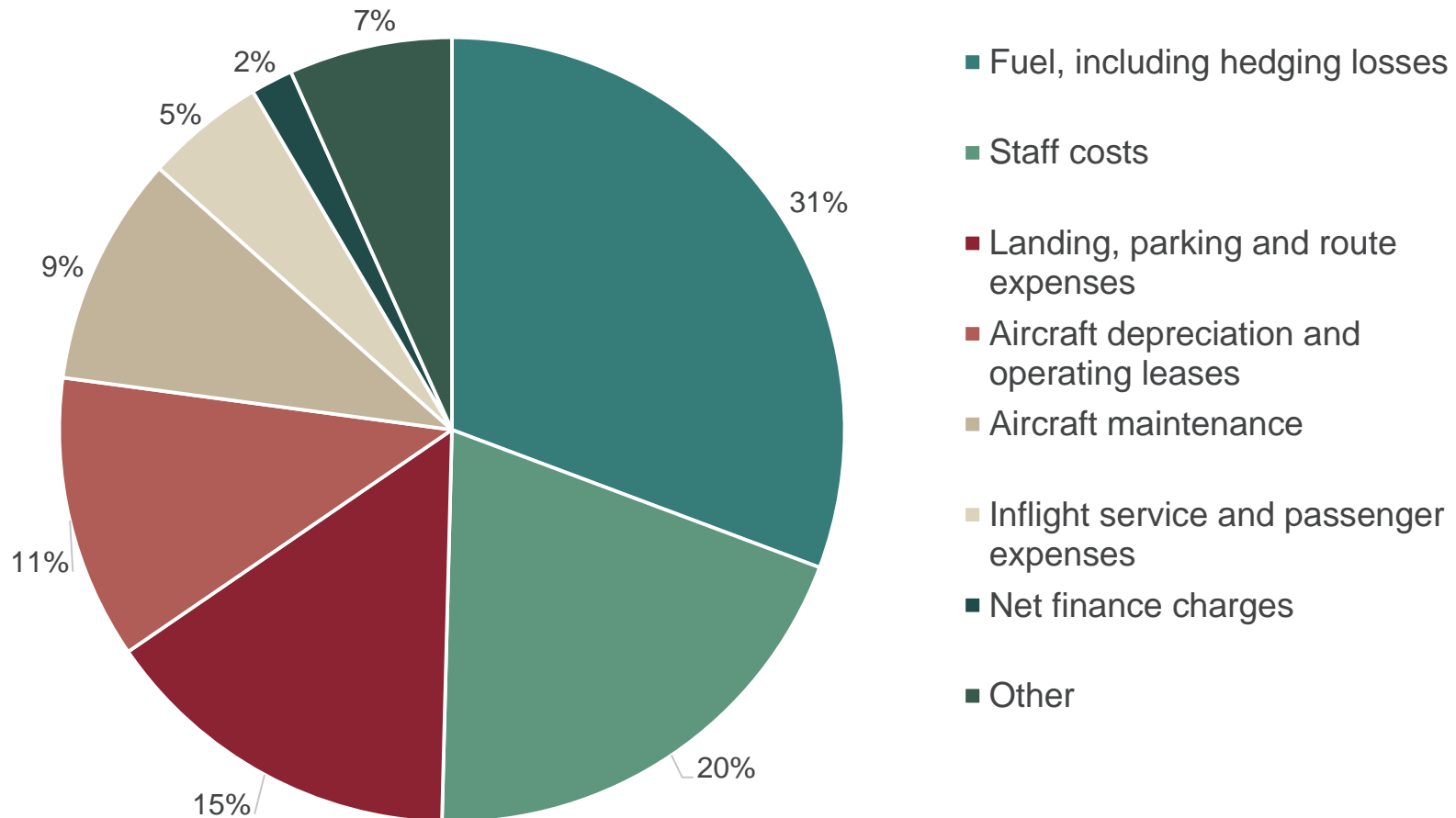




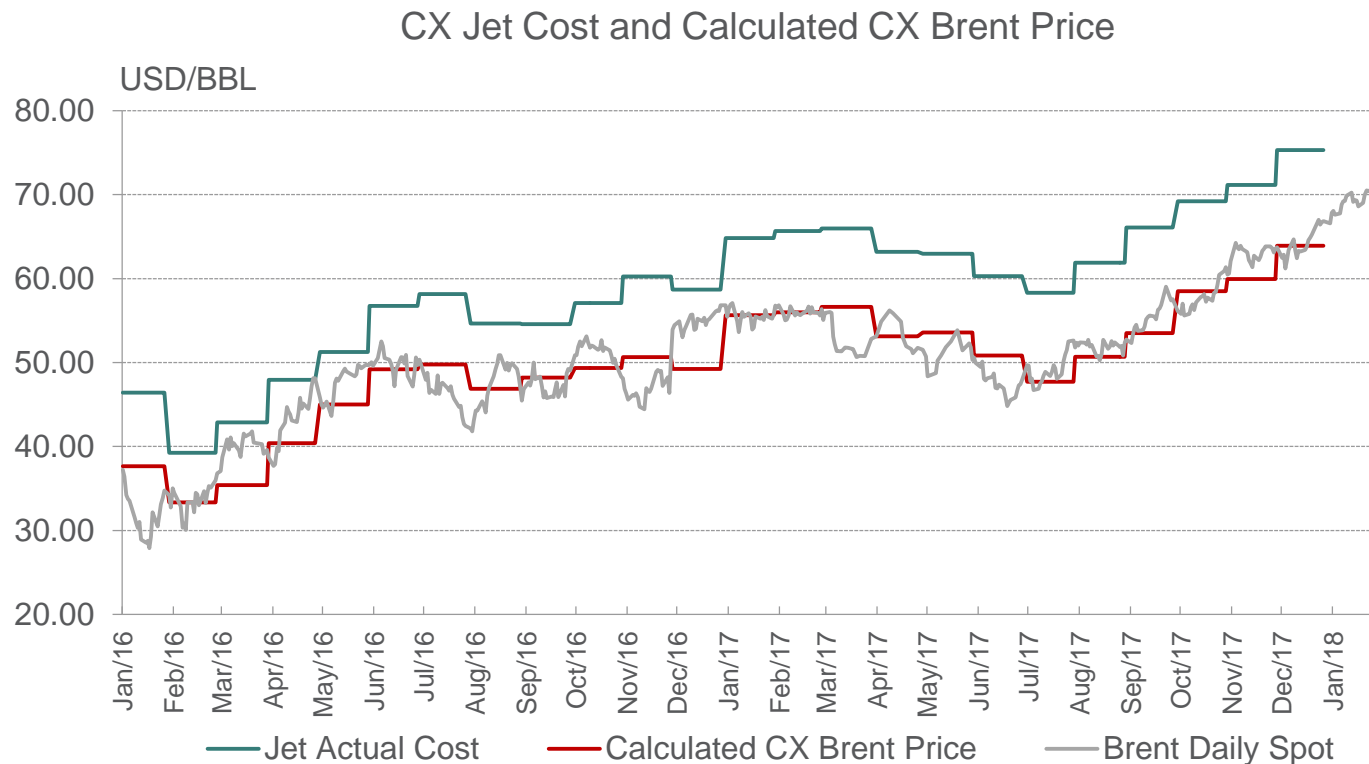
Operating performance

Operating costs

Breakdown of costs

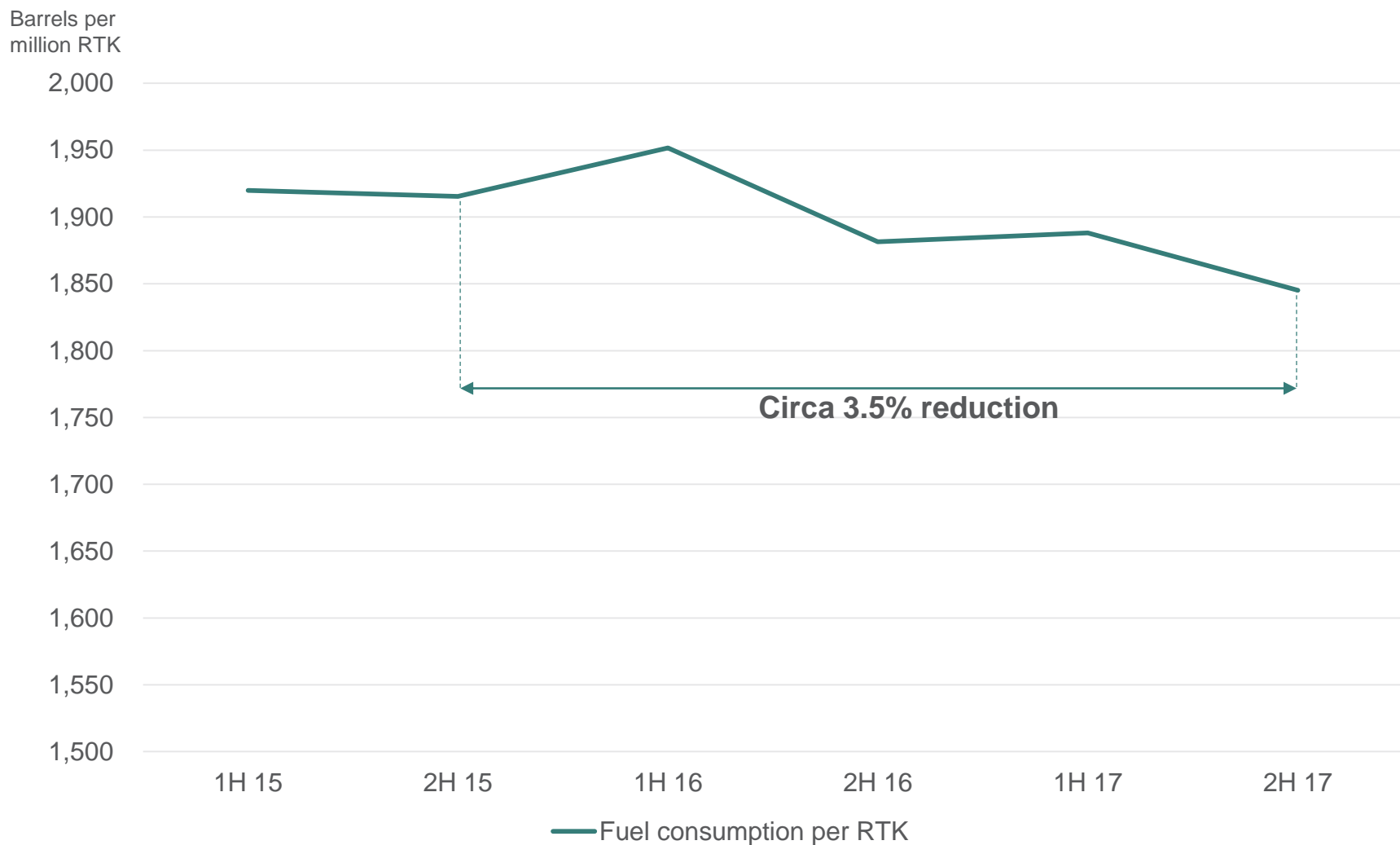


Average into-plane fuel prices rose 23% year on year, with crack spread widening



Group fuel expenditure	1H 2016	2H 2016	1H 2017	2H 2017
Gross fuel cost	8,769	10,728	11,700	13,035
Fuel hedging losses	4,490	3,966	3,237	3,140
Fuel cost	13,259	14,694	14,937	16,175

Benefits of a more efficient fleet



Fuel hedging



Fuel hedging coverage (as at 31 December 2017)

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
1 st Quarter 2018	44.20%	80.81
2 nd Quarter 2018	45.60%	81.13
3 rd Quarter 2018	45.10%	80.41
4 th Quarter 2018	45.20%	80.58
1 st Quarter 2019	26.60%	68.65
2 nd Quarter 2019	19.40%	72.72
3 rd Quarter 2019	17.90%	58.49
4 th Quarter 2019	7.40%	58.21

Underlying costs per ATK (without fuel and before exceptional items) held flat



	2017	2016	% Var
Staff	17,708	17,607	+0.6%
Inflight service and passenger expenses	4,996	4,734	+5.5%
Landing, parking and route expenses	14,830	14,704	+0.9%
Aircraft maintenance	9,221	8,453	+9.1%
Depreciation, amortisation and operating leases	13,582	12,247	+10.9%
Net finance charges	1,527	1,125	+35.7%
Others (including commissions)	5,558	5,641	-1.5%
Total operating costs (ex. fuel)	67,422	64,511	+4.5%

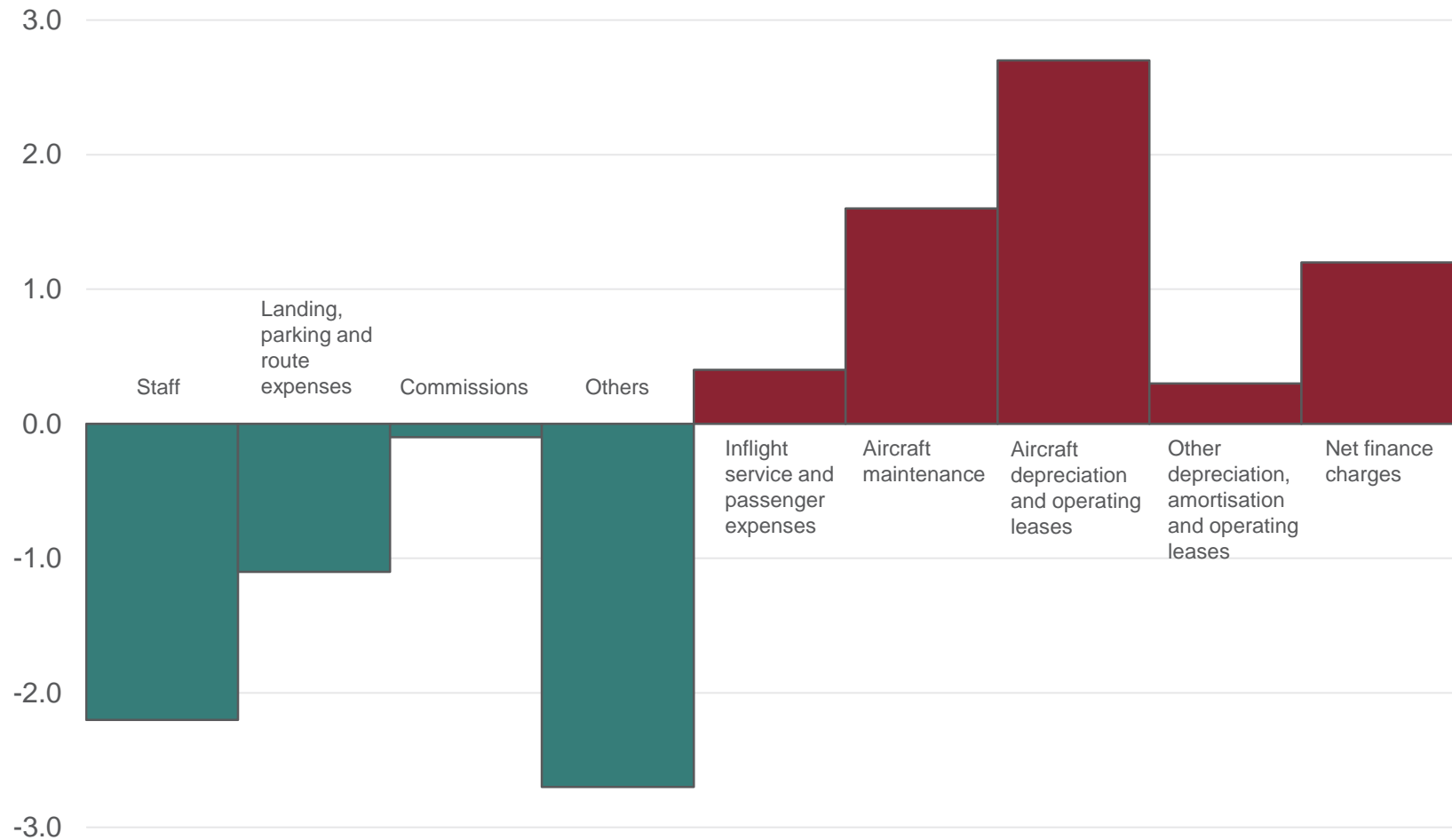
Cost per ATK (without fuel)	2.14	2.12	+0.9%
Underlying cost per ATK (without fuel and before exceptional items*)	2.12	2.12	-

* Exceptional items impacting expenses in 2017 include the European Commission fine of HK\$498 million, redundancy costs of HK\$224 million, and an impairment of CO2 emissions credits of HK\$119 million.

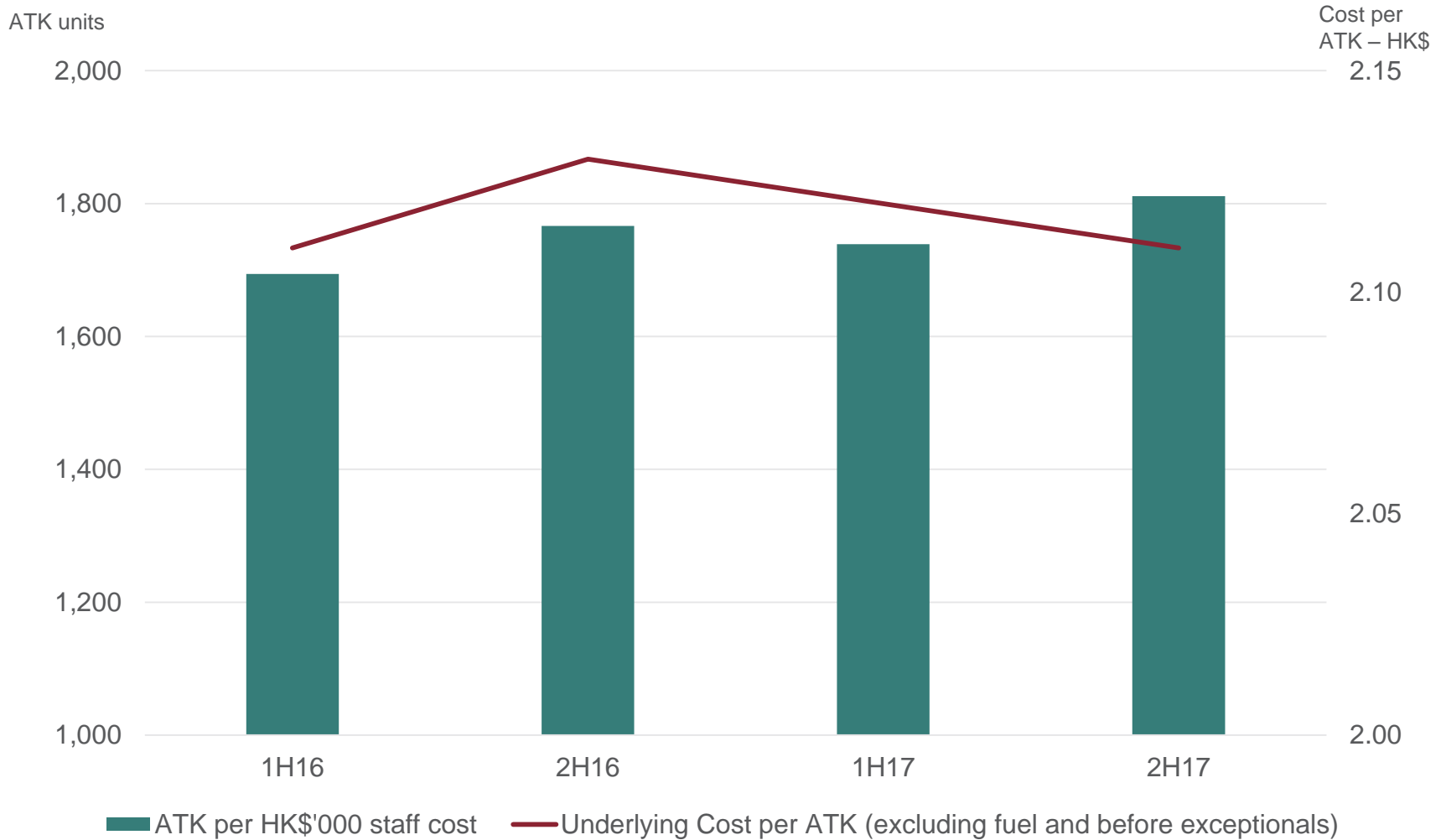
Underlying cost per ATK (without fuel and before exceptional items) – movements in cost categories



Cost per ATK
impact HK\$



Productivity : ATK per HK\$'000 staff cost



Productivity : ATK per staff



ATK '000
units





Operating performance

Subsidiaries and Associates

Major subsidiaries – mixed results



air Hongkong

- Increased profit in 2017 compared to 2016.
- Reduction in capacity, but load factors increased compared to the prior year.



- Lower profit compared to previous year.
- An expanded facility with 40% additional capacity started to operate in May 2017, resulting in increased operating costs.



- Membership exceeds ten million worldwide.
- Increase in profit in compared with 2016 due to increased business volume.



- Improvement in results compared to 2016, reflecting the increase in the number of customers and the effective management of operating costs.



2002 to 2018 - Current Contractual Arrangement

air Hongkong

- Joint Venture Agreement (JVA)
- Current Block Space Agreement (BSA)
- JVA and Current BSA will expire in Dec 2018

Nov 2017 - Contracts were signed for the following transactions

- Freightler Sale and Leaseback
- Share Sale
- New Block Space Agreement

2019 Onward - Implication to CX Group

- Improved Returns
- CX owns 100% AHK

Associates



- Cathay Pacific has a **18.13%** interest in Air China.
- In March 2017, Cathay Pacific's shareholding in Air China was reduced from **20.13%** as a result of a new issue of A shares by Air China.
- Our share of Air China's results is based on its financial statements drawn up three months in arrears.
- Air China's underlying results for the 12 months ended 30th September 2017 improved compared to the previous year.



- Significantly better results in 2017 compared to 2016.
- Improved cargo market conditions, leading to increased yield.
- Increased operating costs due to higher fuel prices were more than offset by higher yields and unrealised exchange gains.



Operating performance

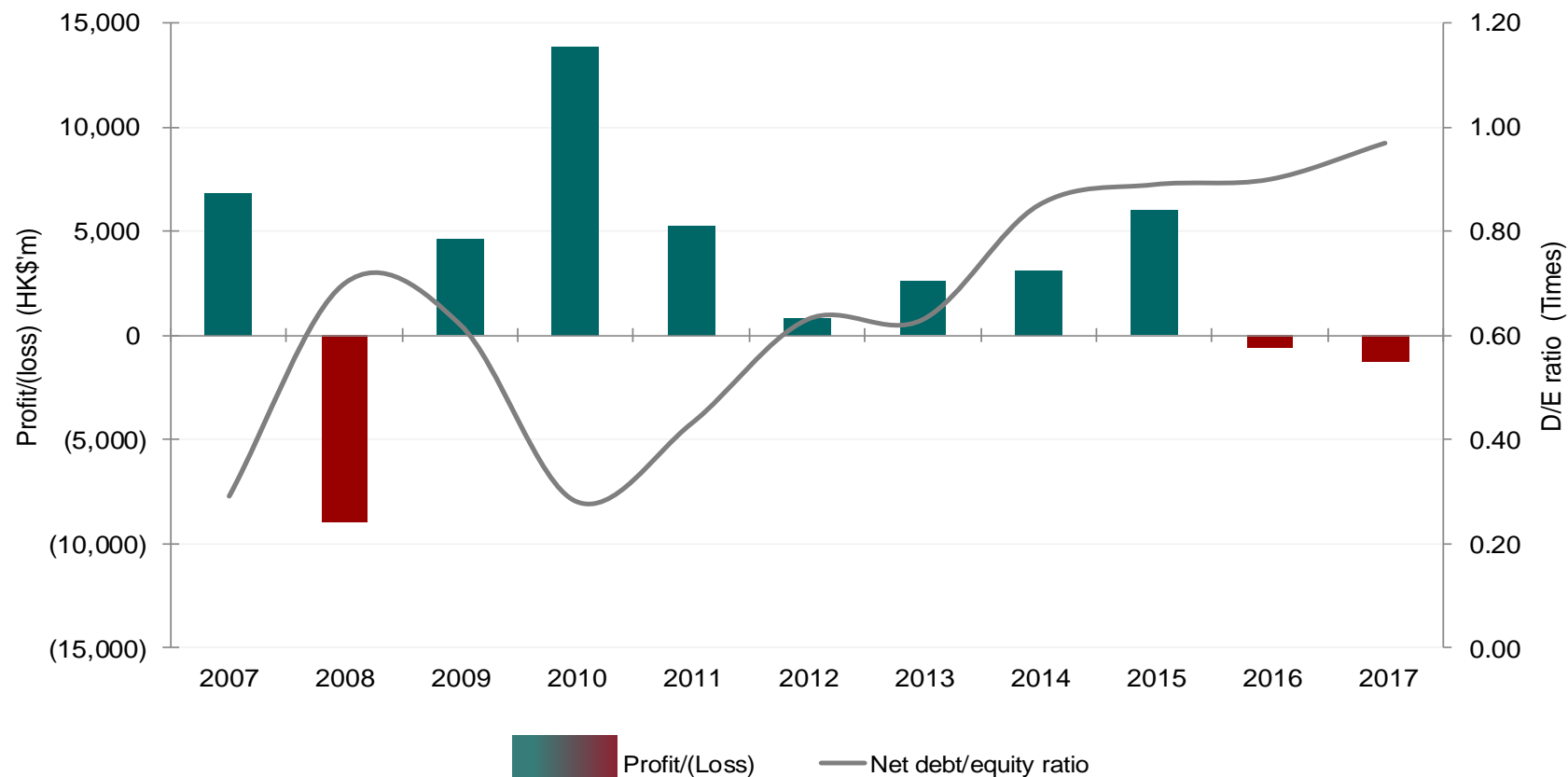
Other financials

Extract of Consolidated Statement of Financial Position



	31 Dec 2017 HK\$ million	31 Dec 2016 HK\$ million	% Var
Shareholders' Funds	61,101	55,365	+10.4%
Gross Borrowings	78,394	70,169	+11.7%
Less: Liquid Funds	(19,094)	(20,290)	-5.9%
Net Borrowings	59,300	49,879	+18.9%
Non-controlling interests	171	161	+6.2%
Capital Employed (including non-controlling interests)	120,572	105,405	+14.4%
Net Debt/Equity Ratio	0.97	0.90	+0.07 times
Investment in Air China	23,670	19,770	+19.7%

Profit and net debt/equity ratio



Group Profit /Loss Margin	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
%	9.1	(10.4)	6.9	15.5	5.4	0.9	2.6	3.0	5.9	(0.6)	(1.3)



Fleet Profile

Investments in our fleet



Fleet modernisation programme continues



- New aircraft deliveries.
 - 12 A350-900 aircraft were delivered in 2017, bringing the fleet total to 22 aircraft of this type in service at the end of the year.
 - Cathay Pacific will start taking delivery of the A350-1000 in 2018.
- Retirement of older fleet types.
 - The final four Airbus A340-300 in the fleet were retired in 1H 2017.
 - Two Boeing 747-400 converted freighters were retired in 2017.

In operation	Passenger	Freighter	Total
1 January 2017	168	21	189
New deliveries	12	-	12
Leased out to AHK	-	(1)	(1)
Returned from AHK	-	2	2
Retirements	(4)	(2)	(6)
31 December 2017	176	20	196

Fleet profile*: average age of overall fleet is 9.3 years, our long haul fleet is 5.6 years



Aircraft type Includes parked aircraft	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	30	11	20	61
A350-900	16	4	2	22
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
Total	92	43	61	196

- Fleet simplification

- Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.
- Nine fleet types as at 31 December 2017 compared to 11 fleet types as at 31 December 2016.

** As at 31 December 2017*

Fuel efficient forward deliveries



Deliveries

Aircraft type	2018	2019	2020	>2021	Total
A321NEO			9	23	32
A350-900		2	4		6
A350-1000	8	4	3	5	20
B777-9X				21	21
Total	8	6	16	49	79



Transformation Programme update

In 2017 we laid the foundations



Organisation change

- New HQ organisation in place
 - Clearer accountabilities
 - Leaner: reduced 600 staff
- Centres of excellence to improve expertise and efficiency
- Design proposals for Outports complete



Digital Capability

- Created and expanded a central Digital team
- Rapid experimentation – 43 proof of concepts undertaken
- Integrated Operations Datahub built to capture structured data
- Partnership with AWS for unstructured big data analysis



Customer wins

- Network & fleet expansion – 3 new destinations, 12 new A350s
- Improved Club point proposition for MPOs
- Social Care team established
- New digital REFLEX survey allowing quicker front line action



In 2018 we accelerate the pace...



Customer Centric

- Brand proposition review – revalidate our unique position
- Customer enhancements where they matter most
 - Greatly improved food
 - New service style
- Increase our revenue base through new ancillary options



Operational Excellence

- Crew productivity and lifestyle improvements from our new rostering system
- 'Single view of operation' via a transformed IOC bringing enhanced asset utilization
- Introduction of a new digitally enabled maintenance model



High Performance

- “Serve to Lead”: front line experience for Senior Leaders
- Revamped service delivery training focused on customer outcomes rather than rules
- A new employee value proposition built around a total rewards platform



...and set us on the path for continuous improvement



Productivity and Value Management

Process redesign

- We will map and redesign all of the core processes across the airline, starting with:
 - Booking to cash
 - Hire to retire
 - Source to pay
 - Record to report
- This will reduce work, move work, and automate



Digital Lean

- 1,700 yellow belts and above to be trained
- Digital and analytical capability becomes a core competency
- Robotic process automation removes repetitive tasks, reducing costs and errors



Global Business Service

- GBS team established Q4 2017 and now has >70 people
- As processes are redesigned, routine tasks will shift to GBS
- 20% reduction in employee cost realised to date



Transformation rationale



The market

Structural challenges continue

- Capacity is being added to our key markets
- Direct flights are increasing
- Competition is improving
- Customer expectations are evolving



The economy

World economy broadly positive

- We are seeing an increase in premium demand
- Cargo demand remains strong
- The US dollar has weakened
- Inbound tourism to Hong Kong is increasing



Our response

Laser focus on our Transformation

- 700 initiatives being tracked
- Core process improvement
- Widening the revenue base
- Improving the operation
- Digital enablement central to driving continuous improvement





Financial Outlook

Outlook



- The overall business environment is expected to remain challenging.
- Passenger business will continue to be affected by intense competition.
- Higher fuel costs will be adversely affect results.
- Operational challenges and constraints will continue to impose costs on the Group.

But

- Passenger yields continue to improve.
- The cargo business is expected to remain strong.
- Fuel hedging losses are declining.
- More benefits will be realised from transformation programme in 2018, which remains on target to take us back to being profitable and position us for future growth.



Q&A

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



Fuel prices and fuel cost



Brent - Daily Closing Price and 250 Day Simple Moving Average 2007 - 2017

