CATHAY PACIFIC

Analysts Briefing

17 November 2017

Agenda

- Briefing highlights
- Shareholder analysis
- Operating performance
- Transformation Programme update
- Outlook
- Q&A

- Hosted by:
  - Martin Murray, Chief Financial Officer
  - Paul Loo, Chief Customer & Commercial Officer

Briefing highlights

Passenger business and yield remains challenging. Robust cargo performance.

- Passenger business remains under intense competition from other airlines.
- Back-end longhaul behind ASK growth.
- Growth in inbound over-night visitors to Hong Kong.
- Volume growth for premium traffic, with yield decline reducing.
- Robust cargo business performance, with strong growth in capacity, yield and load factor over the previous year.

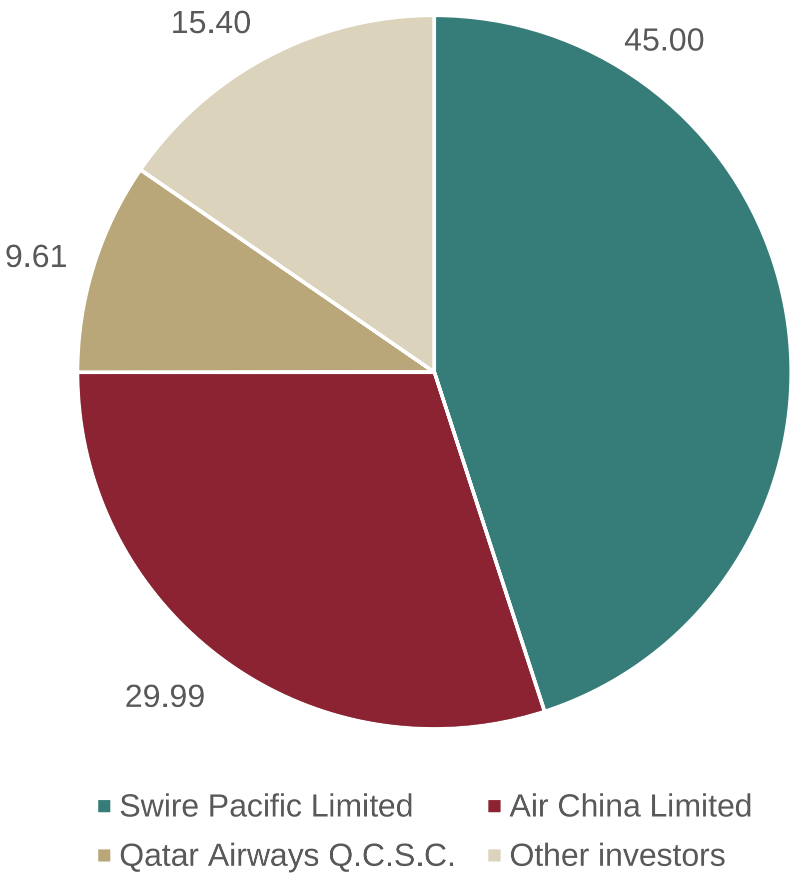
Higher fuel costs and operational challenges remain, but transformation programme well underway.

- Higher fuel prices compared to the previous year. Fuel Surcharge ex-HK remains suspended.
- Delay and disruption costs due to adverse weather.
- Transformation programme driving initiatives over revenue management, productivity improvement and cost management.

Shareholder analysis

Shareholder Analysis

Shareholding %



- **Swire Pacific** committed to supporting Cathay Pacific's long-term growth.
- Cross share-holding with **Air China** continues to benefit Cathay in the Chinese outbound travel market.
- Cathay Pacific and **Qatar Airways** build on strong Oneworld Alliance partnership.
- Continued commitment to engage **other investors**.

Operating performance

Passenger Services

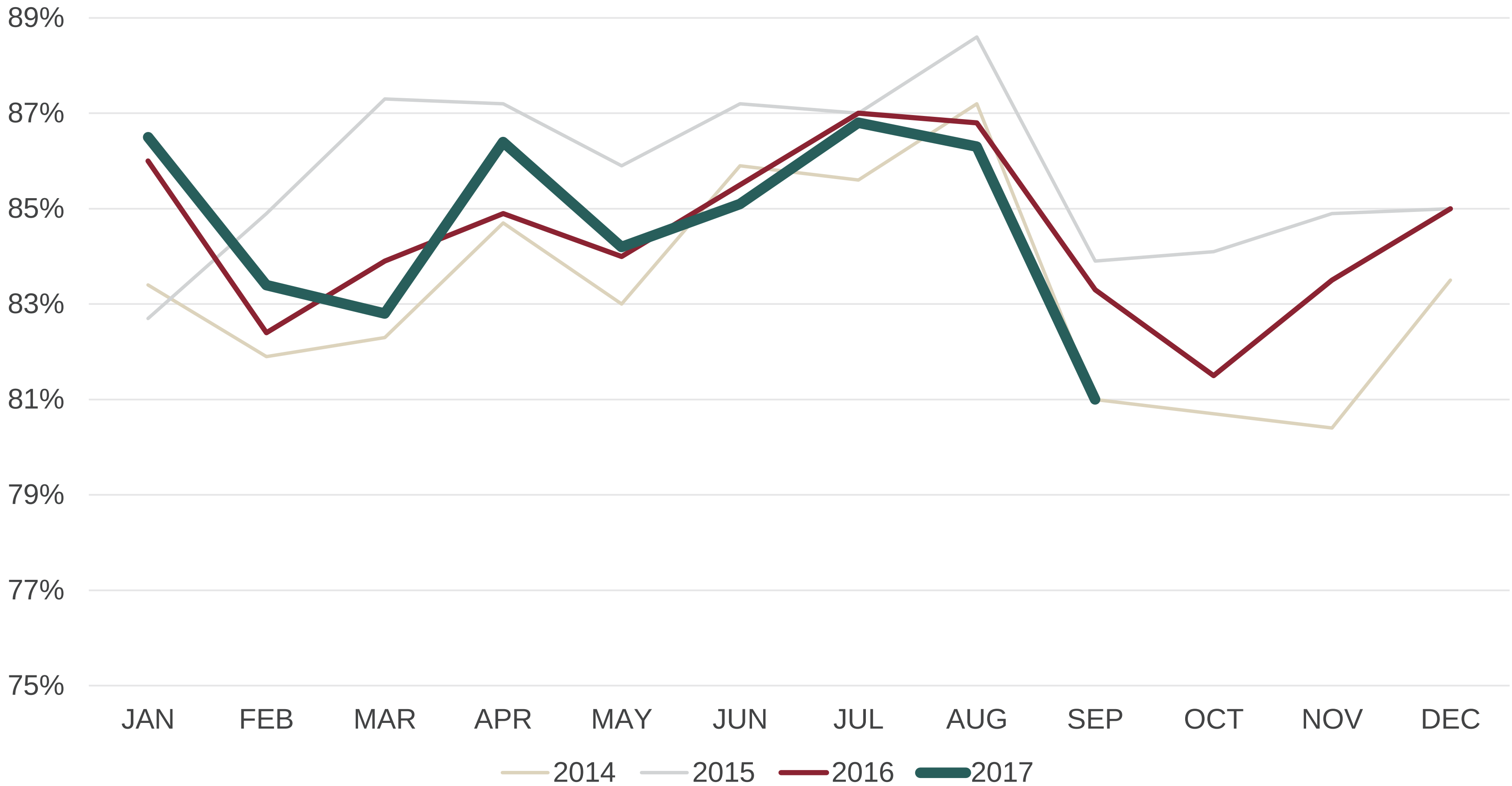
Capacity growth, improving frontend demand offset by continued pressure on yield

- Increased capacity (ASK)
  - Increased frequencies on some existing routes, and the on-going impact of the London Gatwick service in the 2nd half of 2016.
  - Introduction of Tel Aviv route in March, and a seasonal service to Barcelona between July-October.
- Yield under pressure
  - Increased capacity by competitors.
  - Yield decline in both business and economy classes compared to the previous year, but decline reducing .
  - Partly offset by improving frontend demand and increased fuel surcharge collection into Hong Kong.
- Stable overall load factor

		Year to Q3 2017	Year to Q3 2016	% Variance
ASK	Million	**111,971**	109,729	+2.0%
Passengers carried	'000	**26,000**	25,967	+0.1%
Passenger load factor	%	**84.8**	84.9	-0.1%pt

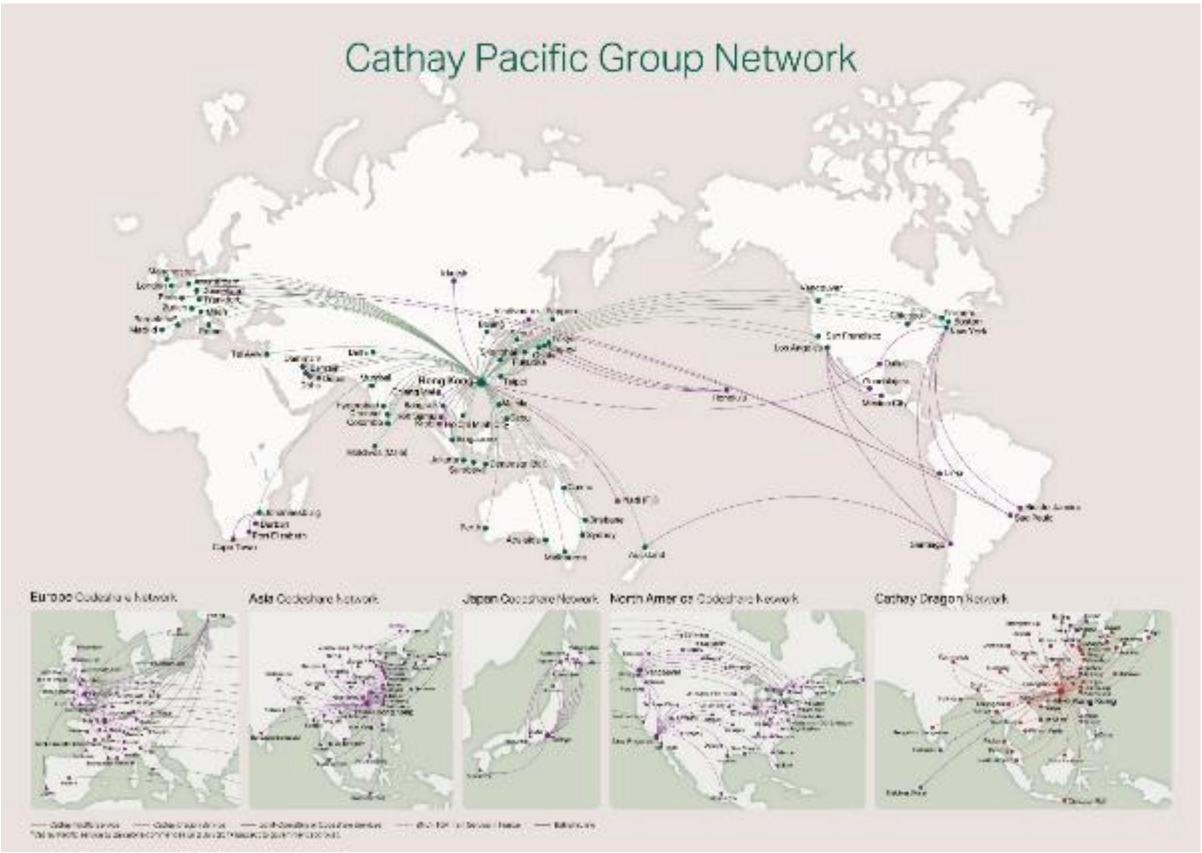
Stable overall passenger load factor similar to 2016

Year to September Load factor
2017 : 84.8%
2016 : 84.9%



Regional operating performance

YTD Sept statistics



Europe

ASK: +11.7%
LF: +1.6%pts

India, Middle East & Sri Lanka

ASK: -9.3%
LF: +3.0%pts

Southwest Pacific & South Africa

ASK: +2.5%
LF: -2.5%pts

Southeast Asia

ASK: -1.7%
LF: -0.8%pt

North Asia

ASK: -1.2%
LF: +1.6%pt

North America

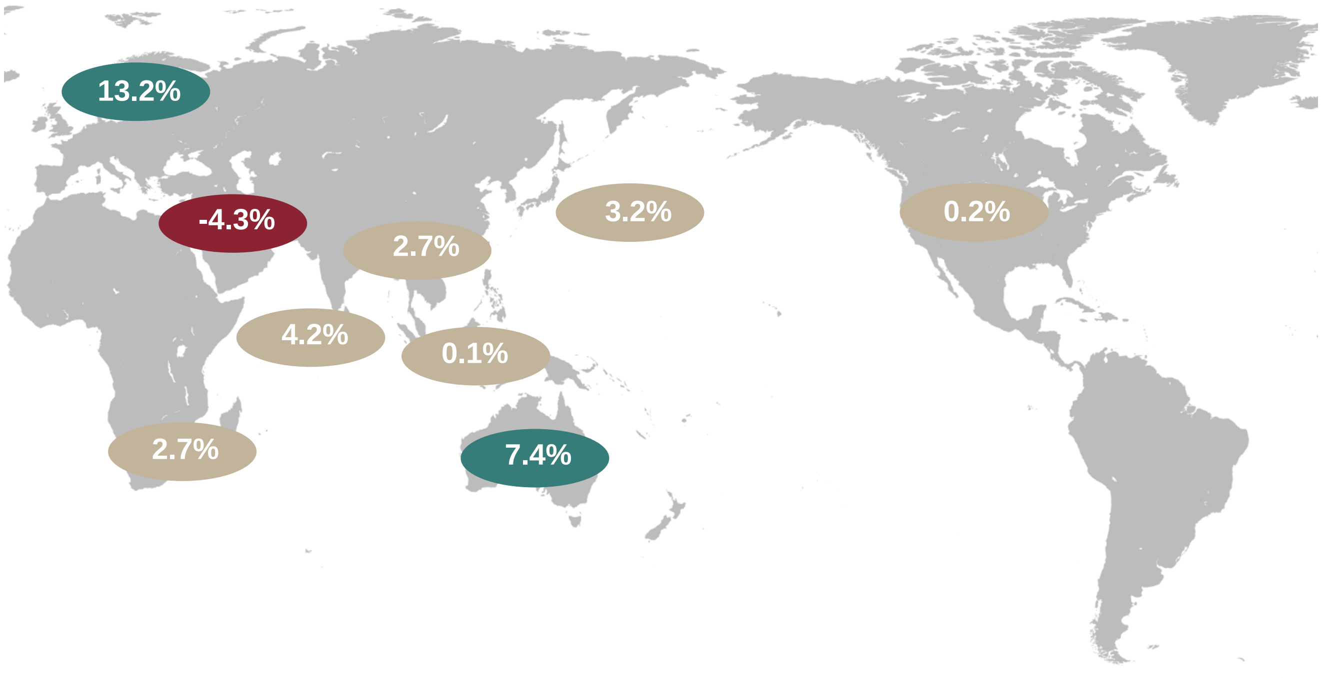
ASK: +2.8%
LF: -2.3%pt

New destinations and frequencies strengthen the network

2017	
January	• Announced a seasonal four-times weekly service to **Barcelona** commencing in July
February	• Announced a seasonal three-times weekly service to **Christchurch**, commencing in December
March	• Introduced a four-times weekly service to **Tel Aviv** • Increased frequency of the **Boston** route to a daily service • Increased frequency of the **Vancouver** service to 17 flights per week
June	• Increased frequency of the **London Gatwick** route to a daily service • Increased frequency of the **Manchester** service to five-times weekly
August	• Announced new services to **Brussels**, **Dublin** and **Copenhagen** commencing in 2018
September	• Announced a year-round service to **Barcelona** commencing in April 2018
November	• Announced a new service to **Nanning** commencing in January 2018

Network growth in 2018

2018 ASK growth by region



Overall network growth : 4.3%

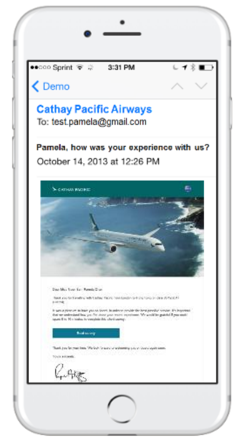
New destinations:
Nanning – 8th January
Brussels – 25th March
Copenhagen – between 2nd May-12th October
Dublin – 2nd June

+ two more to be announced

Improving the customer experience

MARCO POLO CLUB

Reflex 2.0



- Digital post-flight survey
- Text analytics capability
- Review survey data in real-time
- Enable frontline teams to take more timely actions

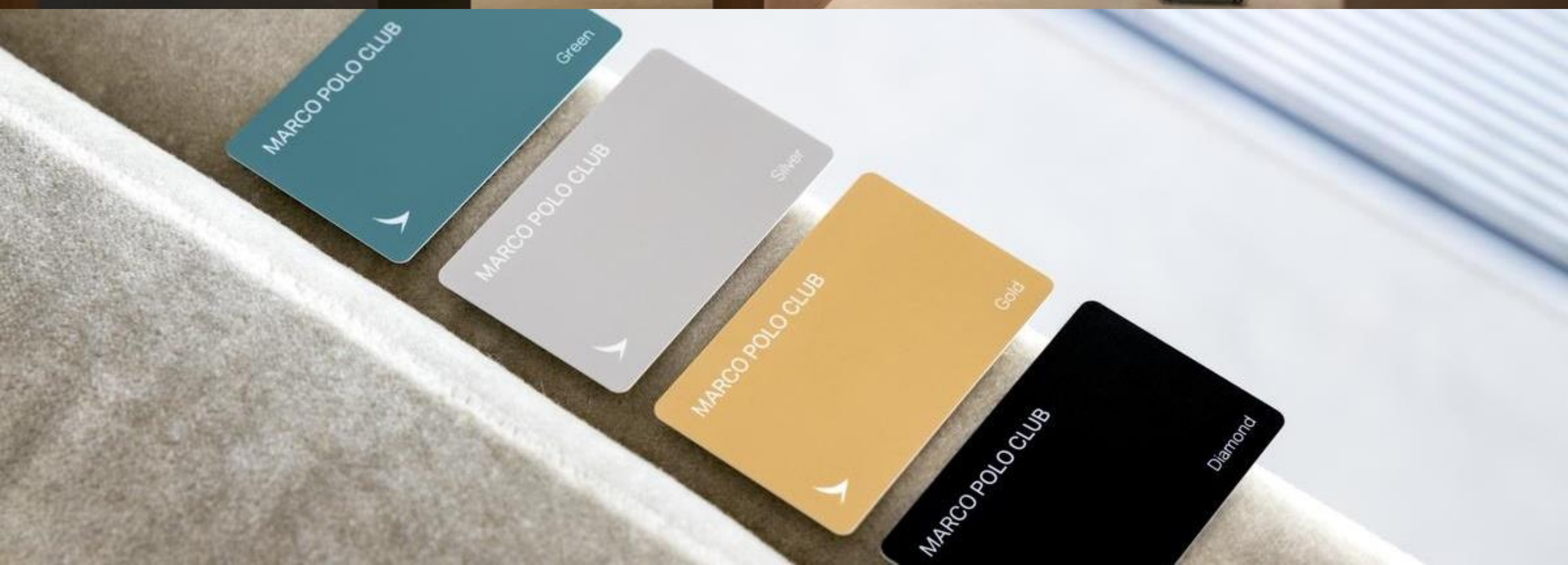
Taipei Hot Meal

- In response to customer feedback, hot food options are being trialed on Taipei flights
- Trials commenced on 1 October for all meal time flights

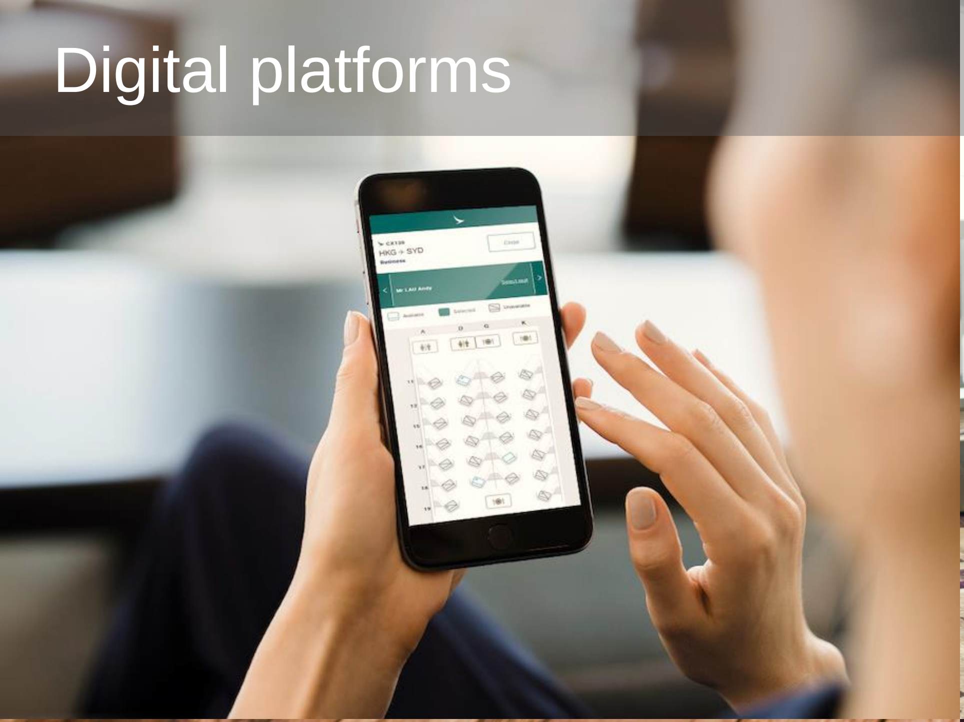
Singapore Lounge

- Reflex 2.0 utilized to monitor new lounge performance
- Refine offering based on quantitative and qualitative feedback

New products and travel experiences



Digital platforms



Operating performance

Cargo Services

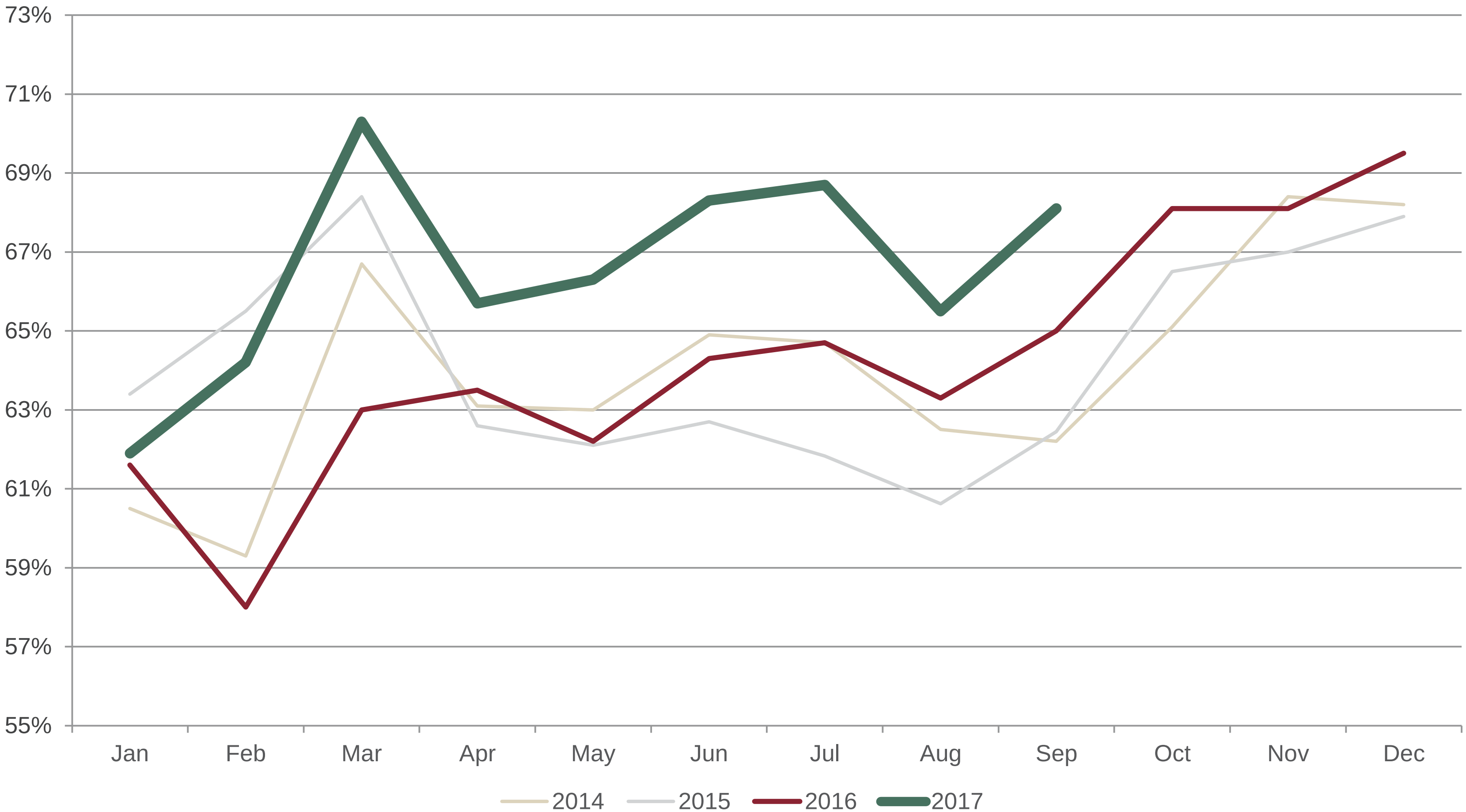
Robust growth in capacity, yield and load factor

- Strong cargo demand continued into the 3rd quarter
  - Tonnage carried grew well ahead of capacity growth.
  - 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.
- Yield improvement compared to prior year
  - Stronger market demand.
  - Resumption of cargo fuel surcharges from April 2017.

		Year to Q3 2017	Year to Q3 2016	% Variance
Cargo capacity (ATK)	Million	**12,650**	12,259	+3.2%
Cargo & mail carried	'000 tonnes	**1,495**	1,340	+11.6%
Cargo & mail load factor	%	**66.7**	62.9	+3.8%pt

Improving cargo load factors

Year to September Load factor
2017 : 66.7%
2016 : 62.9%

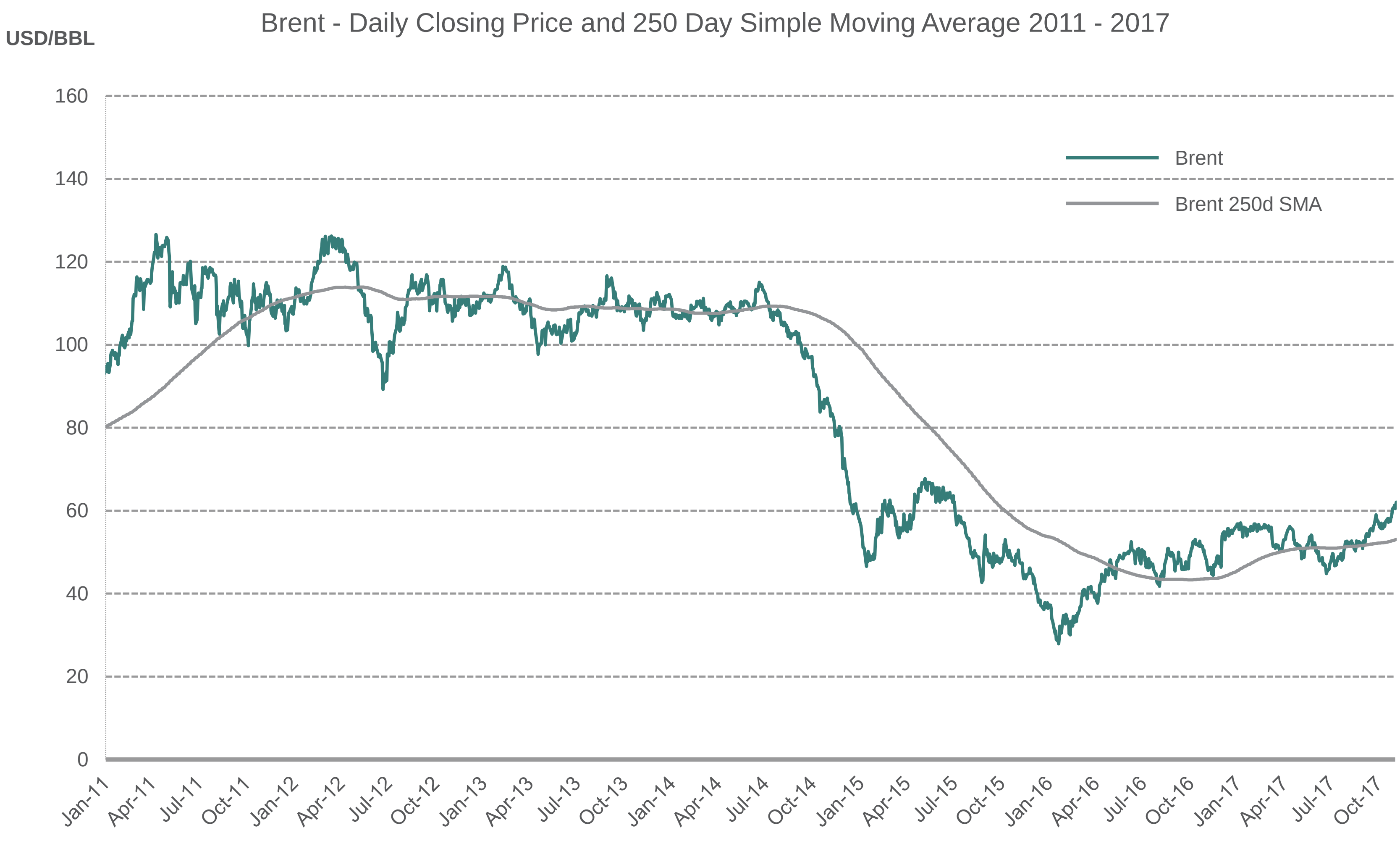


Operating performance

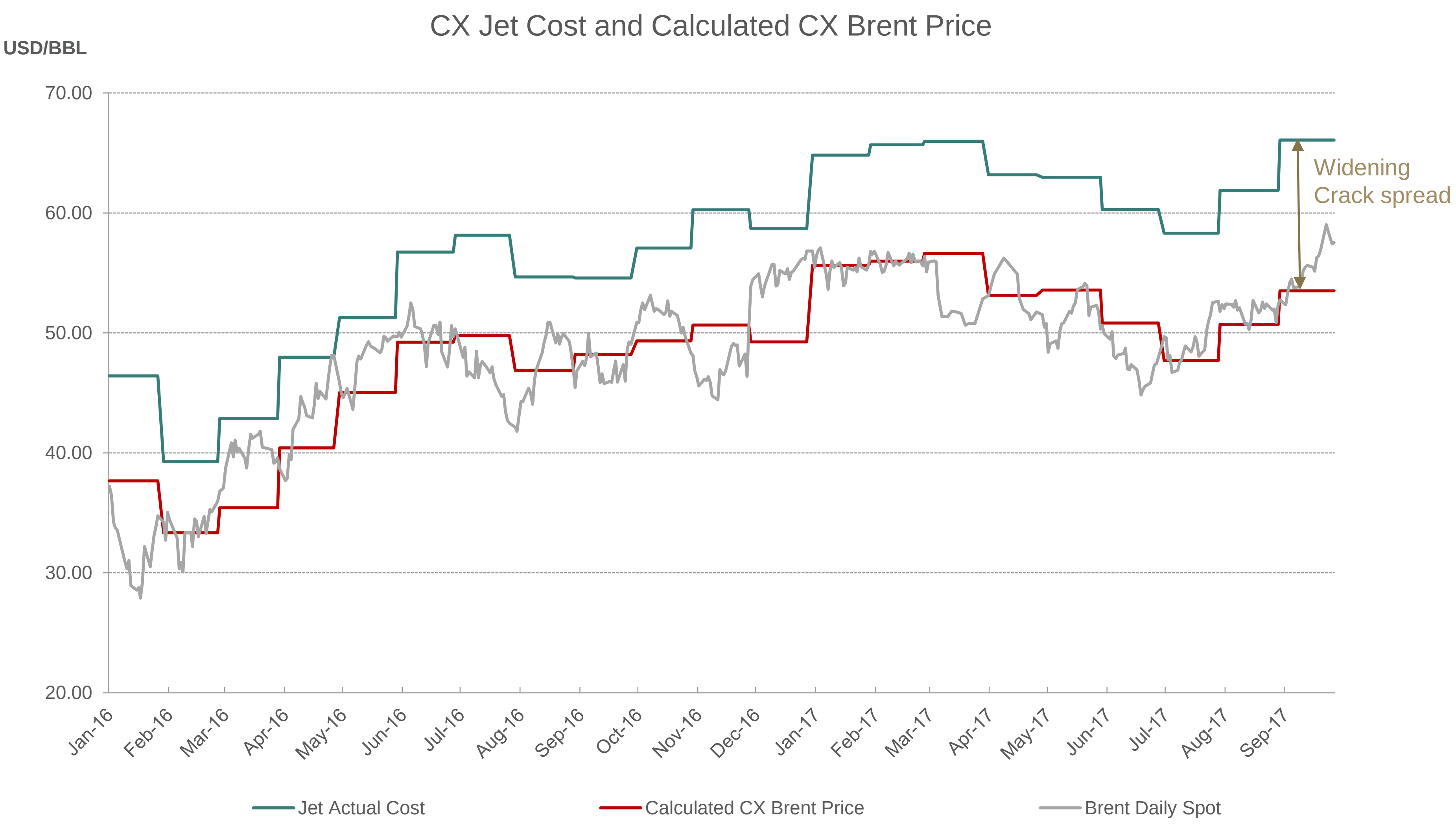
Others

Fuel

Fuel prices and fuel cost



Fuel hedging – fuel prices



Fuel hedging

Fuel hedging coverage (as at 30 September 2017)

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
4th Quarter 2017	54.4%	88.77
1st Quarter 2018	45.2%	80.81
2nd Quarter 2018	46.2%	81.13
3rd Quarter 2018	45.8%	80.41
4th Quarter 2018	46.7%	80.58
1st Quarter 2019	16.3%	75.35
2nd Quarter 2019	16.8%	75.45

Fleet profile

Investments in our fleet

Fleet modernisation programme

- New modern aircraft deliveries.
  - Nine A350-900 aircraft delivered up to September 2017, bringing the fleet total to 19 aircraft of this type.
  - Three more A350-900 deliveries in the remainder of 2017; two were delivered in October and the remaining one to be delivered in December.
  - 22 Airbus A350-900 aircraft expected to be in service by the end of the year.

- 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	9	-	9
Leased out to AHK	-	(1)	(1)
Returned from AHK	-	2	2
Retirements	(4)	(2)	(6)
30 September 2017	173	20	193

Cathay Pacific and Cathay Dragon fleet profile – as at 30 September 2017

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	13	4	2	**19**
747-400ERF	-	6	-	**6**
747-8F	3	11	-	**14**
777-200	5	-	-	**5**
777-300	12	-	-	**12**
777-300ER	19	11	23	**53**
Total	**89**	**43**	**61**	**193**

- Fleet simplification
  - Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.
  - Nine fleet types as at 30 September 2017 compared to 11 fleet types as at 31 December 2016.

Fuel efficient forward deliveries

Deliveries

Aircraft type	2017	2018	2019	2020	>2021	Total
A321NEO				9	23	32
A350-900	3		2	4		9
A350-1000		8	4	3	5	20
B777-9X					21	21
Total	**3**	**8**	**6**	**16**	**49**	82

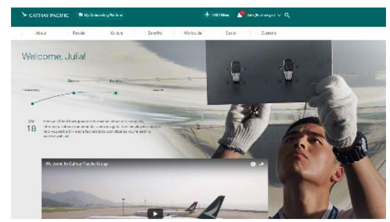
People

Investments in our People

Employee Engagement Survey

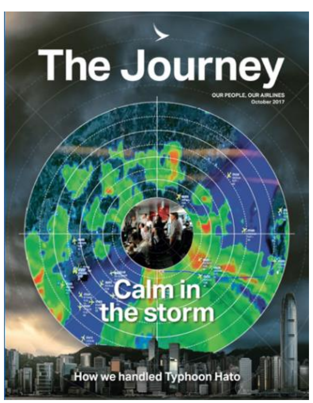
- **78%** I believe we need to change the way we work to succeed
- **74%** I understand how my work contributes to the strategy
- **64%** I feel proud to work for the airline
- **63%** I am motivated to go the extra mile in my role

Digital Employee Experience



- New careers website for both Cathay Pacific and Cathay Dragon
- New onboarding platform for new starters
- New responsive, personalised communications and collaboration hub

Improved Communications



- **Start the Week** – new weekly email to all employees
- **The Journey** – English and (digital) Chinese internal magazine
- **In the Know** – dedicated communications update for C+ level leaders

Reward and Recognition

- More focus on our internal recognition programmes for all employees through Work Well Done and Niki and Betsy Awards

Associates & subsidiaries

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 arrear.
- Contribution from the share of profits lower than the same period in 2016.

- Stronger results in the first three quarters of 2017 compared to 2016.
- Higher fuel prices were more than offset by higher yields.

Major subsidiaries – mixed results

air Hongkong

- Marginal increase in performance up to 3Q of 2017 compared to 2016.

CATHAY PACIFIC CATERING SERVICES

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

ASIA MILES

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

CPSL

- Improvement in compared 2016, reflecting the increase in tonnage carried and the effective management of operating costs.

air Hongkong developments

2002 to 2018 - Current Contractual Arrangement

- 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

- Freighter Sale & Leaseback
- Share Sale
- New Block Space Agreement

2019 Onward - Implication to CX Group

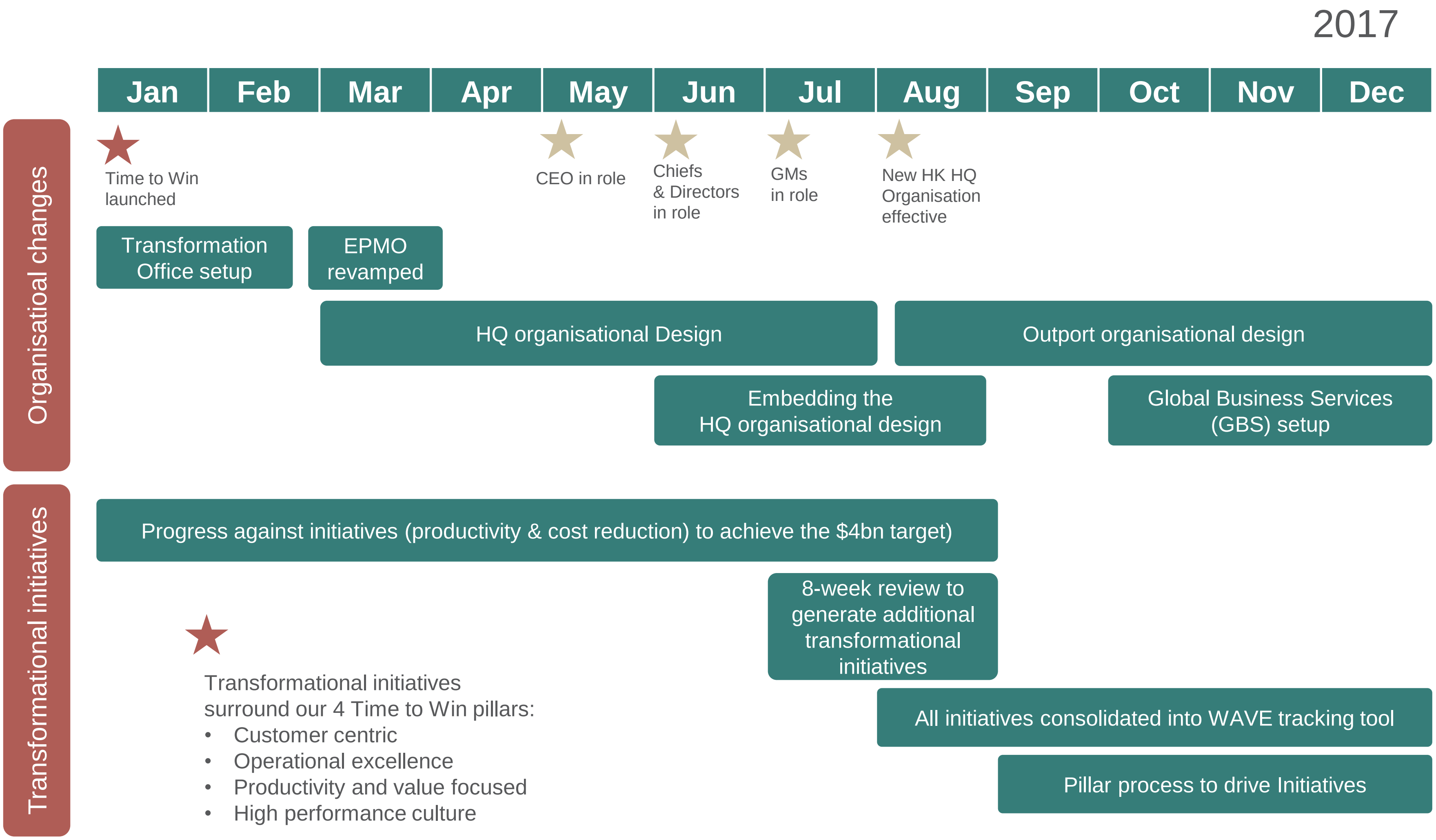
- Improved Returns
- CX owns 100% AHK

Transformation Programme update

Repositioning for success

- Decisive steps taken to:
  - Reposition business to adapt to changing industry landscape.
  - Establish the platform for future success while maintaining our high standards of excellence.
  - Emerge as a leaner, more agile and profitable, flagship airline.
  - Achieve long-term sustainable recovery in revenue and future performance.
- Core targets of Transformation Programme:
  - Target to achieve ROCE above WACC by 2019.
  - Reducing unit costs (ex-fuel) over the 3 year plan.
  - ASK and DLATK to grow by 4% over next 3 years.
  - 30% reduction in HQ Management Costs.

Transformation Programme



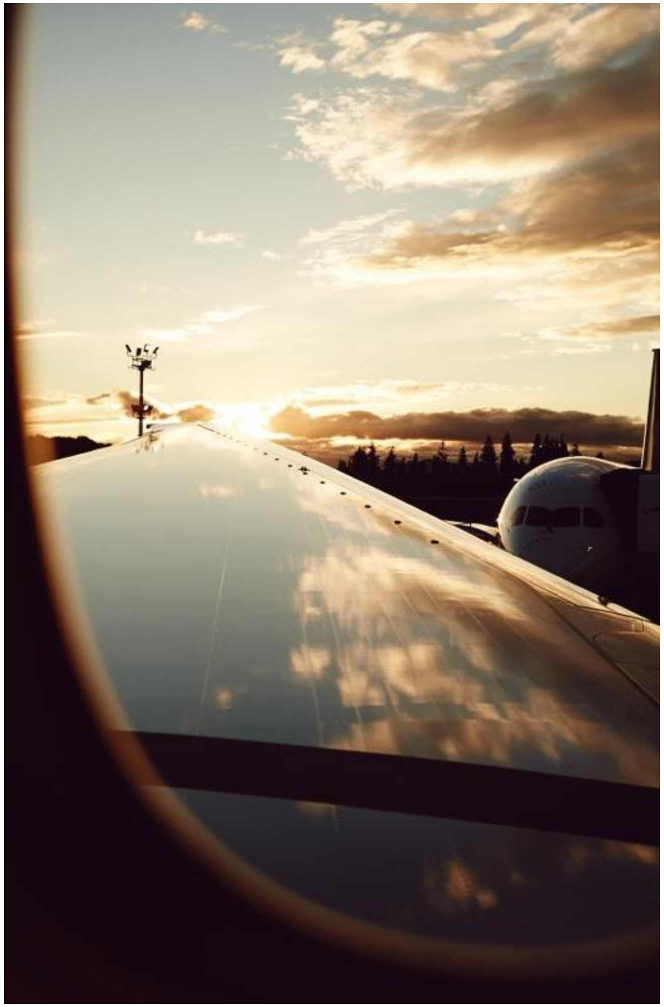
Transformation Progress update

CUSTOMER CENTRIC	OPERATIONAL EXCELLENCE	PRODUCTIVITY AND VALUE FOCUSED	HIGH PERFORMANCE CULTURE
• New ports: Dublin, Copenhagen, and Brussels coming in 2018. • Big improvements to MPO points accrual. • Social customer care team formed, average response time of 60 minutes. • New Taipei route catering trial proved very successful.	• Digital study to optimise block design for Base and Line maintenance. • Established Schedule Council: Integrated Ops planning process. • Digital analysis of "Aircraft On Ground" due to Engineering issues to improve asset utilization.	• Global Business Services launched in September, 57 staff transferred. • Lean Academy launched with 28 yellow and green belts graduated. • SAP cut over on schedule for January 2018.	• New career website launched in September. • Learning Academy in place bringing together all training. • Leading High Performance teams completed for outport staff.

- Continue to execute cost saving initiatives and align the business with new management vision
- Productivity and cost management expected to deliver positive impact to the bottom line in 2018

Outlook

Outlook



- The overall business environment will remain challenging for the remainder of 2017.
- Passenger yield to continue to be under pressure, back end longhaul behind ASK growth.
- Fuel costs will be higher than the previous year.
- Operational challenges and constraints still remain.

But

- Strong performance expected for Cargo.
- Transformation programme well established
  - Initiatives to improve unit revenue
  - Managing cost per unit through productivity and efficiency initiatives as we grow
  - Leaner management structure
- Management actively committed to driving and delivering transformation to reposition Cathay for future success.
- Solid performance from Associates.

Q&A

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