



2018 Interim Results

8 August 2018

Agenda



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

Hosted by:

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



Briefing highlights

Continued recovery driven by the airlines

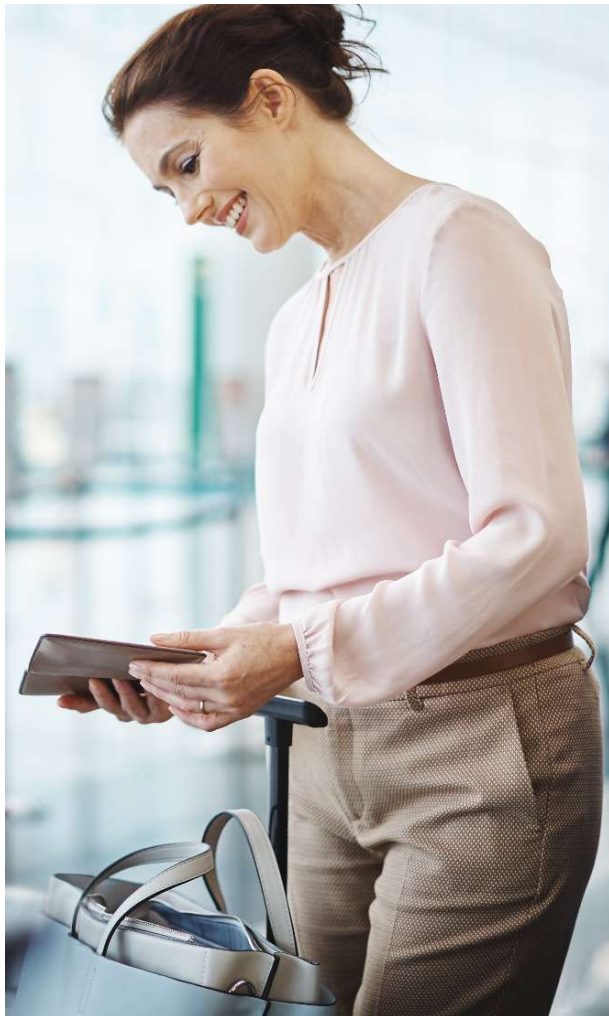


HK\$'m	1H2018	1H2017
Airlines' loss before taxation	(743)	(3,755)
Gains on disposal of investment and deemed partial disposal of associate	-	830
Taxation	(161)	160
Airlines' loss after taxation	(904)	(2,765)
Share of profits from subsidiaries & associates	641	714
Group attributable loss	(263)	(2,051)

The Group reported an attributable loss of **HK\$(263) million** for the first six months of 2018.

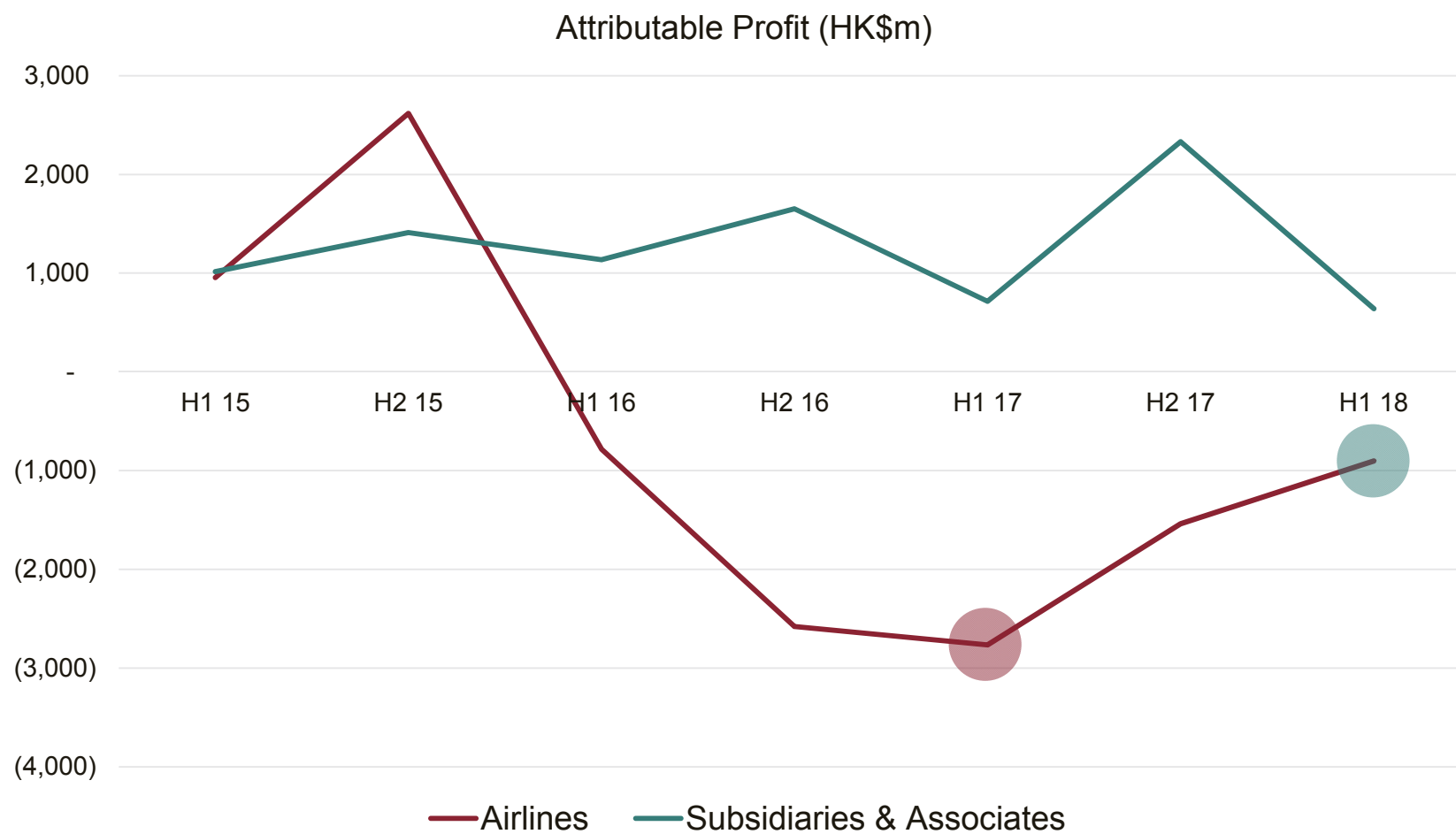
This compares to a loss of **HK\$(2,051) million** in the first half of 2017.

Positive revenue momentum despite headwinds; cost pressures remain



- Strong revenue growth across all categories (Passenger, Cargo & Ancillary).
- Transformation programme – focus on customer service and revenue management in the passenger business has resulted in yield improvement.
- Cargo continues recovery with positive momentum in capacity, yield and load factor.
- Operating costs increased due to higher fuel costs, FX movements, a new accounting standard, investment in fleet and customer-facing initiatives.
- Satisfactory performance from subsidiaries.
- Growth in Air China (reported 3 months in arrears) offset by June 2018 FX losses in Air China Cargo JV following RMB depreciation.
- Stronger cash generation and debt reduction

Transformation delivering results



Financial & operating highlights



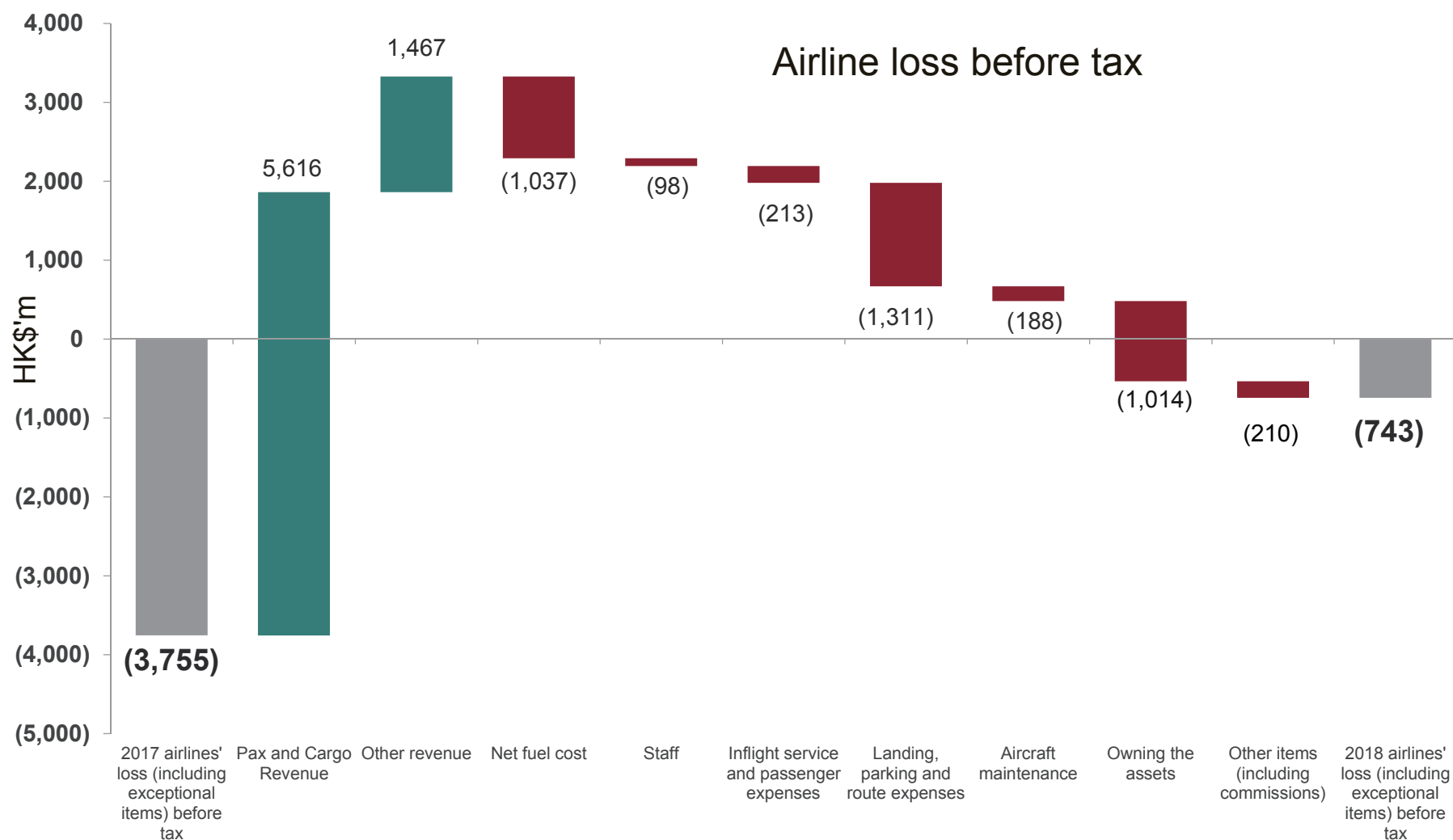
Group Financial Statistics		1H2018	1H2017	Change
Group Revenue	HK\$m	53,078	45,858	+7,220
Airlines' loss after taxation	HK\$m	(904)	(2,765)	+1,861
Group attributable profit/(loss)	HK\$m	(263)	(2,051)	+1,788

The company has declared a 1st interim dividend of HK\$10 cents

Operating Statistics – Cathay Pacific & Cathay Dragon		1H2018	1H2017	Change
Available tonne kilometres (ATK)	million	15,747	15,190	+3.7%
Available seat kilometres (ASK)	million	75,770	73,444	+3.2%
Available cargo & mail tonne kilometres (AFTK)	million	8,542	8,206	+4.1%
Passenger yield	HK¢	55.4	51.5	+7.6%
Cargo and mail yield	HK\$	1.93	1.66	+16.3%
Cost per ATK (with fuel)	HK\$	3.29	3.14	+4.8%
Cost per ATK (without fuel)	HK\$	2.29	2.17	+5.5%
Underlying* cost per ATK (without fuel)	HK\$	2.20	2.13	+3.3%

* Excludes exceptional items and is adjusted for the effect of foreign currency movements and adoption of HKFRS 15

Strong revenue growth partially offset by cost pressures*



* Reported costs (include exceptional items and before adjustment for year-on-year foreign currency movements and adoption of HKFRS15)

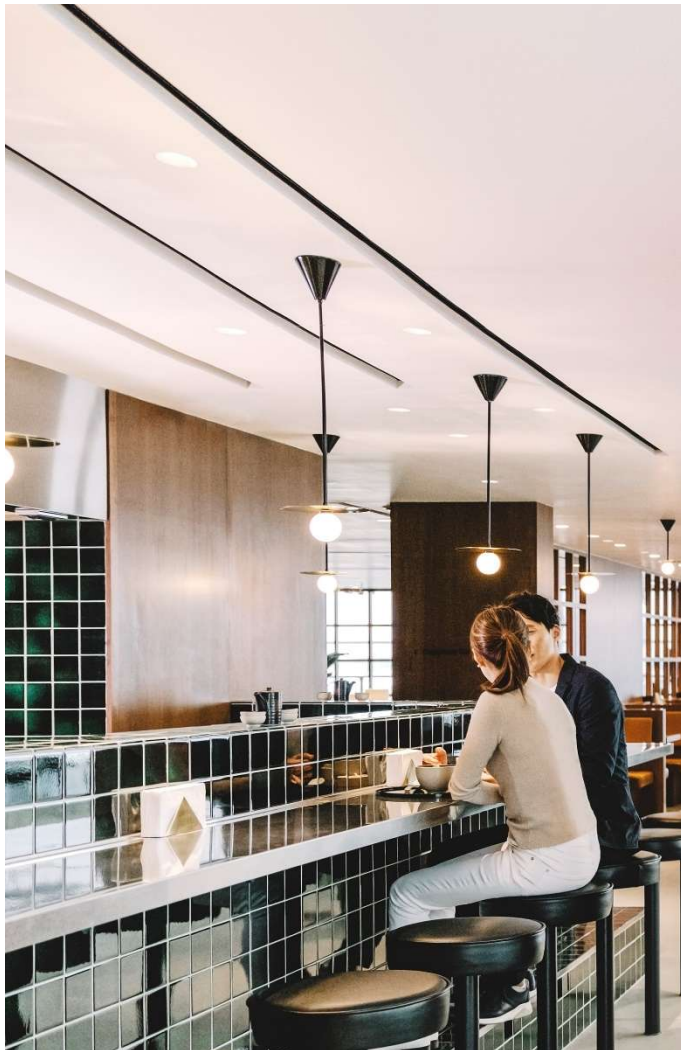
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Operating performance

Passenger Services

Traffic volume and yield growth despite intense competition

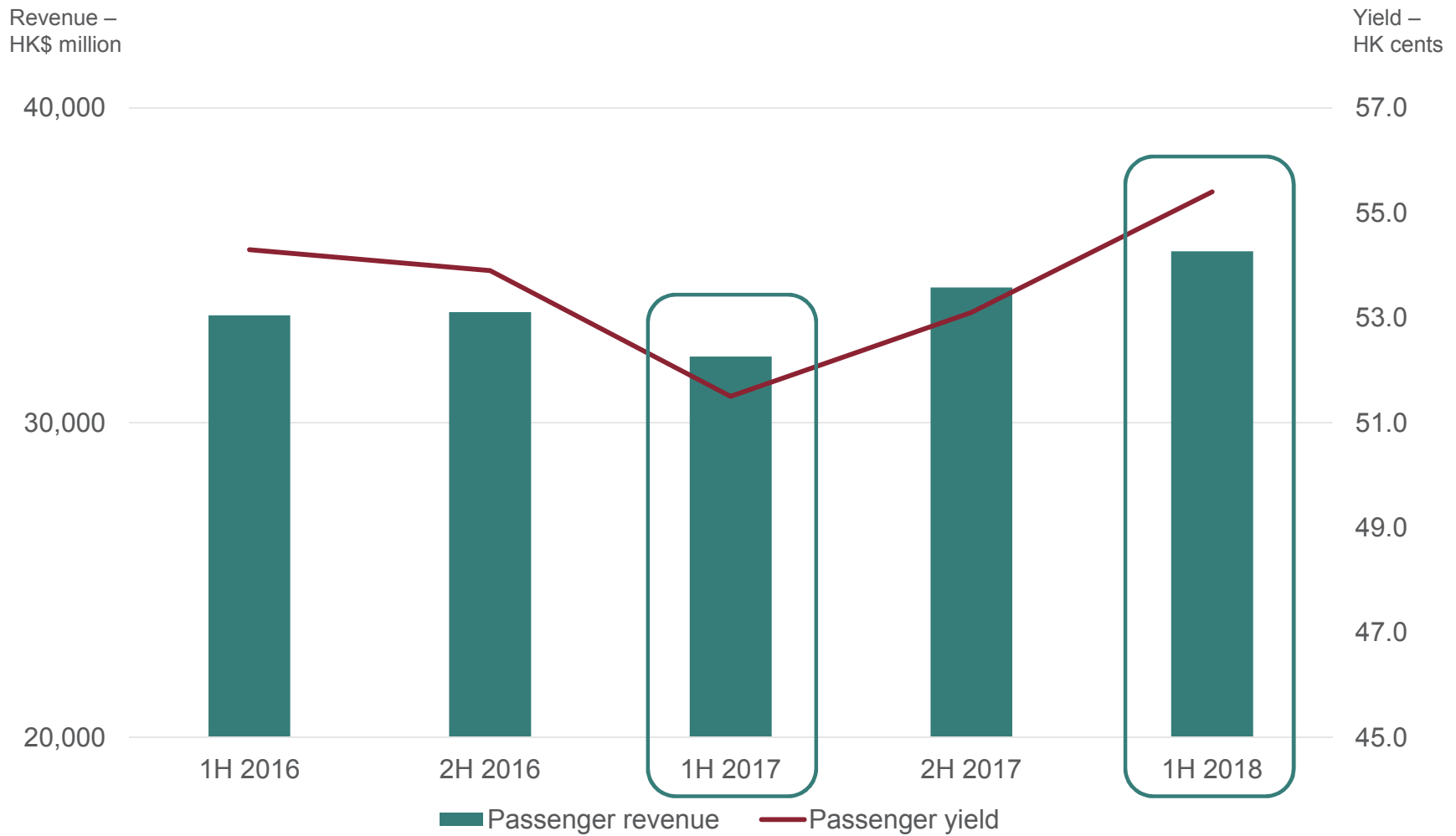


		1H 2018	1H 2017	% Var
ASK	Million	75,770	73,444	+3.2%
RPK	Million	63,810	62,242	+2.5%
Revenue Passengers carried	'000	17,485	17,163	+1.9%
Passenger load factor	%	84.2	84.7	-0.5%pt
Passenger revenue	HK\$ million	35,452	32,105	+10.4%
Passenger yield	HK cents	55.4	51.5	+7.6%*
Passenger Revenue per ASK	HK cents	46.8	43.7	+7.1%

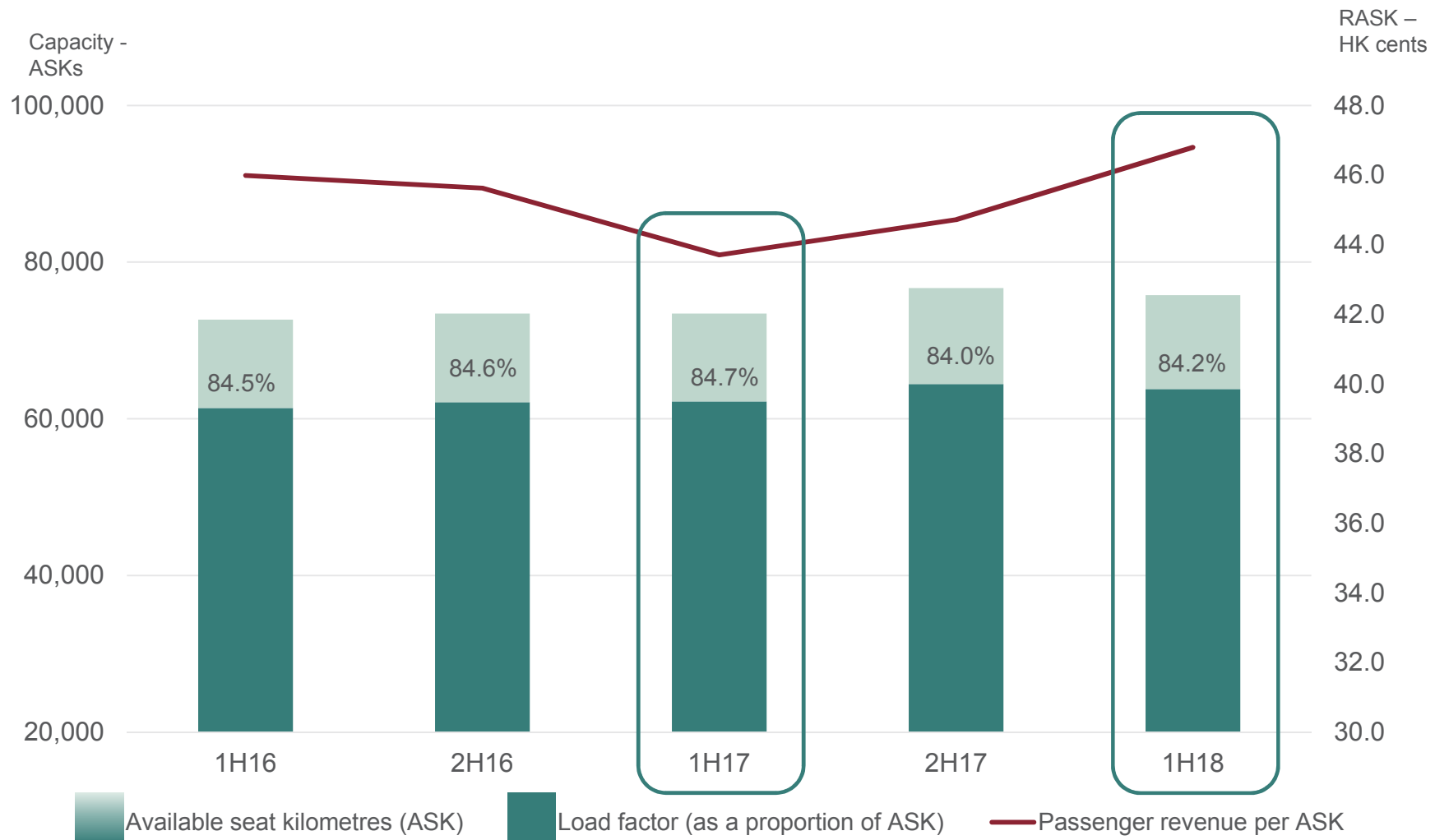
* +6.6% excluding IFRS15 impacts

- Capacity growth reflects the introduction of five new routes, increased frequencies on existing routes and the use of larger aircraft on popular routes.
- Yield improvement reflects improvements in revenue management, strong premium class demand, favourable foreign currency movements and increased revenue from fuel surcharges.

Passenger revenue and yield – continued recovery



Capacity growing and revenue efficiency strengthening



New destinations and frequencies strengthen the network



January	<ul style="list-style-type: none"> Introduced a four-times weekly service to Nanning
February	<ul style="list-style-type: none"> Announced new seasonal service to Cape Town with three-times weekly in November
March	<ul style="list-style-type: none"> Introduced a four-times weekly service to Brussels and Jinan Increased services to Tel Aviv from four to six times weekly and Fukuoka from eleven to fourteen times weekly, reintroduced Tokyo Haneda service
April	<ul style="list-style-type: none"> Announced new four-times weekly to Davao and three-times weekly to Medan in October Barcelona service becomes year-round
May	<ul style="list-style-type: none"> Introduced a three-times weekly seasonal service to Copenhagen
June	<ul style="list-style-type: none"> Introduced a four-times weekly service to Dublin
July	<ul style="list-style-type: none"> Announced new four-times weekly to Seattle in March 2019
September	<ul style="list-style-type: none"> Introduction of a four-times weekly service to Washington D.C.
October	<ul style="list-style-type: none"> Increased services to Tel Aviv from six times weekly to daily and Adelaide from five to six times weekly

Capacity growth focused on Europe and SW Pacific; robust load factors to the Americas



YTD June 2018 statistics (excluding HKFRS15 impact on yield)

Europe

ASK: **+11.8%**
LF: **-2.8%pts**
Yield: **+9.7%**

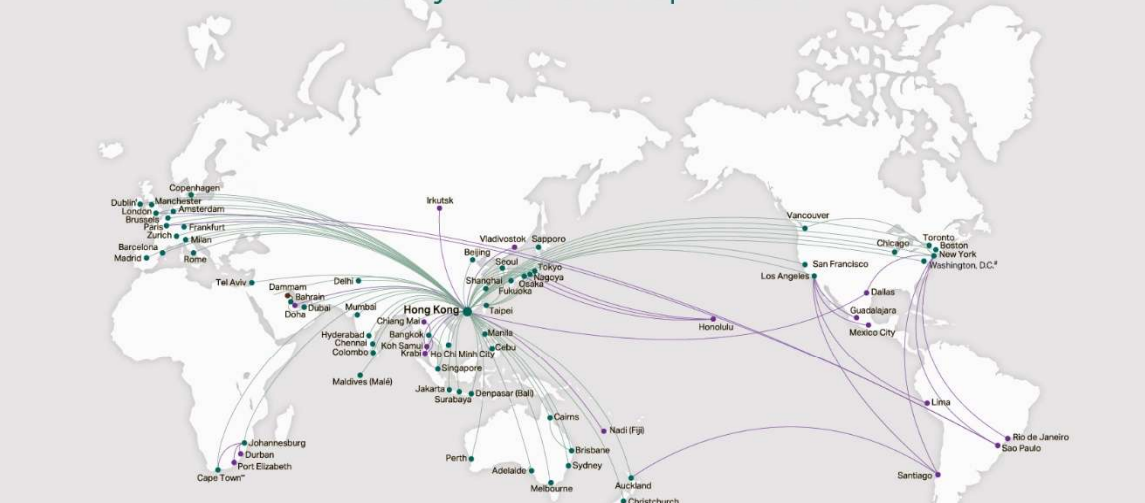
Southwest Pacific

ASK: **+6.2%**
LF: **-3.6%pts**
Yield: **+3.0%**

Southeast Asia

ASK: **+2.7%**
LF: **-1.0%pts**
Yield: **+9.0%**

Cathay Pacific Group Network



Europe Codeshare Network



Asia Codeshare Network



Japan Codeshare Network



North America Codeshare Network



Cathay Dragon Network



— Cathay Pacific Service — Cathay Dragon Service — Joint-Operating or Codeshare Services — SNCF TGV Train Service in France — Bahrain-Lima
 *Cathay Pacific service to Dublin commences on 2 June 2018. *Cathay Pacific service to Washington, D.C. commences on 15 September 2018. *Cathay Dragon service to Davao City commences on 28 October 2018. *Cathay Dragon service to Medan commences on 28 October 2018.
 *Cathay Pacific service to Cape Town commences on 13 November 2018.

North Asia

ASK: **+1.6%**
LF: **+0.4%pt**
Yield: **+7.4%**

India, Middle East, Sri Lanka and South Africa
ASK: **-0.2%**
LF: **-1.9%pts**
Yield: **+11.5%**

Americas

ASK: **-1.6%**
LF: **+2.4%pts**
Yield: **+4.2%**

Actual 1H
2018 ASK:
+3.2%

+

Planned 2H
2018 ASK
growth
+ 5.4%

=

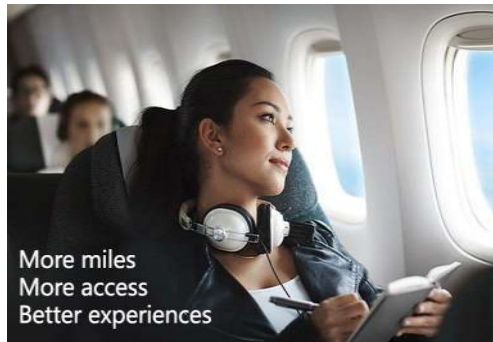
Planned 2018
System wide ASK
growth
+4.3%

Customer investment - On the Ground



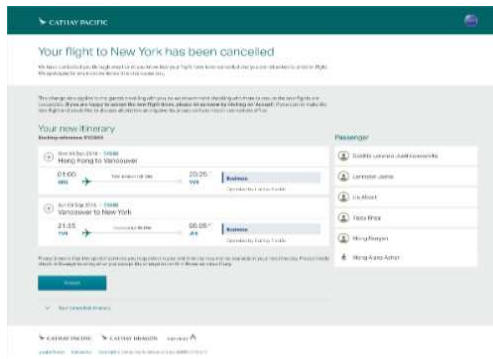
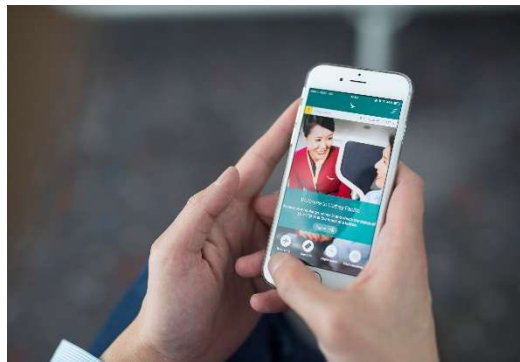
Asia Miles – more miles and more seats

ASIA MILES 



- Enhancement of the Asia Miles program announced in June
- Customers will earn more miles on flights and a 20% increase in seat availability for redemption

Disruption communications and self-service on mobile



- 4 new flight disruption notification and self service applications to be launched (Disruption, Protection, Seat change, Flight number change)
- Passengers can choose to accept protection and booking will be confirmed and ready to go

Customer investment - In the Air



New and more comfortable economy seats



- New economy class seats to be installed on the 777 fleet
- Consistent and improved passenger experience across long haul aircraft

New business class long haul dining and service experience



- A la carte menu, plated meals, more choices, increased Hong Kong signatures
- Breakfast card, healthy options, express meals
- More crew interaction

Customer investment - Digital

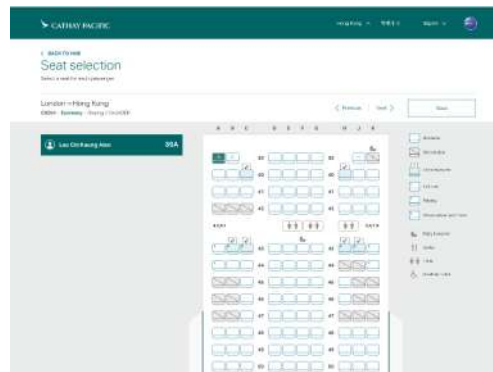


Inflight connectivity on all Boeing 777s and A330s



- Already available on all A350s
- Now installation of the Gogo 2KU system has started
- All Boeing 777 and A330 fleets to be equipped by 2020

New and improved online booking management



- New user interface for easy and intuitive navigation launched in May
- Enables more self-service functions allowing more choice and better understanding



Operating performance

Cargo Services

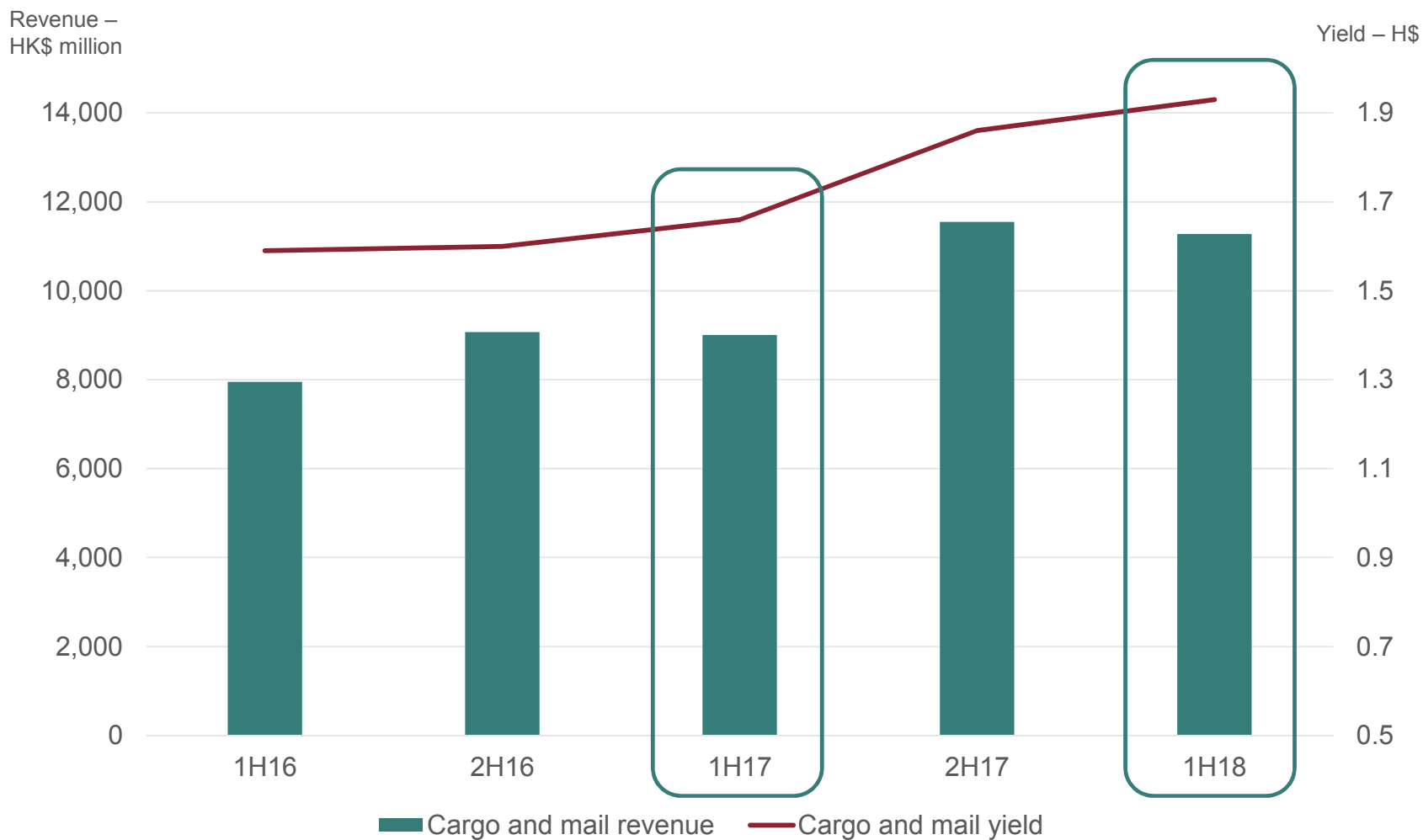
Strong growth in tonnage, yield and revenue efficiency on modest capacity increase



		1H 2018	1H 2017	% Var
Available cargo & mail Tonne Kilometres (AFTK)	Million	8,542	8,206	+4.1%
Cargo and mail RFTK	Million	5,831	5,435	+7.3%
Cargo & mail carried	'000 tonnes	1,038	966	+7.5%
Cargo & mail load factor	%	68.3	66.2	+2.1%pt
Cargo and mail revenue	HK\$ million	11,276	9,007	+25.2%
Cargo and mail yield	HK\$	1.93	1.66	+16.3%
Cargo and mail revenue per AFTK	HK\$	1.32	1.10	+20.0%

- Capacity growth reflects good freighter and passenger belly utilisation.
- Load factor improving; HK and China stable whilst rest of network strong.
- Strong yield improvement.
- Increased demand for specialist cargo shipments and the movement of higher value goods to and from Asia.

Cargo revenue and yield – growth continues



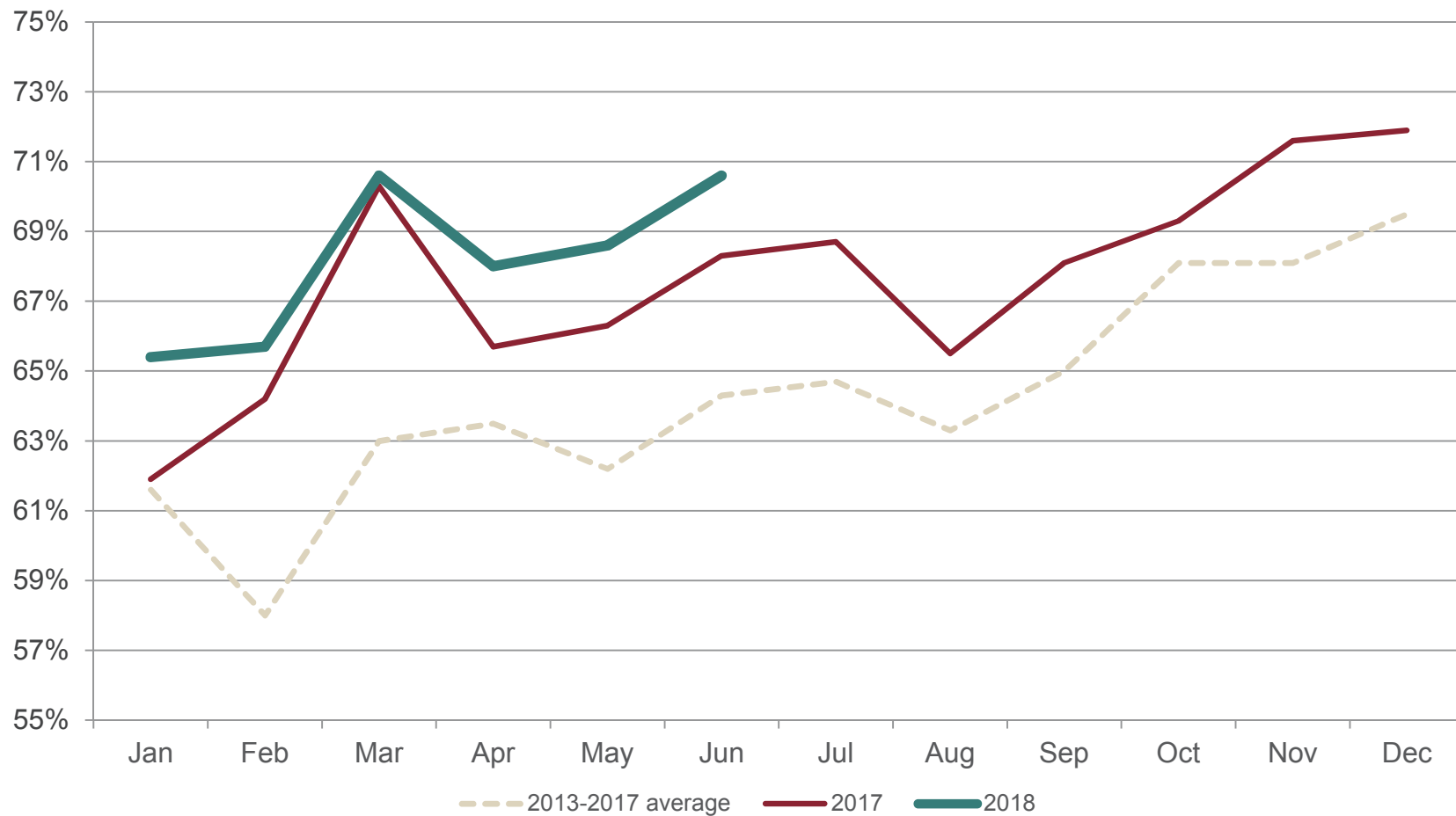
Load factor; continuous improvement



Year to June Load Factor

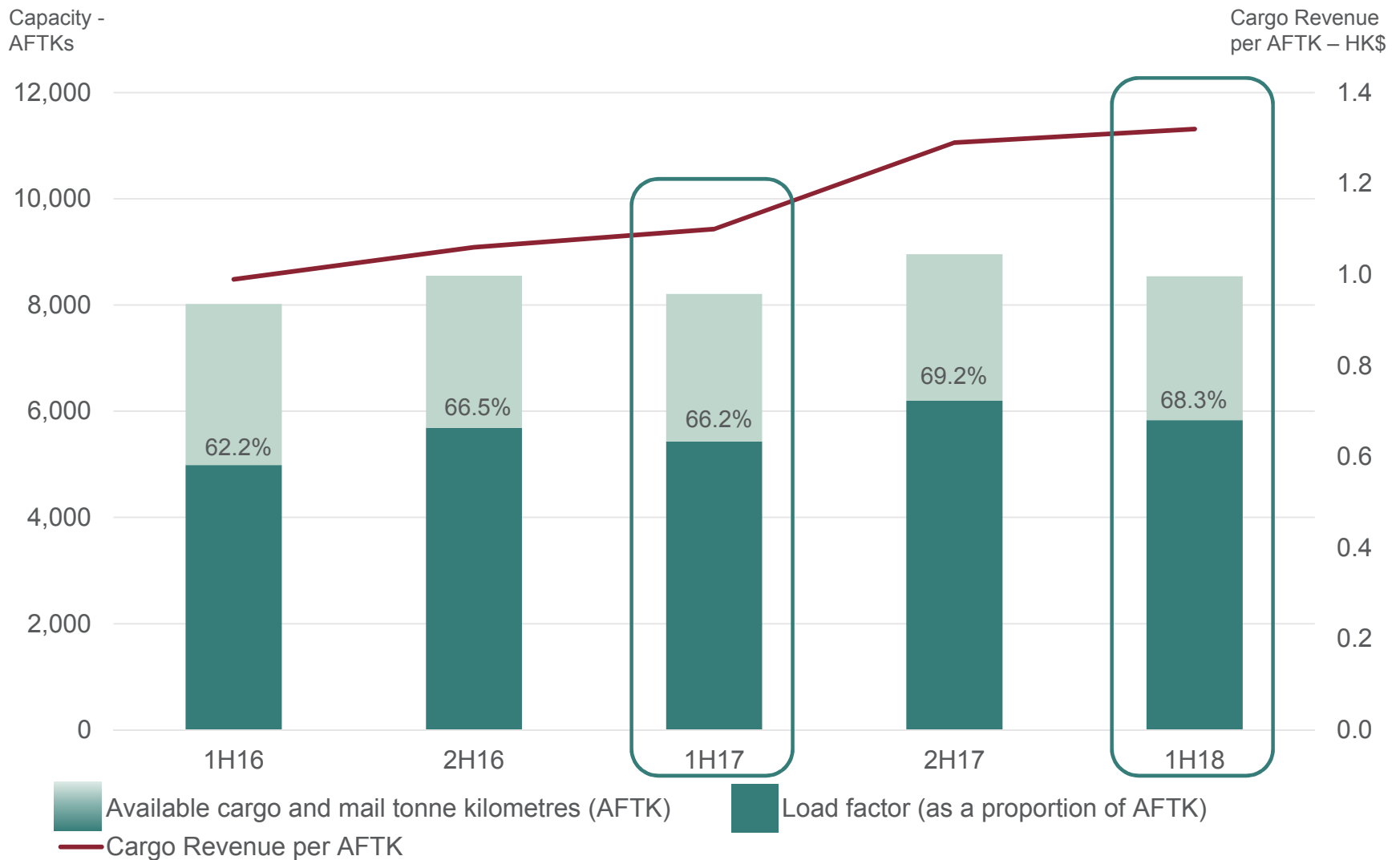
2017 : 66.2%

2018 : 68.3%



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Capacity, load factor and revenue efficiency growth





Operating performance

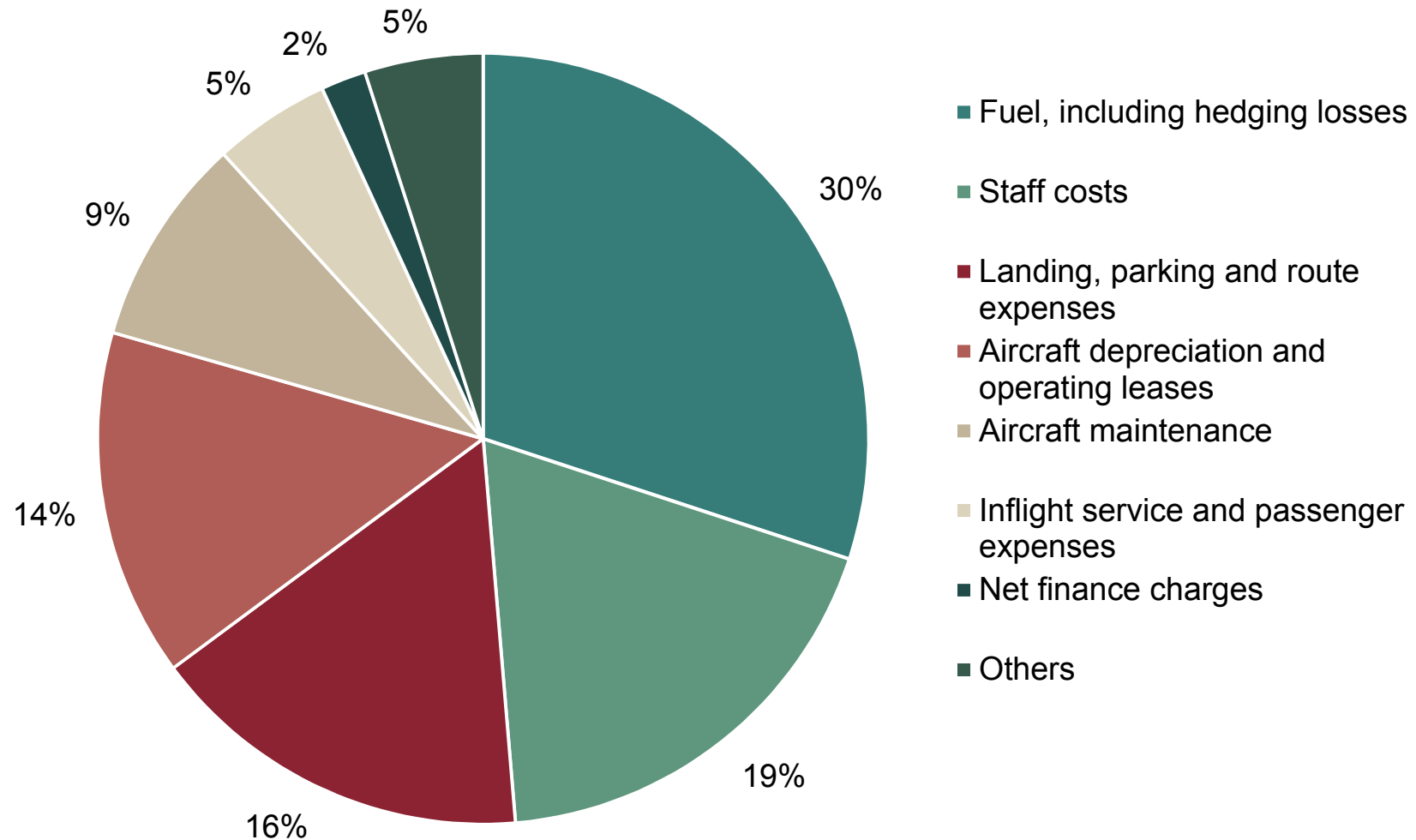
Operating costs

Increased external pressure on underlying operating costs per ATK (with and without fuel) ➤

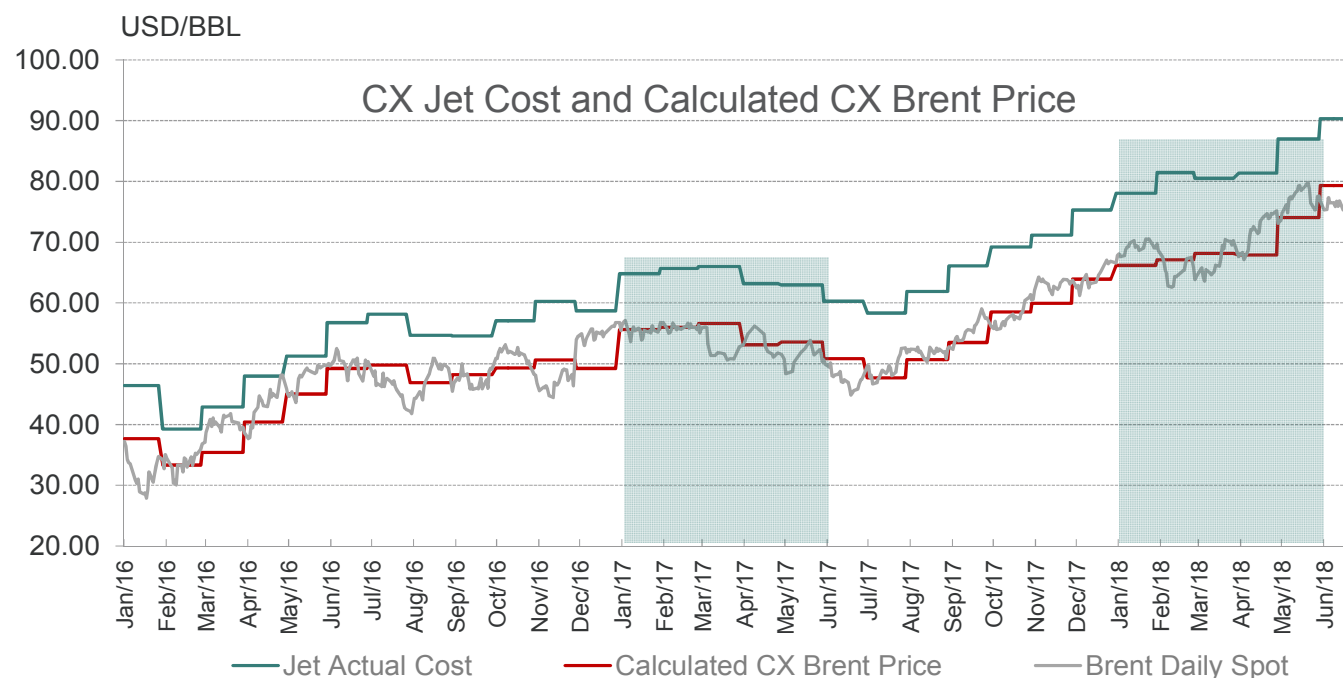


- Significant increase in fuel price, partially offset by smaller hedging losses
- Higher depreciation and finance charges on investment in new fleet (to be fully leveraged in 2H18), partially offset by efficiencies in fuel consumption
- Increase in route-related expenses on higher navigation, overflying and landing & parking charges
- Accelerated investment in customer experience

Operating cost - breakdown



Average into-plane fuel prices rose 27.9% year on year; Brent rising and crack spread widening



Fuel costs and KPI's	1H 2018	1H 2017	% Var
Group gross fuel cost (HK\$m)	15,393	11,700	31.6%
Group fuel hedging losses (HK\$m)	653	3,237	-79.8%
Group fuel cost (HK\$m)	16,046	14,937	7.4%

Average calculated Airlines Brent price (US\$/bbl)	\$70.5	\$54.1	30.4%
Average into-plane fuel price ex hedges (US\$/bbl)	\$88.0	\$68.8	27.9%
Airlines Fuel consumption per mRTK (bbl)	1,840	1,888	-2.5%

Forward fuel hedging position



Fuel hedging coverage - CFH reserve at June 2018 a credit of HK\$846m

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
3 rd Quarter 2018	45.1%	80.41
4 th Quarter 2018	45.2%	80.58
1 st Quarter 2019	31.0%	67.84
2 nd Quarter 2019	29.5%	69.68
3 rd Quarter 2019	31.7%	60.58
4 th Quarter 2019	25.4%	61.76
1 st Quarter 2020	17.6%	63.50
2 nd Quarter 2020	7.2%	67.18
3 rd Quarter 2020	0.3%	68.66

Underlying costs per ATK (ex fuel) up 3.3%



As reported (HK\$M):	2018	2017	% Var
Staff	8,834	8,736	+1.1%
Inflight service and passenger expenses	2,625	2,412	+8.8%
Landing, parking and route expenses	8,472	7,161	+18.3%
Aircraft maintenance	4,490	4,302	+4.4%
Depreciation, amortisation and operating leases	7,257	6,446	+12.6%
Net finance charges	896	693	+29.3%
Others (including commissions)	3,459	3,249	+6.5%
Total operating costs (without fuel)	36,033	32,999	+9.2%

Cost per ATK (without fuel)	2.29	2.17	+5.5%
Underlying * cost per ATK (without fuel)	2.20	2.13	+3.3%

* Underlying costs exclude exceptional items and are adjusted for the effect of foreign currency movements and adoption of HKFRS 15. Exceptional items include a HK\$101 million gain on the disposal of CO2 emissions credits (2017: provisions for a European Commission airfreight fine of Euros 57.12 million (equivalent to approximately HK\$498 million) and redundancy costs of HK\$224 million for the re-organisation of our head office).

Net benefits of a weaker US\$ in the early part of the period have partially unwound (DXY Index)



A weaker US\$ has a beneficial impact on our revenues, but an adverse impact on cost



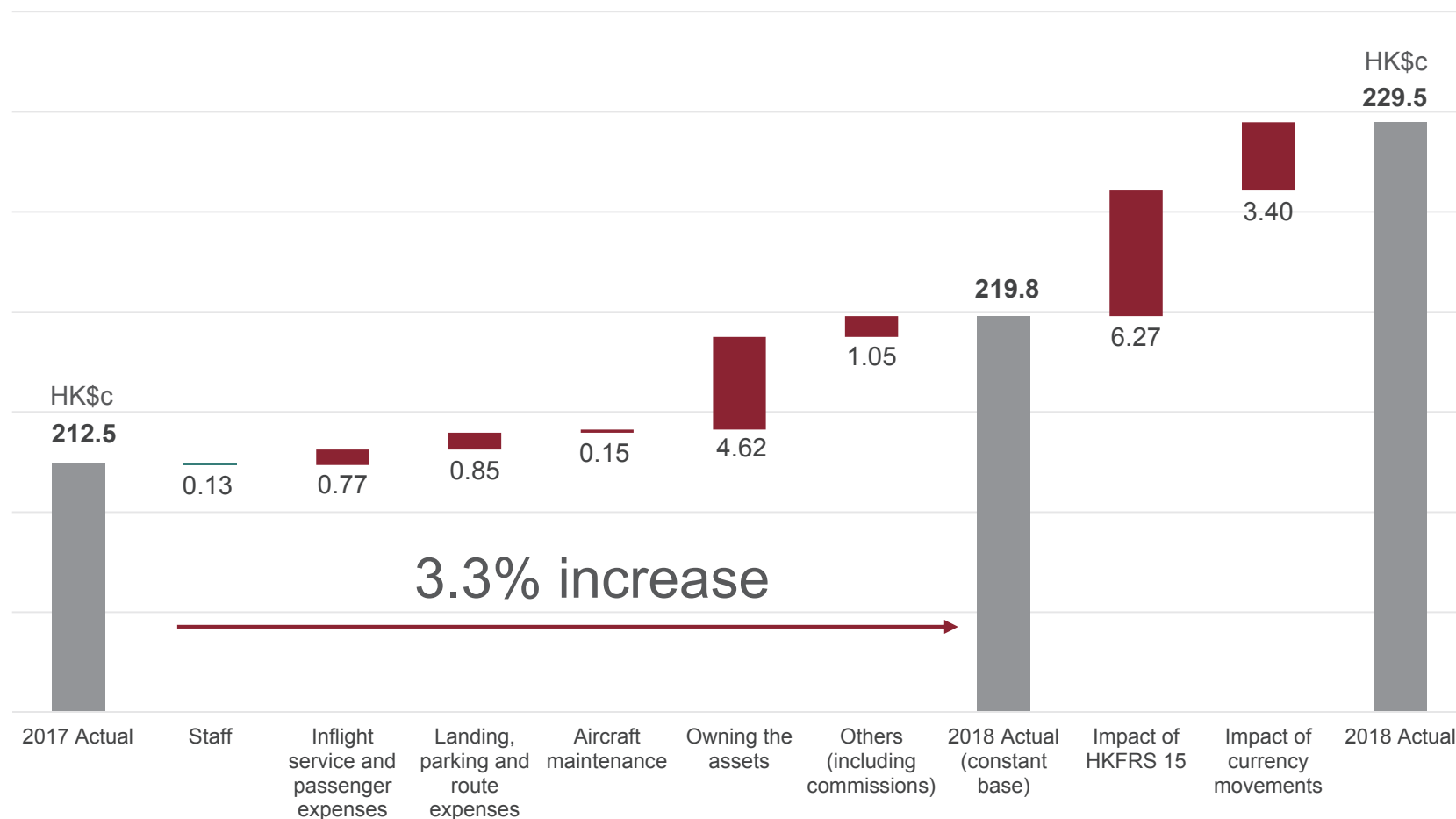
Airlines constant base adjustments



HK\$ millions	Reported 2018	Exceptional	HKFRS15	Currency	Constant base 2018
Passenger & cargo services	46,728		(375)	(793)	45,560
Catering, recoveries and other services	4,299		(613)	(19)	3,667
Total revenue	51,027	-	(988)	(812)	49,227
Staff	(8,834)			31	(8,803)
Inflight service and passenger expenses	(2,625)		(12)	16	(2,621)
Landing, parking and route expenses	(8,472)		761	154	(7,557)
Fuel, including hedging losses	(15,737)			2	(15,735)
Aircraft maintenance	(4,490)			6	(4,484)
Owning the assets	(8,153)			24	(8,129)
Others (including commissions)	(3,459)	(101)	239	304	(3,017)
Total operating expenses	(51,770)	(101)	988	537	(50,346)
Airlines profit before taxation	(743)	(101)	-	(275)	(1,119)

The exceptional item represents a HK\$101 million gain on the disposal of EU CO2 emissions credits

Underlying cost per ATK without fuel (before exceptional items) movement





Operating performance

Subsidiaries and Associates

Major subsidiaries



air Hongkong

- Performance remains steady
- Fleet modernisation
- At the end of 2018, CX will acquire the remaining 40% shareholding in Air Hong Kong to become a wholly owned subsidiary

CATHAY PACIFIC
CATERING SERVICES

- Increase in material and staff costs more than offset an increase in revenue

ASIA MILES 

- Membership exceeds ten million worldwide, increased business volume YOY

CPSL 

- 3% increase in tonnage handled. Results impacted by higher volume of transit cargo and increased cost pressures

Associates



- Cathay Pacific has **18.13%** interest in Air China
- Our share of Air China's results is based on its financial statements drawn up three months in arrears
- Contribution from the share of profits higher than the same period in 2017
- Traffic and revenue growth for both passenger and cargo, together with the benefits of a stronger RMB through the first quarter of 2018. This was partly offset by rising fuel costs



中国国际货运航空公司
AIR CHINA CARGO

- Contribution from the share of profits lower than the same period in 2017
- Favourable operating result with an improved cargo yield, despite higher fuel costs
- Unrealised exchange losses on USD denominated loan and lease obligations more than offset the improved operating result



Operating performance

Other financials

Strong group cash flow; capital employed steady and gearing reducing

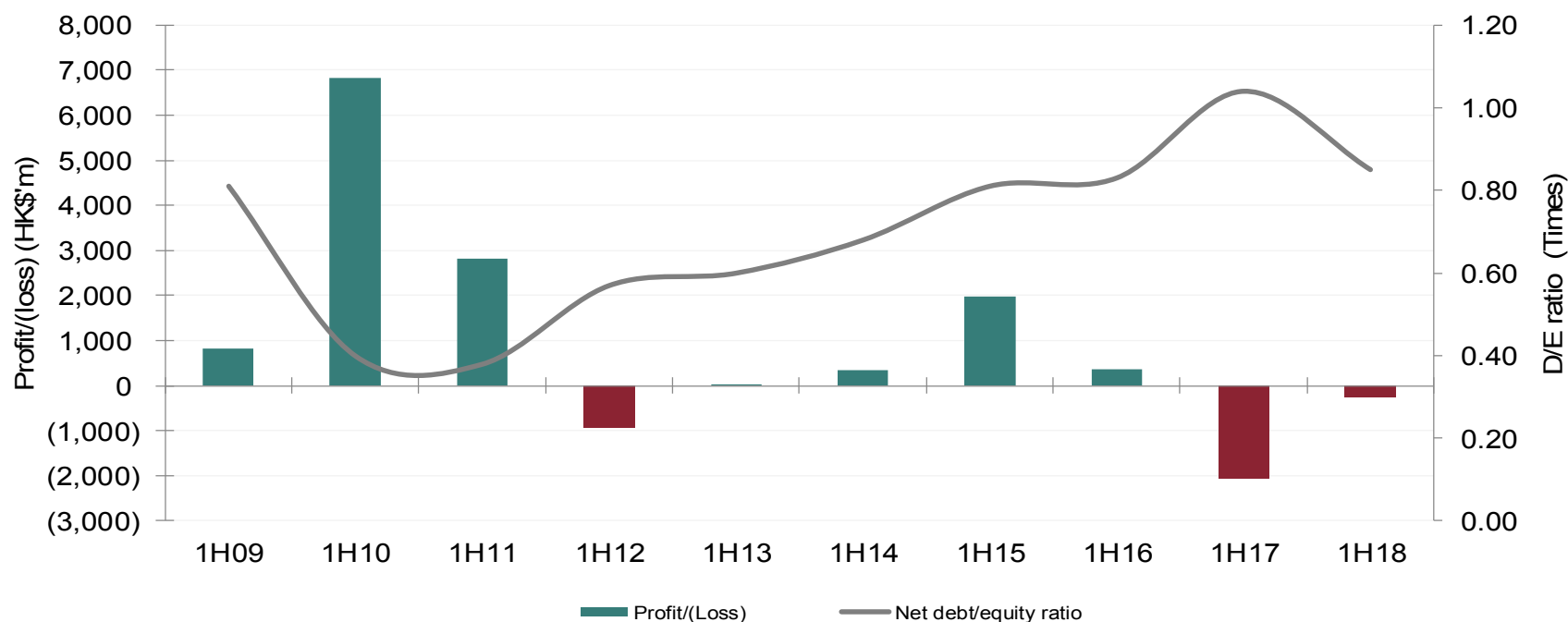


Cash Flow	30 Jun 2018 HK\$M	30 Jun 2017 HK\$M	% Var
Net cash inflows from operating activities	8,493	2,786	+204.8%
Net cash outflows from investing activities*	(3,769)	(7,093)	-46.9%
Net cash inflow/(outflow) pre financing	4,724	(4,307)	n/a
Net (out)/in flows from financing activities	(8,486)	1,037	n/a

* Excluding movement in other liquid funds (non-cash & non-cash equivalents)

Balance Sheet	30 Jun 2018 HK\$M	31 Dec 2017 HK\$M	% Var
Shareholders' Funds	65,056	61,101	6.5%
Net Borrowings	55,272	59,300	-6.8%
Capital Employed (including non-controlling interests)	120,507	120,572	-0.1%
Net Debt/Equity Ratio	0.85	0.97	-0.12 times

1H Group profit/(loss) and net debt/equity ratio 10 year comparison



Group Profit Margin	1H 2009	1H 2010	1H 2011	1H 2012	1H 2013	1H 2014	1H 2015	1H 2016	1H 2017	1H 2018
%	2.6	16.5	6.0	(1.9)	0.1	0.7	3.9	0.8	(4.5)	(0.5)



Fleet Profile

CX & KA Fleet profile as at 30 June 2018



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	17	58
A350-900	16	4	2	22
A350-1000	1	-	-	1
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	93	43	59	195

- Fleet simplification
 - Simplifying the number of sub-fleets will reduce cost and reduce the complexity in our deployment.

Continued investment in more fuel-efficient fleet providing enhanced customer experience



- New modern aircraft deliveries.
 - 22 A350-900 aircraft are in service
 - Our first A350-1000 was delivered in June and a second aircraft delivered in July. We expect to receive six more deliveries by the end of 2018
- Retirement of older fleet types.
 - Three A330-300 aircraft were returned up to June 2018

In operation	Passenger	Freighter	Total
1 January 2018	176	20	196
New deliveries	1	-	1
Returned from AHK	-	1	1
Returned to lessors	(3)	-	(3)
30 June 2018	174	21	195

Fuel efficient forward deliveries



Scheduled new aircraft deliveries as at 30 June 2018

Aircraft type	2018	2019	2020	>2021	Total
A321NEO			9	23	32
A350-900		2	4		6
A350-1000	7*	4	3	5	19
777-9X				21	21
Total	7*	6	16	49	78

** The second of the A350-1000s for 2018 was delivered in July*



Transformation Update

Growth-led transformation: the context



Market context

Structural challenges continue

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



Economic context

Positive global economy but uncertainty increasing

- US\$ strengthening, revenue pressure
- Greater geopolitical and trade uncertainty, impact on corporate & consumer sentiment
- HK\$ strengthening



Progress in first half of 2018, building on strategic foundations laid in 2017...



Organisation change

- New HQ organisation fully embedded & greater synergies realised between KA / CX
- Outports and subsidiaries restructuring underway from mid-2018
- Centers of excellence driving expertise and efficiency
- Subsidiaries management restructuring



Digital Capability

- Rapid experimentation – 80+ proof of concepts undertaken
- AML Blockchain POC to improve customer experience
- 24 Core Digital Capabilities now prioritised and being delivered, e.g. Phase 2 of Integrated Operational Datahub & partnership with AWS to implement machine learning



Customer wins

- Enhanced Asia Miles program - 20% increase in redemption seat availability
- Disruption Management from Customer Mobile
- Enhanced Online Booking Management
- Dining and service enhancements in Long Haul Business Class



....with marked progress being realised across the strategic pillars...



Customer Centric

- Record-breaking network expansion continues fueled by new aircraft such as A350-1000
- In-flight connectivity across A350, A330 & Boeing 777 fleet
- More comfortable Economy seats
- Enhancements to Social Customer Care team



Operational Excellence

- Global Contact Centers overhaul underway (July 2018)
- New crew rostering system
- Operational review commencing
- Line Maintenance productivity drive outside of Hong Kong



High Performance

- “Serve to Lead”: front line experience for Senior Leaders
- Revamped service delivery training
- Modernised approach to Employee Reward
- 605 Lean practitioners trained so far



...and drive towards continuous improvement



Productivity and Value Management

End-to-end process re-design

Process Transformation

- Commitment to transform our 9 core processes
- 6 are already underway with the rest to start by Q1 '19
- Will provide the platform to drive digitization and apply new technologies to our business



Digital / Lean

- 2,100 Lean practioners (yellow belt +)
- Digital and analytical capability being invested in
- 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, transactional tasks will shift to GBS
- 20% reduction in employee cost realised to date





Outlook

Outlook



- The overall business environment is expected to remain challenging with the strength of the US dollar and the uncertainty arising from global trade concerns.
- Passenger business will continue to be affected by intense competition, particularly in the back-end.
- Higher fuel costs will adversely affect results, but our hedging losses will reduce.
- Operational challenges and constraints will continue to impose costs on the Group.

But

- We expect the airlines to perform better in the second half of the year than the first half.
- Passenger yields expected to continue to improve and the cargo business is expected to remain strong.
- Our new fleet improves the customer experience, provides network optionality and reduces our fuel consumption.
- Transformation programme remains on target to take us back to achieving sustainable long-term performance for our airline business and position us for future growth.



Q&A

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



HKFRS 9 & 15



IFRS 9

- IFRS9 changes the treatment and categorisation of financial assets previously classified as “available for sale’ with fair value gains and losses recognised through OCI (recycled to P&L on disposal). Under IFRS9, equity investments are classified as fair value through P&L, unless an irrevocable election on initial recognition is made for OCI (with no recycling).

IFRS15

- IFRS15 impacts the timing of revenue recognition and the presentation of revenue.
 - Timing: Brings forward the recognition of ticket breakage revenue according to the pattern of rights exercised by the customer
 - Presentation:
 - Gross up of revenue where we are deemed as the principal rather than agent
 - Alignment of revenue presentation with the underlying performance obligations

Impact of adoption of HKFRS 9 & 15



Opening retained profit reserve

- **IFRS15: +HK\$631 million** on advance recognition of ticket breakage from unearned transportation revenue under HKFRS 15 (Airlines and Air China, net of tax)
- **IFRS9: +HK\$725 million** net transfer from investment revaluation reserves upon classification of equity investments at fair value through P&L vs OCI under HKFRS 9 (Airlines and Air China)

In year profit or loss account reclassifications (IFRS15)

- **+HK\$761 million** cargo handling revenue gross up and **HK\$239 million** freightage revenue gross up (both to other revenue)
- **HK\$350 million** and **HK\$37 million** flight related ancillary income reclassified from other revenue to passenger services and cargo services respectively which are not considered distinct from the travel or carriage component

Brent prices

