CATHAY PACIFIC

Analysts Briefing
2018 Annual Results

13 March 2019

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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

A year of solid performance and progress

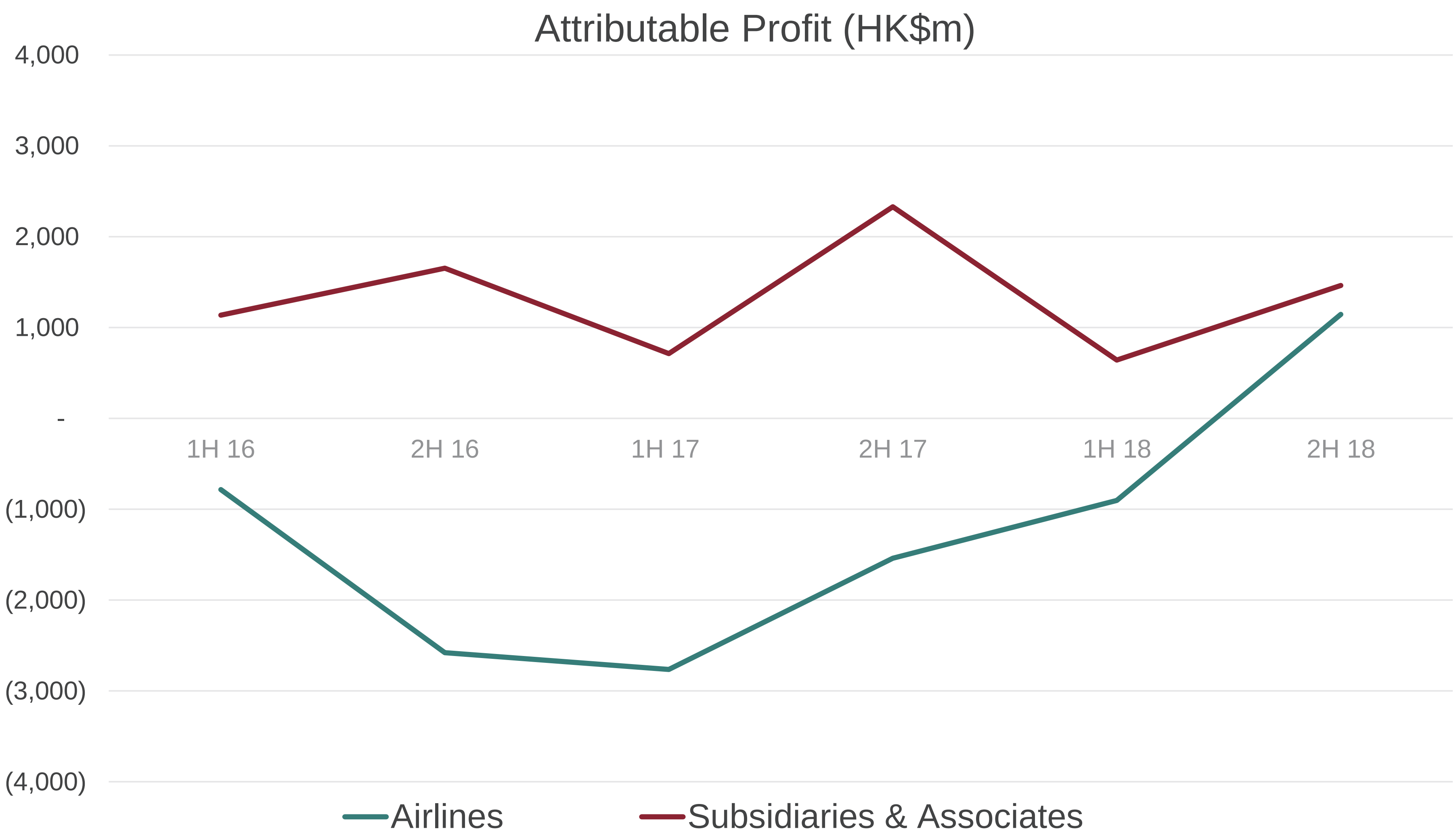
HK$ million	2018	2017	% change
Airlines' profit/(loss) before taxation	**537**	(4,200)	+112.8%
Taxation	**(296)**	(103)	-187.4%
Airlines' profit/(loss) after taxation	**241**	(4,303)	+105.6%
Share of profits from subsidiaries & associates	**2,104**	3,044	-30.9%
Group attributable profit/(loss)	**2,345**	(1,259)	+286.3%

- The Group reported an attributable profit of HK$2,345 million for the year, compared with a loss of HK$(1,259) million in 2017
- Solid results despite intense competition and fuel price increase
- Transformation programme remains on schedule and on track

2018 performance highlights

- Strong revenue growth across all categories (Passenger, Cargo & Ancillary) driven by a focus on customer service and revenue management
- Record passenger network growth
- Strong cargo growth throughout the year against all metrics
- Operating costs increased due to higher fuel costs and inflationary pressures, together with investments in fleet and customer-facing initiatives
- Underlying productivity gains are being achieved given foundations established in 2017
- Satisfactory performance from subsidiaries
- Decline in associates performance principally due to impact of a weaker Renminbi
- Stronger cash generation and debt reduction

Our airlines' return to profit



Our financial and operating highlights

Group Financial Statistics		2018	2017	Change
Group Revenue	HK$m	**111,060**	97,284	+14.2%
Airlines' profit/(loss) after taxation	HK$m	**241**	(4,303)	+105.6%
Group attributable profit/(loss)	HK$m	**2,345**	(1,259)	+286.3%

The company has declared a 2nd interim dividend of HK$20 cents (total for the year HK$30 cents)

Operating Statistics – Cathay Pacific & Cathay Dragon		2018	2017	Change
Available tonne kilometres (ATK)	million	**32,387**	31,439	+3.0%
Available seat kilometres (ASK)	million	**155,362**	150,138	+3.5%
Available cargo & mail tonne kilometres (AFTK)	million	**17,616**	17,163	+2.6%
Passenger yield	HK₵	**55.8**	52.3	+6.7%
Cargo and mail yield	HK$	**2.03**	1.77	+14.7%
Cost per ATK (with fuel)	HK$	**3.27**	3.12	+4.8%
Cost per ATK (without fuel)	HK$	**2.25**	2.14	+5.1%
Underlying* cost per ATK (without fuel)	HK$	**2.16**	2.12	+1.9%

* 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

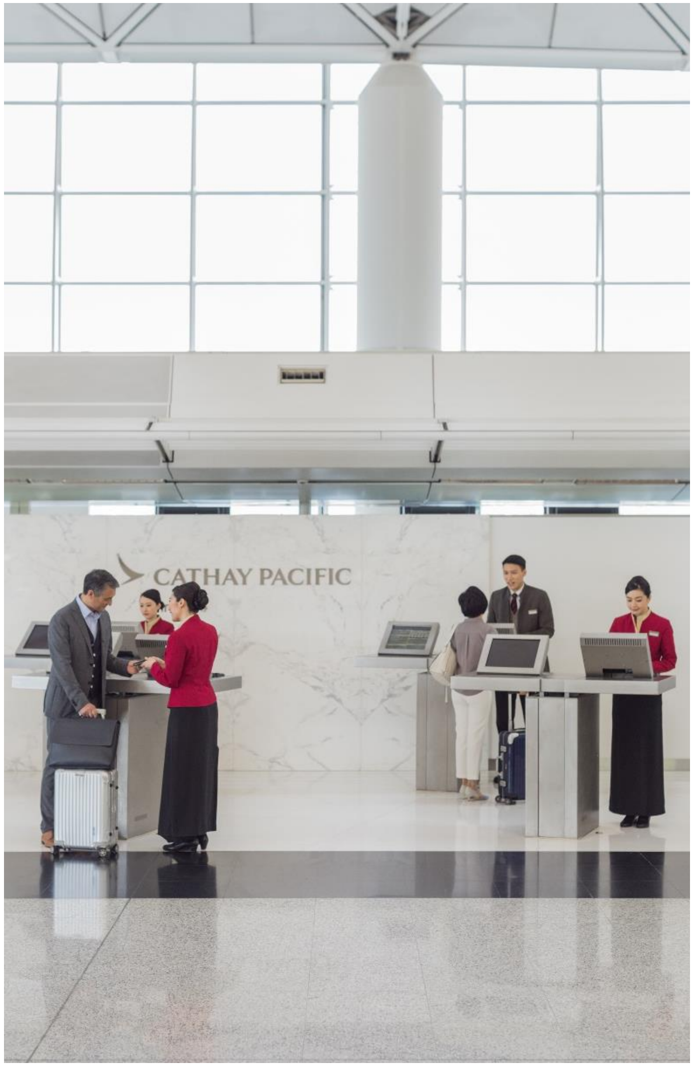
Data breach update

- In October, we announced that we had discovered unauthorised access to some of the passenger data of Cathay Pacific and Cathay Dragon. Upon discovery, we took immediate action to contain the event and to commence a thorough investigation.
- We have to date found no evidence that any personal information has been misused. The information systems affected were separate from our flight operations systems. There was no impact on flight safety. We contacted affected passengers and notified the Hong Kong police and relevant authorities.
- Following a review of the corporate governance processes of the Company subsequent to the data incident in 2018, the Company proposes to strengthen those processes further by establishing a new risk management committee, which will oversee the design, implementation and monitoring of the risk management and internal control systems of the Company. The responsibilities of the proposed committee will be separate from those of the Board Safety Review Committee.

Operating performance

Passenger Services

Solid recovery in passenger revenue despite intense competition

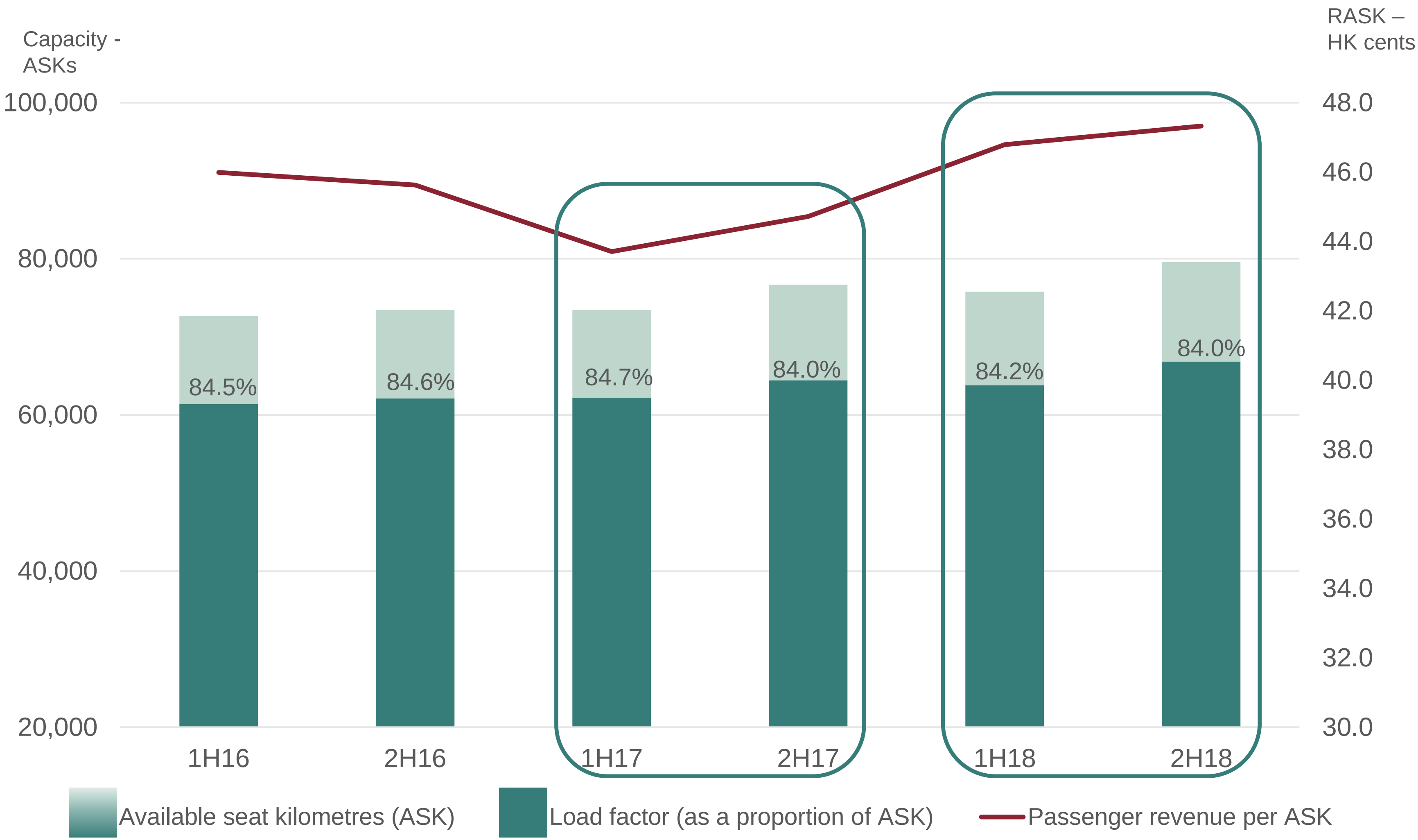


		2018	2017	% Var
ASK	Million	**155,362**	150,138	+3.5%
RPK	Million	**130,630**	126,663	+3.1%
Revenue Passengers carried	'000	**35,468**	34,820	+1.9%
Passenger load factor	%	**84.1**	84.4	-0.3%pt
Passenger revenue	*HK$ million*	**73,119**	66,408	+10.1%
Passenger yield	*HK cents*	**55.8**	52.3	+6.7%*
Passenger Revenue per ASK	*HK cents*	**47.1**	44.2	+6.6%

** +5.7% excluding HKFRS15 impacts*

- Capacity growth reflects the introduction of ten new routes, increased frequencies on existing routes and the use of larger aircraft on popular routes. Load factor marginally lags
- Yield improvement reflects improvements in revenue management, strong premium class demand and partial cost recovery from fuel surcharges

Capacity growth and strengthening revenue efficiency



New destinations and frequencies continue to strengthen the network

January	• Introduced a four-times weekly service to **Nanning**
March	• 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
April	• **Barcelona** service became year-round
May	• Introduced a three-times weekly seasonal service to **Copenhagen**
June	• Introduced a four-times weekly service to **Dublin**
July	• Announced a four-times weekly service to **Seattle** from March 2019
September	• Introduced a four-times weekly service to **Washington D.C**
October	• Introduced a four-times weekly service to **Davao City** and a three-times weekly service to **Medan** • Increased services to **Adelaide** from five to six times weekly • Increased services to **Tokyo (Narita)** from five to six times daily
November	• Introduced a three-times weekly seasonal service to **Cape Town**
December	• Introduced a two-times weekly seasonal service to **Tokushima** • Announced a two-times weekly seasonal service to **Komatsu** from April 2019

Cities in green are not directly served by any other airline from Hong Kong

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

YTD December 2018 statistics (*excluding HKFRS15 impact on yield*)

Europe

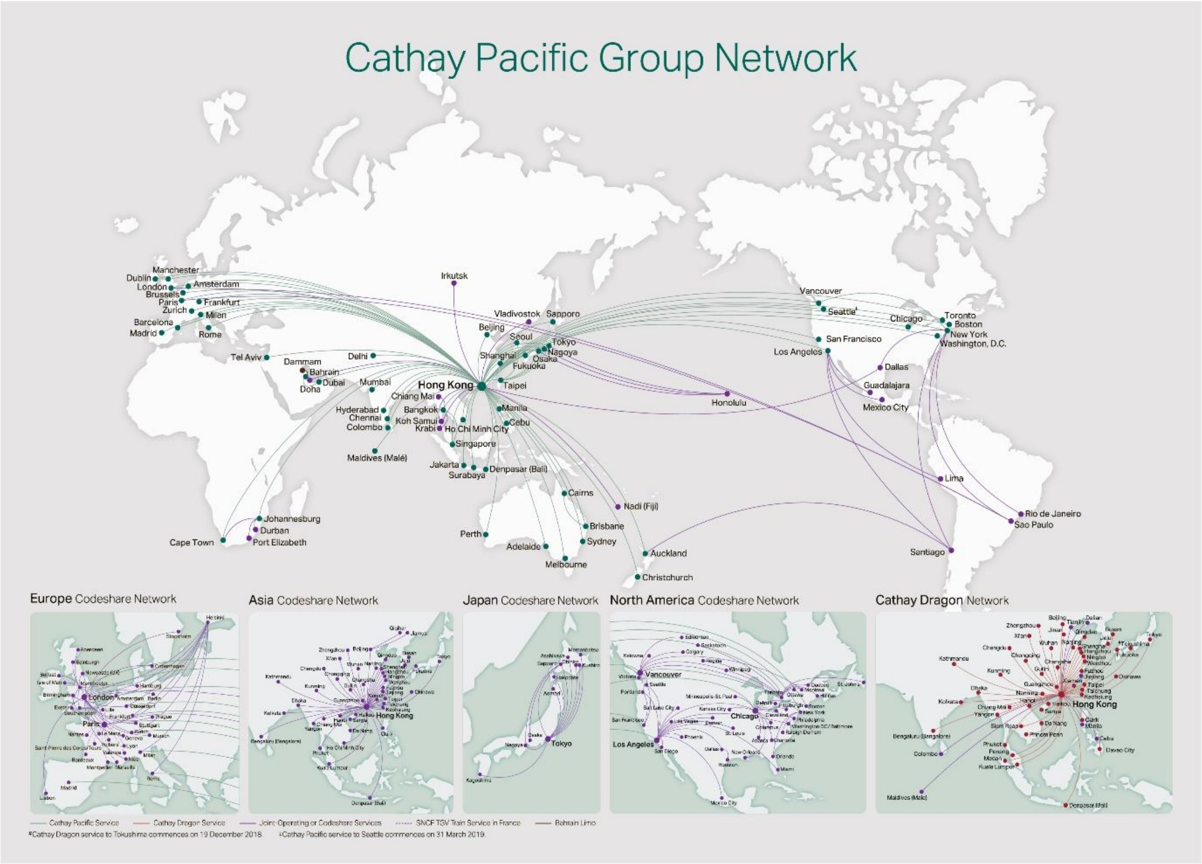
ASK: **+10.8%**
LF: **-1.3%pts**
Yield: +6.8%

Southwest Pacific

ASK: **+3.5%**
LF: **-1.5%pts**
Yield: **+0.8%**

Southeast Asia

ASK: **+2.8%**
LF: **-1.2%pts**
Yield: +6.5%



North Asia

ASK: **+2.5%**
LF: **-0.3%pt**
Yield: +7.8%

South Asia, Middle East, and South Africa

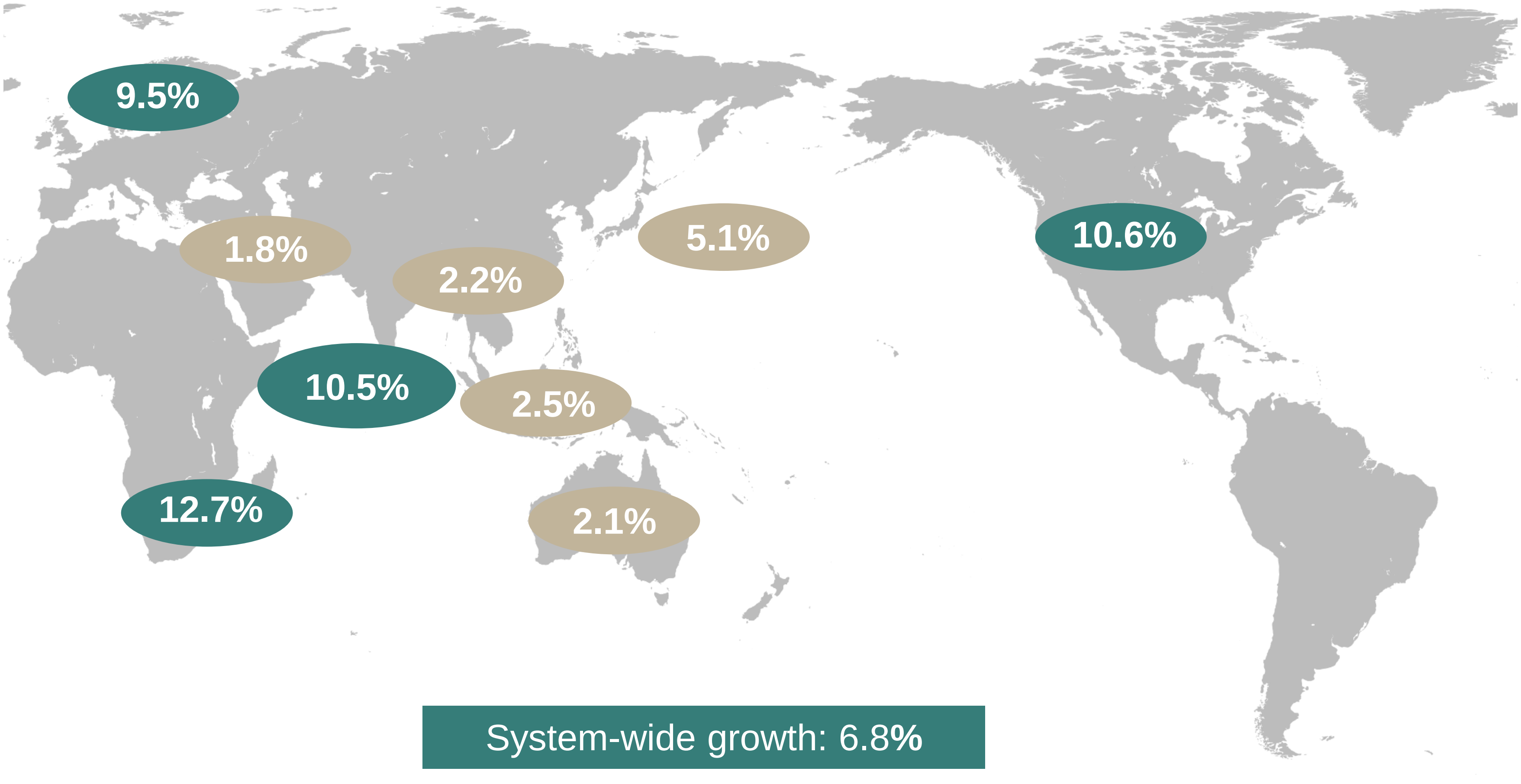
ASK: **+1.8%**
LF: **-0.3%pt**
Yield: +9.5%

Americas

ASK: **-0.2%**
LF: **+1.5%pts**
Yield: **+3.4%**

Planned network growth in 2019

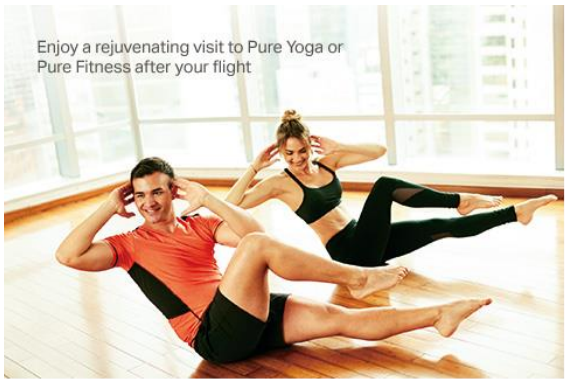
2019 ASK growth by region



System-wide growth: 6.8%

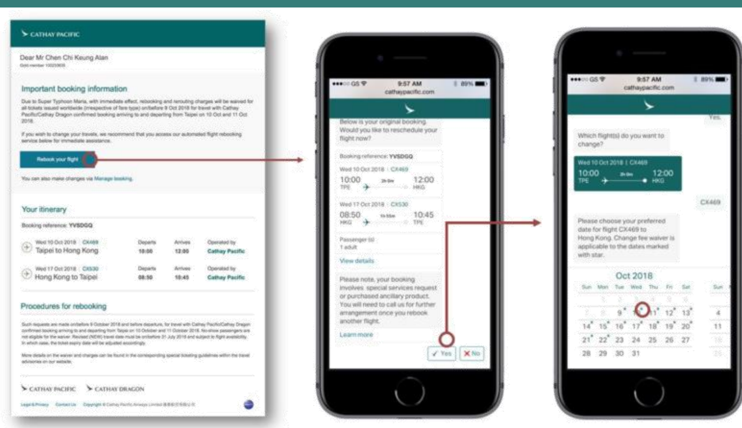
Customer investment - On the Ground

Marco Polo Club Membership Benefits at Pure Fitness and Pure Yoga



- Post-flight wellness proposition: Diamond and Gold members worldwide can now enjoy a one-day pass with free classes at anyone of the Pure Fitness or Yoga in HKG with a CX boarding pass (within 48 hours)

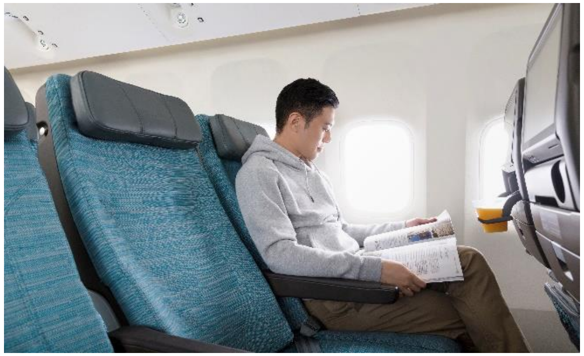
Disruption communications and self-service on mobile



- New Chatbot was launched in early November for customers to conveniently rebook alternative flights ahead of foreseeable disruption (e.g. typhoon)
- The rebooking takes into consideration special ticket guidelines (e.g fee waiver) issued

Customer investment - In the Air

New and more comfortable economy seats



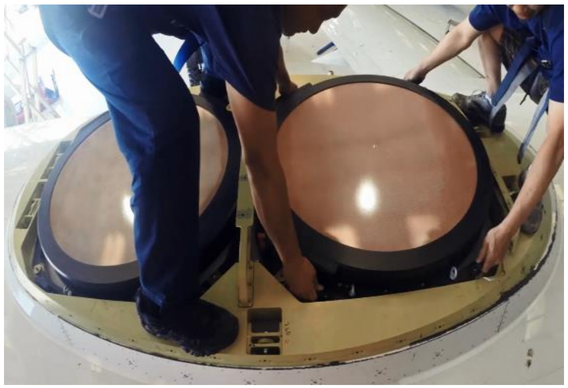
- New economy class seats installed on 24 Boeing 777 aircraft in 2018
- Consistent and improved passenger experience across long haul aircraft

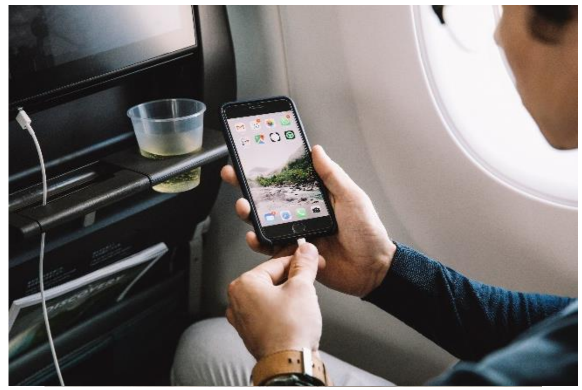
New business class long haul dining and service experience

- A la carte menu, plated meals, more choice, Hong Kong Flavours, breakfast order card
- Rollout will be completed by July 2019

Customer investment - Digital

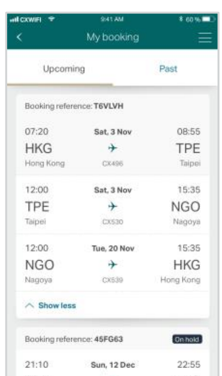
Inflight connectivity on all Boeing 777s and A330s

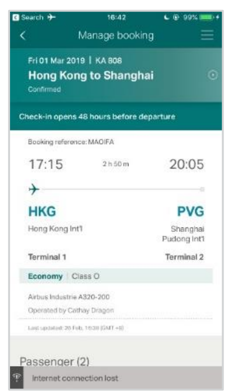


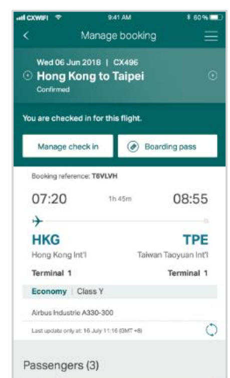


- Already available on all A350s
- Installation of the latest Gogo 2KU system has started
- 14 Boeing 777’s equipped in 2018

Improved Check-in and Management Booking on Mobile APP







- Revamped Manage Booking function with better log-in, booking management and check-in indication
- Enhanced Check-in function usability and stability

Operating performance

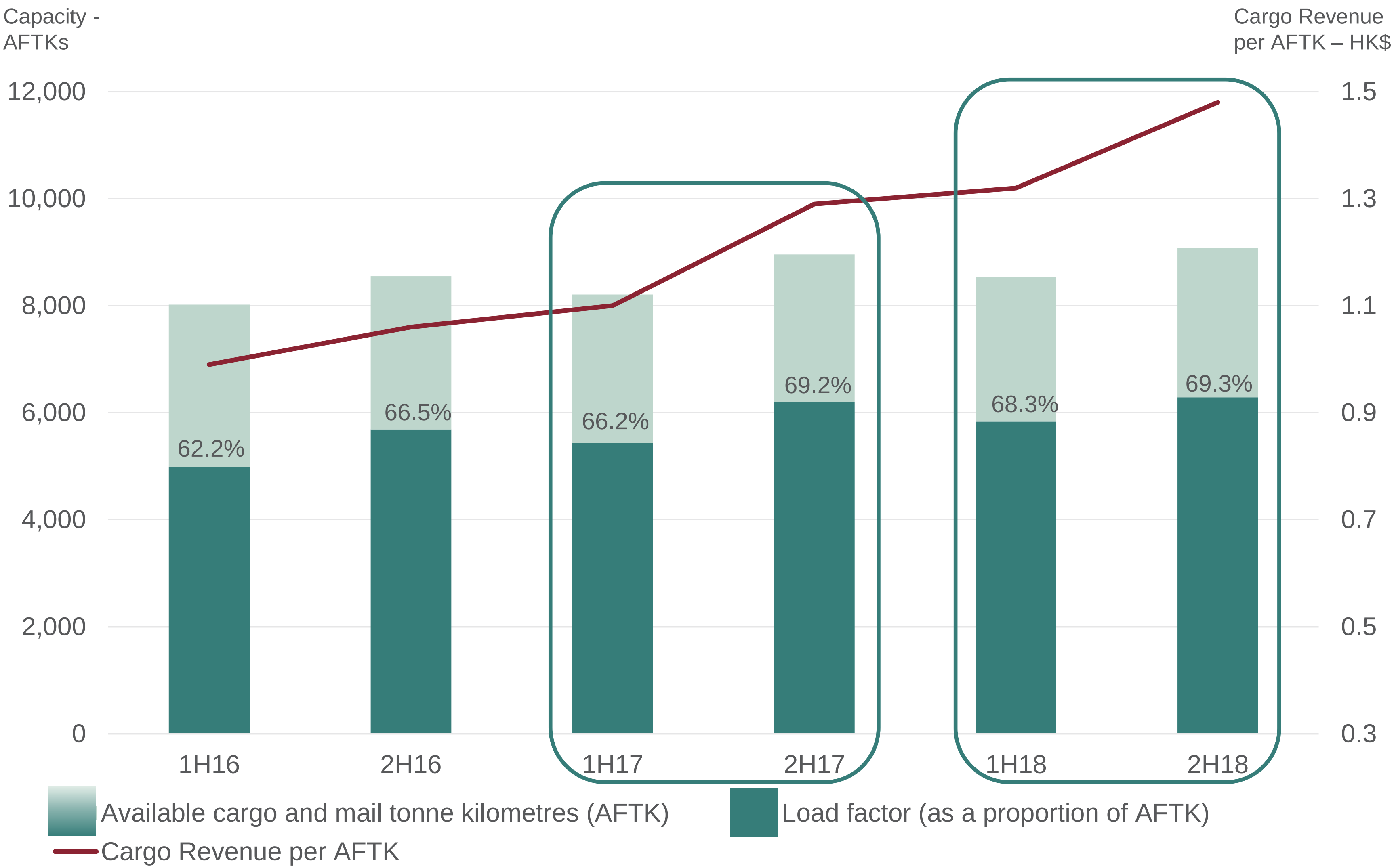
Cargo Services

CX & KA Cargo sees robust demand

		2018	2017	% Var
Cargo & mail revenue	*HK$ million*	**24,663**	20,553	+20.0%
Available cargo & mail Tonne Kilometres (AFTK)	Million	**17,616**	17,163	+2.6%
Cargo & mail RFTK	Million	**12,122**	11,633	+4.2%
Cargo & mail carried	'000 tonnes	**2,152**	2,056	+4.7%
Cargo & mail load factor	%	**68.8**	67.8	+1.0%pt
Cargo & mail yield	*HK$*	**2.03**	1.77	+14.7%
Cargo & mail revenue per AFTK	*HK$*	**1.40**	1.20	+16.7%

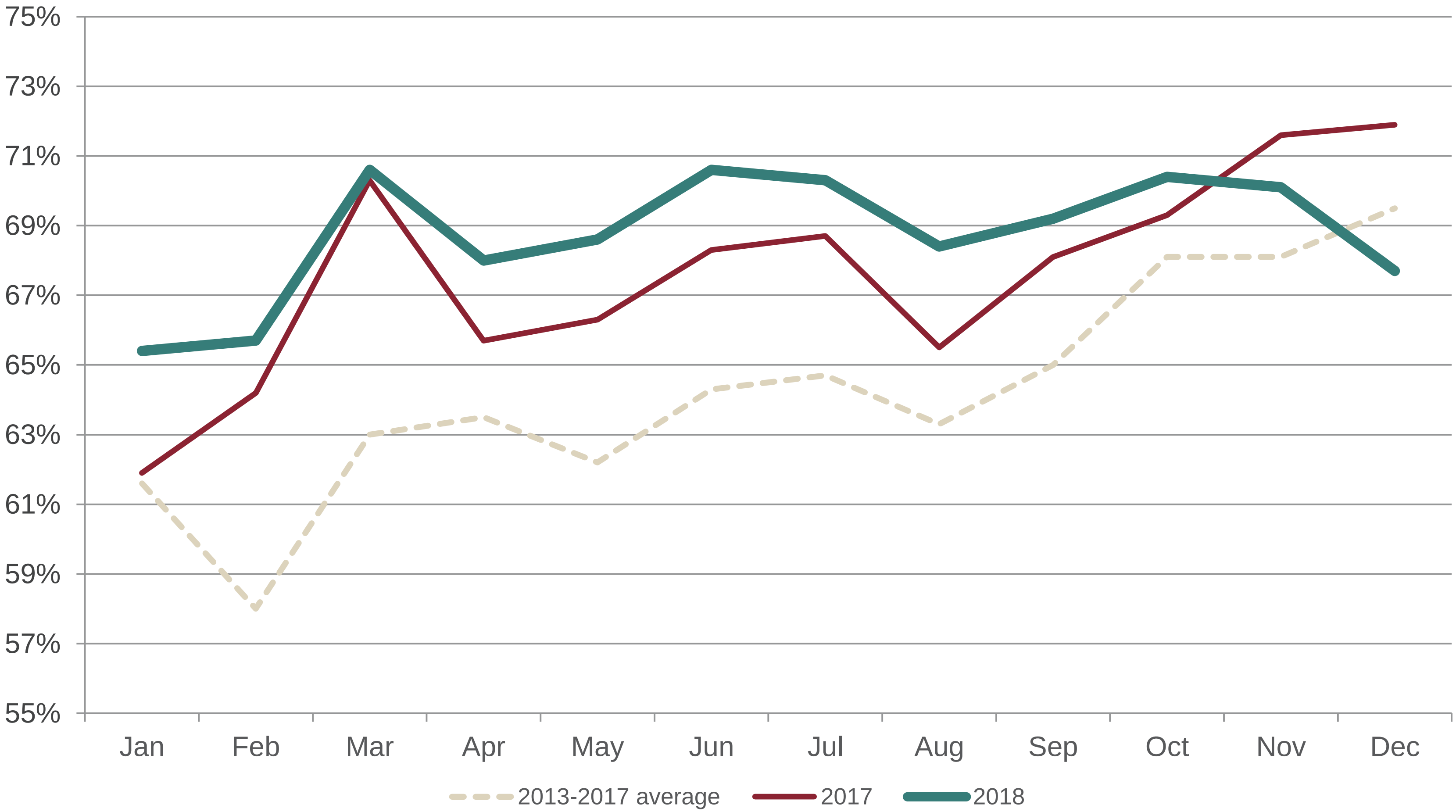
- Capacity growth reflects passenger belly utilization (particularly Europe) and CX-ATLAS wet leases
- Improved load factor; HK and China stable whilst rest of network generally robust. Strong e-commerce shipments from Asia
- Strong yield improvement driven by high-value specialist cargo shipments (including temperature sensitive pharmaceuticals) and higher fuel surcharges

Strong revenue efficiency growth on modest capacity increase



However, signs of slowing growth of load factor towards year end

Year to December Load Factor
2017 : 67.8%
2018 : 68.8%



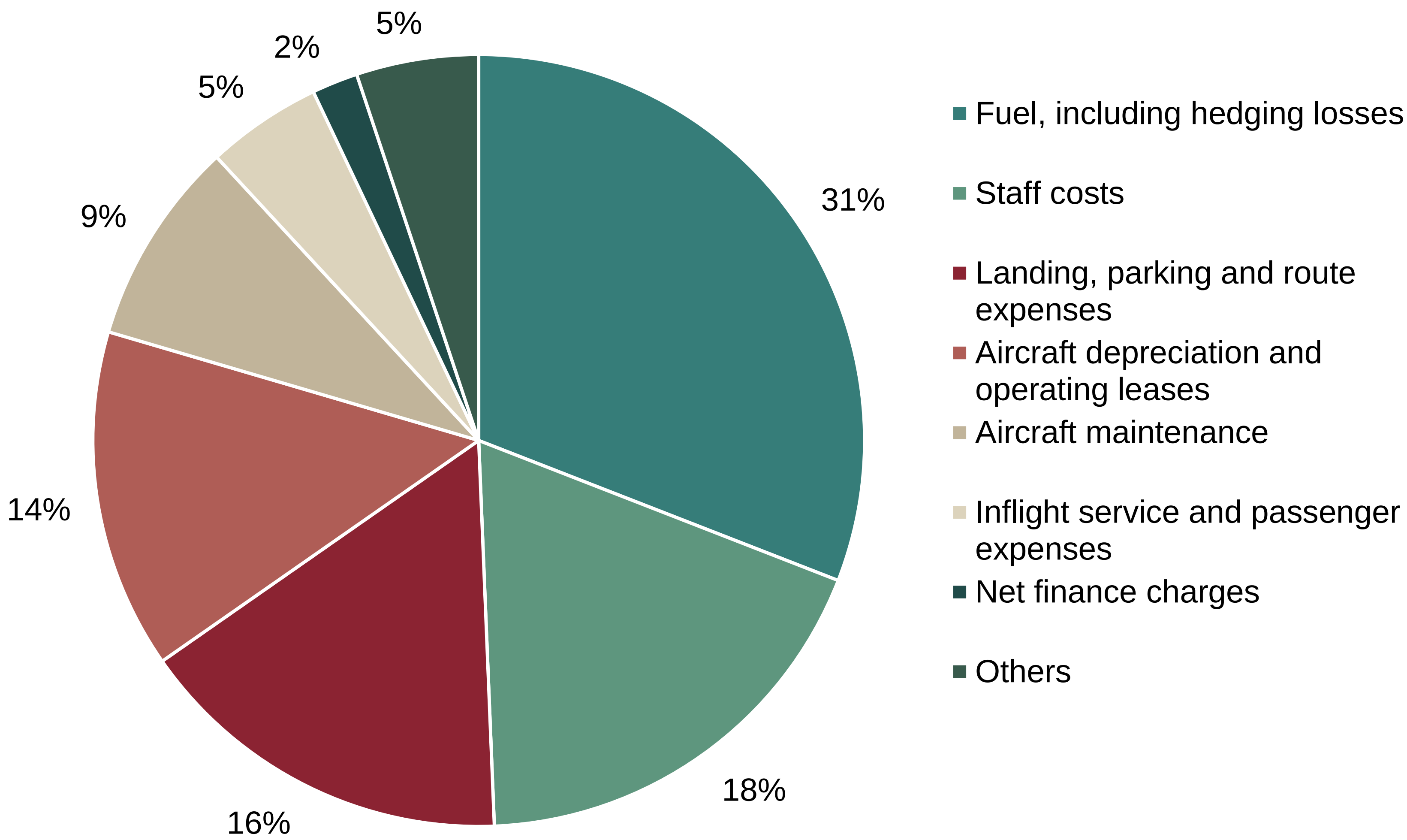
Operating performance

Operating costs

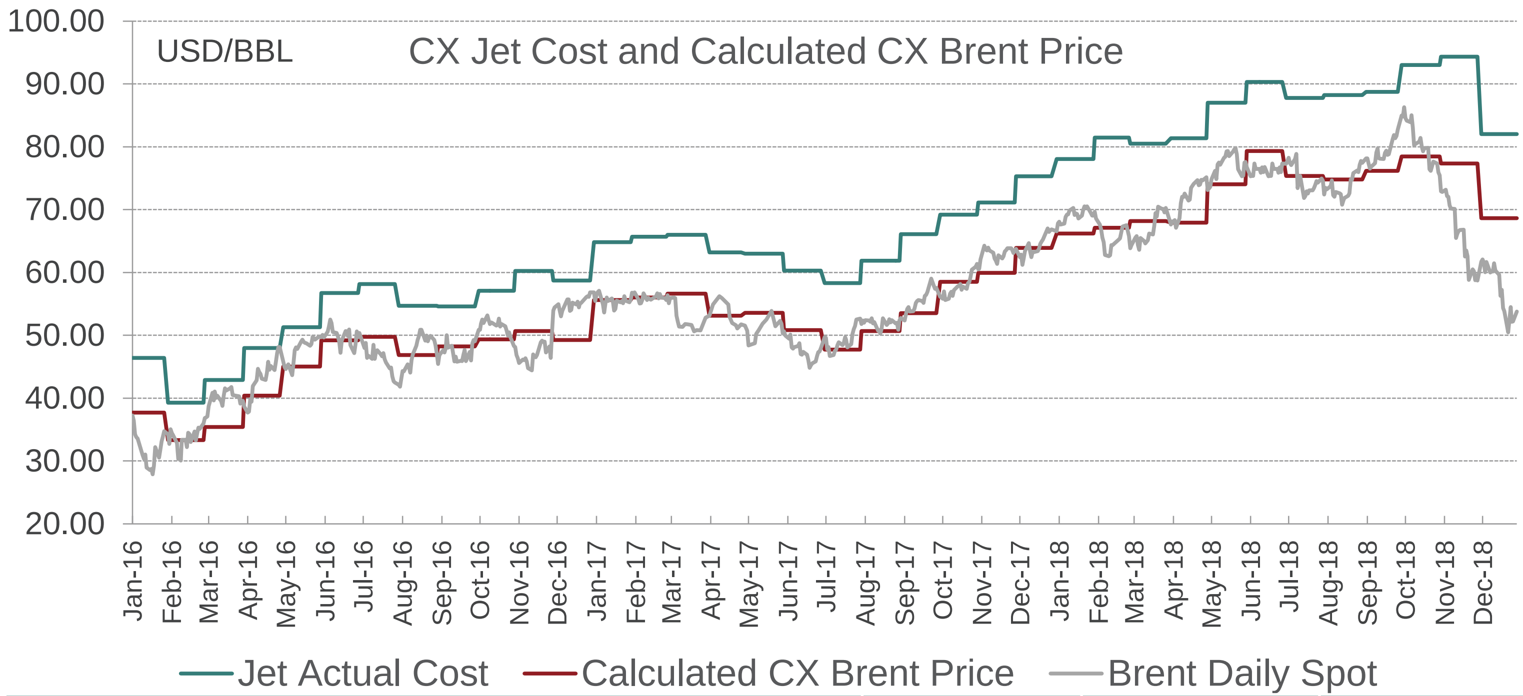
Increased external pressure on operating costs per ATK (with and without fuel)

- Significant increase in fuel price, partially offset by smaller hedging losses
- Higher depreciation and finance charges on investment in new fleet, partially offset by efficiencies in fuel consumption
- Increase in route-related expenses on higher navigation, overflying and landing and parking charges
- Accelerated investments in customer experience

Operating cost breakdown



Despite year end relief, annual fuel costs rose



Fuel costs and KPI's	2018	2017	% Var
Group gross fuel cost (HK$m)	32,424	24,735	31.1%
Group fuel hedging losses (HK$m)	1,445	6,377	-77.3%
Group fuel cost (HK$m)	33,869	31,112	8.9%

Average into-plane fuel price ex hedges (US$/bbl)	$90.3	$70.4	28.3%
Airlines Fuel consumption per mRTK (bbl)	1,830	1,866	-1.9%

Forward fuel hedging position

Cash Flow Hedge reserve at December 2018 a loss of HK$1,820m*

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
1st Quarter 2019	31.0%	67.84
2nd Quarter 2019	29.8%	69.71
3rd Quarter 2019	33.8%	61.40
4th Quarter 2019	31.5%	63.55
1st Quarter 2020	28.9%	66.07
2nd Quarter 2020	21.9%	68.54
3rd Quarter 2020	14.6%	68.76
4th Quarter 2020	6.7%	64.84

**Pre-tax*

Underlying costs per ATK (ex fuel) up 1.9%

As reported (HK$M):	**2018**	**2017**	**% Var**
Staff	**17,987**	17,708	+1.6%
Inflight service and passenger expenses	**5,292**	4,996	+5.9%
Landing, parking and route expenses	**17,115**	14,830	+15.4%
Aircraft maintenance	**8,965**	9,221	-2.8%
Depreciation, amortisation and operating leases	**14,505**	13,582	+6.8%
Net finance charges	**1,853**	1,527	+21.4%
Others (including commissions)	**7,026**	5,558	+26.4%
Total operating costs (without fuel)	**72,743**	67,422	+7.9%
Cost per ATK (without fuel)	**2.25**	2.14	+5.1%
Underlying * cost per ATK (without fuel)	**2.16**	2.12	+1.9%

* 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, redundancy costs of HK$201 million and data security costs of HK$58 million. (2017: provisions for a European Commission airfreight fine of Euros 57.12 million (equivalent to approximately HK$498 million), redundancy costs of HK$224 million for the re-organisation of our head office, impairment of CO2 emissions credits of HK$119 million and gains of disposal of TravelSky of HK$586m and on the deemed partial disposal of Air China shares of HK$244 million.)

US$ strength returns and trends above long term average

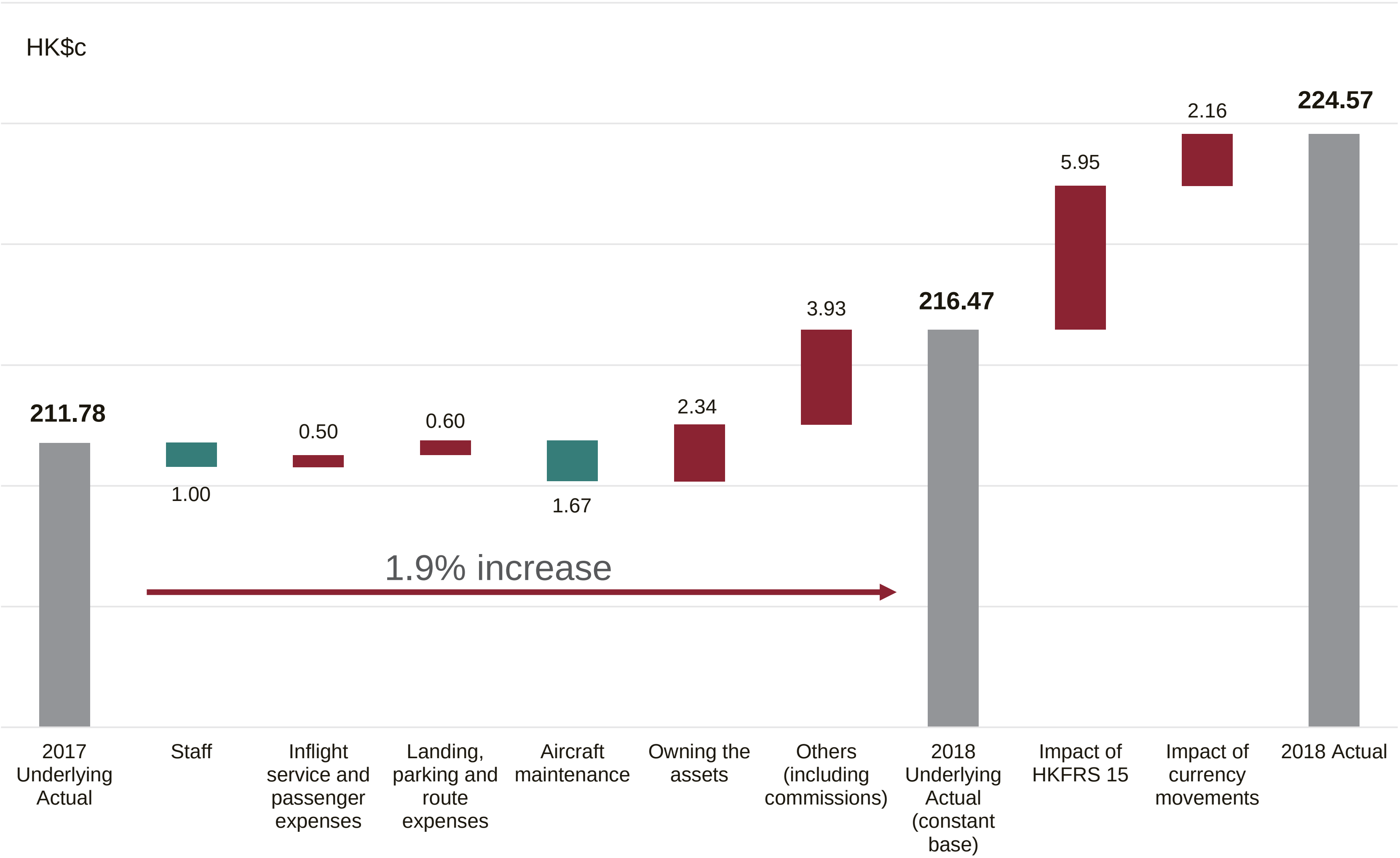
The ‘net revenue’ benefits of a weakening US$ in 2017 reverse in 2018

Airlines constant base adjustments

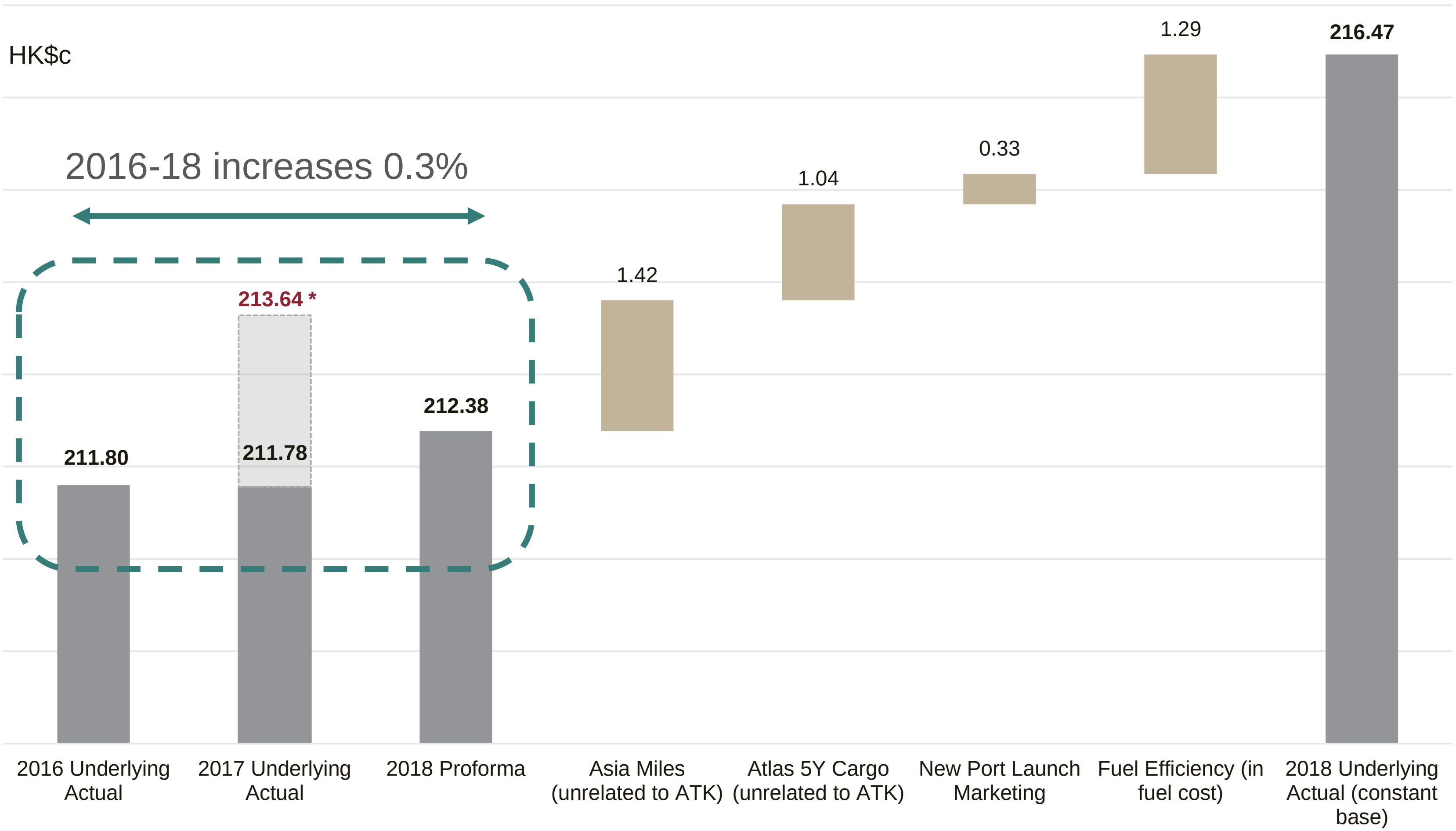
HK$ millions	Reported 2018	Exceptional	HKFRS15	Currency	Constant base 2018
Passenger & cargo services	97,782		(785)	(1,309)	95,688
Catering, recoveries and other services	8,730		(1,150)	(14)	7,566
Total revenue	**106,512**	**-**	**(1,935)**	**(1,323)**	**103,254**
				-	-
Staff	(17,987)	201		(3)	(17,789)
Inflight service and passenger expenses	(5,292)		(23)	7	(5,308)
Landing, parking and route expenses	(17,115)		1,591	54	(15,470)
Fuel, including hedging losses	(33,232)			145	(33,087)
Aircraft maintenance	(8,965)			8	(8,957)
Owning the assets	(16,358)			35	(16,323)
Others (including commissions)	(7,026)	(43)	358	452	(6,259)
Total operating expenses	**(105,975)**	**158**	**(1,926)**	**698**	**(103,193)**
Airlines profit before taxation	**537**	**158**	**(9)**	**(625)**	**61**

The exceptional item includes a HK$101 million gain on the disposal of CO_2 emissions credits, redundancy costs of HK$201 million and data security costs of HK$58 million

Underlying cost per ATK (without fuel) before impact of HKFRS15 and currency increased 1.9%



Comparable ‘proforma’ underlying cost per ATK (without fuel) on constant FX base 0.3% higher than 2016



* Includes add back of a full 13th month annual discretionary bonus to make comparable with 2016 and 2018

Operating performance

Subsidiaries and Associates

Major subsidiaries

air Hongkong

- Performance remains steady
- At the end of 2018, CX acquired 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 11 million worldwide, increased business volume YOY

CPSL

- Marginal decrease in tonnage handled. Results impacted by higher volume of transit cargo and increased cost pressures

Major 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 lower than last year

- Cathay Pacific has an equity and an economic interest of 49%
- Contribution from the share of profits lower than last year

Operating performance

Other financials

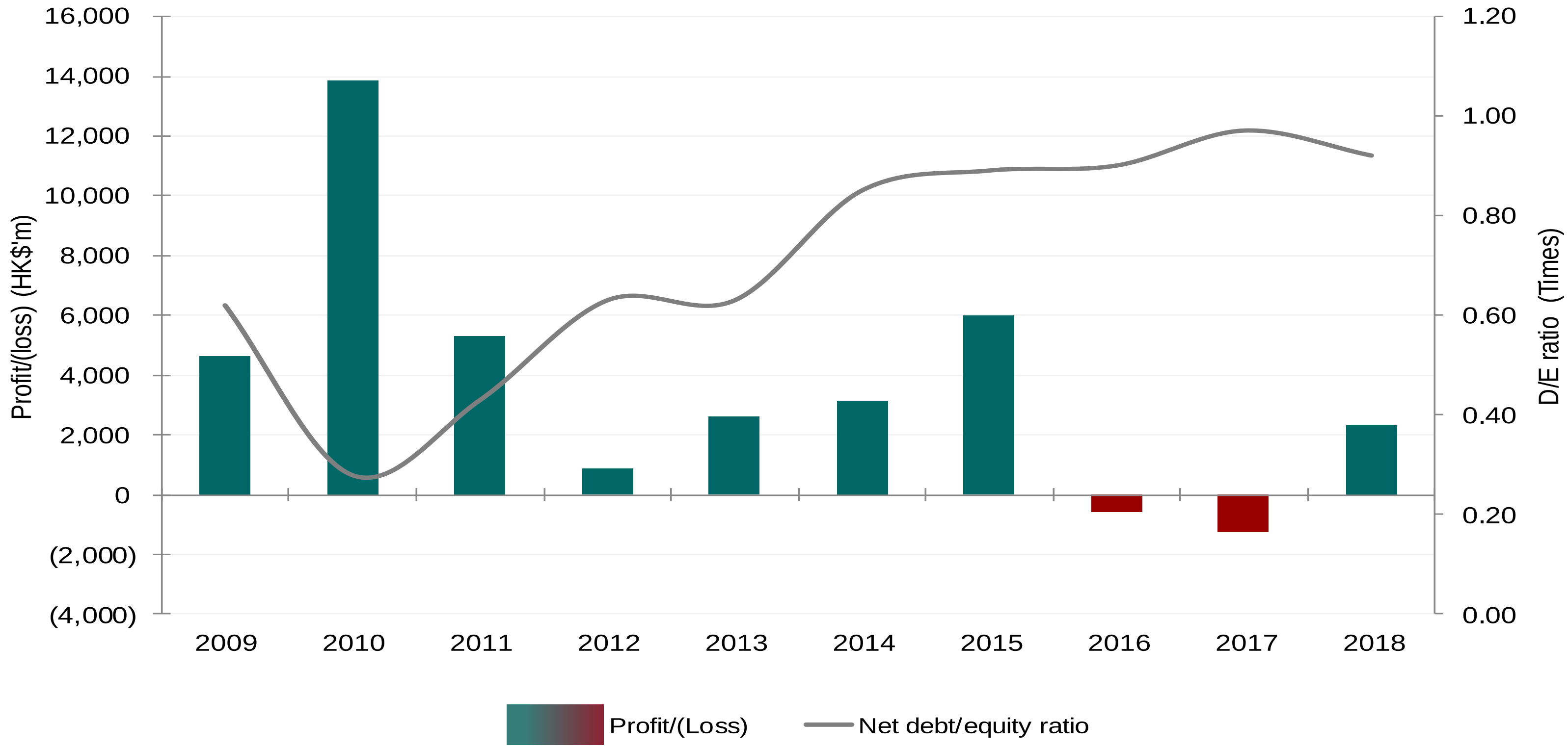
Strong group cash flow; capital employed steady and gearing reducing

Cash Flow	31 Dec 2018 HK$M	31 Dec 2017 HK$M	% Var
Net cash inflows from operating activities	14,525	4,323	+236.0%
Net cash outflows from investing activities*	(13,271)	(14,079)	-5.7%
Net cash inflow/(outflow) pre financing	**1,254**	**(9,756)**	**n/a**
Net (outflow)/inflow from financing activities	(5,122)	8,291	n/a

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

Balance Sheet	31 Dec 2018 HK$M	31 Dec 2017 HK$M	% Var
Shareholders' Funds	63,936	61,101	4.6%
Net Borrowings	58,581	59,300	-1.2%
Capital Employed (including non-controlling interests)	122,520	120,572	1.6%
Net Debt/Equity Ratio	0.92	0.97	-0.05 times

Group profit/(loss) and net debt/equity ratio ten year comparison



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Profit Margin %	6.9	15.5	5.4	0.9	2.6	3.0	5.9	(0.6)	(1.3)	2.1
ROCE %	8.7	21.7	8.4	2.3	4.0	4.7	8.0	1.0	0.8	4.0

Fleet Profile

CX & KA Fleet profile as at 31 December 2018

Aircraft type Includes parked aircraft	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	**15**
A321-200	2	-	6	**8**
A330-300	38	10	10	**58**
A350-900	16	4	2	**22**
A350-1000	6	2	-	**8**
747-400BCF	1	-	-	**1**
747-400ERF	-	6	-	**6**
747-8F	3	11	-	**14**
777-200	4	-	-	**4**
777-300	14	-	-	**14**
777-300ER	20	10	22	**52**
Total	**109**	**43**	**50**	**202**

Freighters

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

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

- New modern aircraft deliveries.
  - 22 A350-900 aircraft and eight A350-1000 aircraft are in service
  - We expect to receive six more A350 deliveries by the end of 2019
- Retirement of older fleet types.
  - Three A330-300 aircraft, one Boeing 777-300ER aircraft and one Boeing 747-400BCF aircraft were returned in 2018
  - A Boeing 777-200 aircraft was donated to the Pima Air and Space Museum in Arizona, USA

In operation	Passenger	Freighter	Total
1 January 2018	176	20	196
New deliveries	10	-	10
Returned from AHK	-	2	2
Returned to lessors	(4)	(1)	(5)
Retirement	(1)	-	(1)
31 December 2018	181	21	202

Forward aircraft deliveries

Scheduled new aircraft deliveries as at 31 December 2018

Aircraft type	2019	2020	>2021	Total
A321NEO		9	23	32
A350-900	2	4		6
A350-1000	4*	3	5	12
777-9X			21	21
Total	**6**	**16**	**49**	71

** One A350-1000 for 2019 was delivered in February and another scheduled for March 2019*

Detailed Updates on Transformation Programme

2018 has been about execution, building on solid foundations laid in 2017…

Organisation Change

- CX Operations outside of Hong Kong undergo restructuring to gain efficiencies through regionalizing administration and review crew bases
- Investment in Digital, Lean and Global Business Services driving process and technological change across the business

Digital Capability

- New Digital Capabilities are being delivered, e.g. roll out of new digital analytical tools for the Business to use
- Cargo Blockchain POC to improve contractual management of cargo handling
- Better data visualisation available across large swathes of the business

Customer Wins

- Advance Seat Reservation is only offered with higher fares. A new feature with lower fares includes giving the option to purchase the ASR, giving the customer more control over their purchase.
- Asia Miles proposition changes well received with increased seat availability for redemption
- Offer more disruption information and alternatives.

….with significant change at different stages being registered across the strategic pillars …

Customer Centric

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

Operational Excellence

- IOC Transformation efforts have commenced in November 2018
- More aircraft types now covered by new crew rostering system
- Two airlines come closer together as CX and KA crews now report under one roof at Cathay City

High Performance

- Revamped service delivery training allowing changes to inflight proposition including a more personal service style with emphasis on individual touches
- “Serve to Lead”: front line experience for Senior Leaders
- New personalised digital employee portal

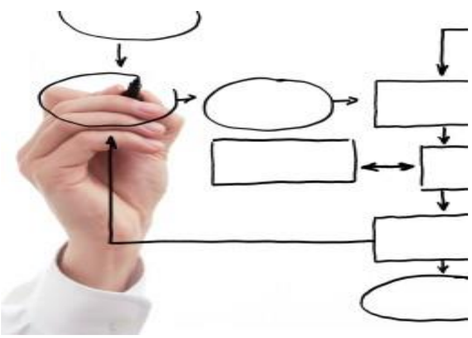
…and drive towards stronger productivity in 2019 and beyond

Productivity and Value Management

End-to-end process re-design

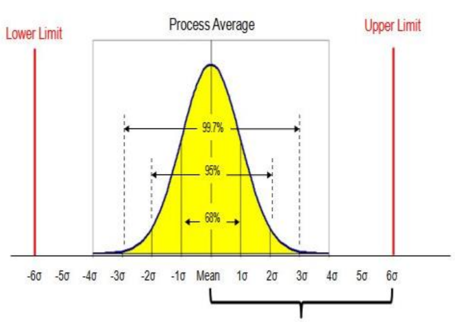
Process Transformation

- Commitment to transform our 9 core end-to-end processes
- ‘Sub process’ change initiatives around revenue, inventory, recruitment, invoicing, etc…
- Will provide the platform to drive digitization and apply new technologies to our business



Digital / Lean

- 905 Lean practitioners trained so far
- Invested in digital and analytical capability
- Robotic process automation removes repetitive tasks, reducing errors and increasing accuracy



Global Business Service

- As the core end to end processes are redesigned, tasks will shift to GBS
- Steadily adding new capability (Cargo and Operations invoices now handled in GBS and AP Processes outside of HKG being studied)

Outlook

Outlook

- In 2019, we will continue to reorganise our nine core business processes, to benefit from associated underlying structural initiatives and to build a culture of continuous improvement
- Our new fleet will improve the customer experience, provide network optionality and reduce our fuel consumption
- We are tracking as expected to our transformation goals and remain confident in the ability of our programme to deliver sustainable long term performance

But

- The overall business environment is expected to remain challenging with a strong US dollar and the uncertainties arising from geopolitical discord and global trade tensions
- Our passenger business will continue to be affected by intense competition, especially in economy class on long haul routes
- Our cargo growth trend is slowing
- Inflationary pressure and operational constraints will continue to impose costs

Longer term strategy

- Relentless focus on customer experience, whilst creating a “through train” of transformative capability to enable continuous productivity and efficiency improvement.

- ASK growth of 3 – 4% per annum through to opening of 3rd runway in 2024. Growing the network and HK Hub in destinations, frequencies and capacity.

- Continued fleet investment in both regional (A321neo’s) and long haul (A350s and 777-9X).

- Build Hong Kong’s position as a gateway airport for the Greater Bay Area (GBA), making HKIA accessible to GBA through improved multi modal connectivity and seamless access.

- Increase the Group’s presence and penetration in the GBA.

- Position the Group to take advantage of capacity increases that arise on the opening of the 3rd runway in 2024.

Hong Kong Express

An announcement was made on 5th March confirming that the company is in active discussions about an acquisition involving Hong Kong Express Airways Limited.

No agreement for the acquisition has been entered into and there can be no certainty that any agreement will be entered into.

Further announcement(s) will be made as and when appropriate.

Q&A

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

HKFRS 9 & 15

HKFRS 9

- HKFRS9 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 HKFRS9, equity investments are classified as fair value through P&L, unless an irrevocable election on initial recognition is made for OCI (with no recycling).

HKFRS15

- HKFRS15 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

- **HKFRS15: +HK$631 million** on advance recognition of ticket breakage from unearned transportation revenue under HKFRS 15 (Airlines and Air China, net of tax)

- **HKFRS9: +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 (HKFRS15)

- **+HK$1,591 million** cargo handling revenue gross up and **HK$358 million** freightage revenue gross up (both to other revenue)

- **HK$727 million** and **HK$81 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

Impact of HKFRS16

- HKFRS16 becomes effective 1 January 2019; Lessees will no longer distinguish between finance leases and operating leases.

- It will primarily affect accounting of leases for aircraft and related equipment, and buildings and other equipment which are currently classified as operating leases.

- CX will adopt HKFRS 16 using the modified retrospective approach and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1st January 2019 without restating comparative information.

- Based on information currently available, excluding the impact from its associates' initial application, as well as the overall impact on deferred tax, CX expects to recognize right-of-use assets of ~HK$17bn and lease liabilities of ~HK$18.6bn on 1st January 2019.

- The adoption of HKFRS 16 will have no impact on cash flows. Profit before tax and earnings per share are not expected to be significantly impacted. Gearing will increase.