Analysts Briefing

June 2018

Agenda

- Briefing Highlights
- Operating Performance
- Fleet Profile
- Transformation Programme Update
- Outlook
- Q&A
- Hosted by:
  - Martin Murray, Chief Financial Officer
  - Paul Loo, Chief Customer & Commercial Officer

Briefing highlights

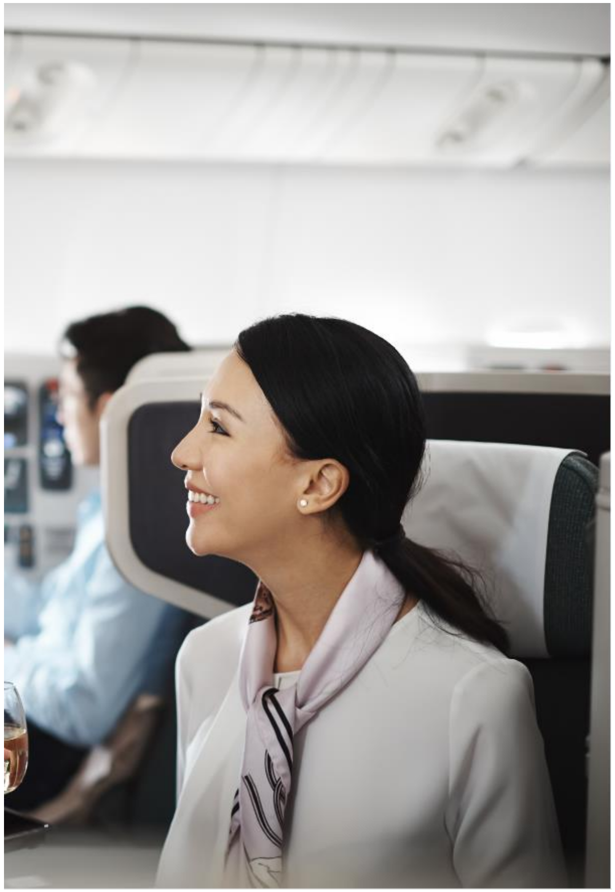
Year to date business improving but market conditions becoming increasingly challenging

- Strong Revenue growth across all categories (Passenger, Cargo & Ancillary).
- The focus on customer service and revenue management in the passenger business has resulted in yield improvement.
- Cargo continues its recovery with positive momentum in capacity, yield and load factor.
- Operating costs have increased due to higher fuel costs, FX movements, investment in capacity and customer facing initiatives.
- Subsidiaries performing satisfactorily.
- Strong performance from ACC JV on strong Cargo demand.

Operating performance

Passenger Services

Capacity growth, yield pressure stabilised despite intense competition



Increased capacity (ASK)

- New Economy Class on 777 fleet being progressively rolled out.
- New fleet type Airbus 350-1000 to be introduced.
- Introduction of 9 new destinations in 2018.

Yield pressure stabilised

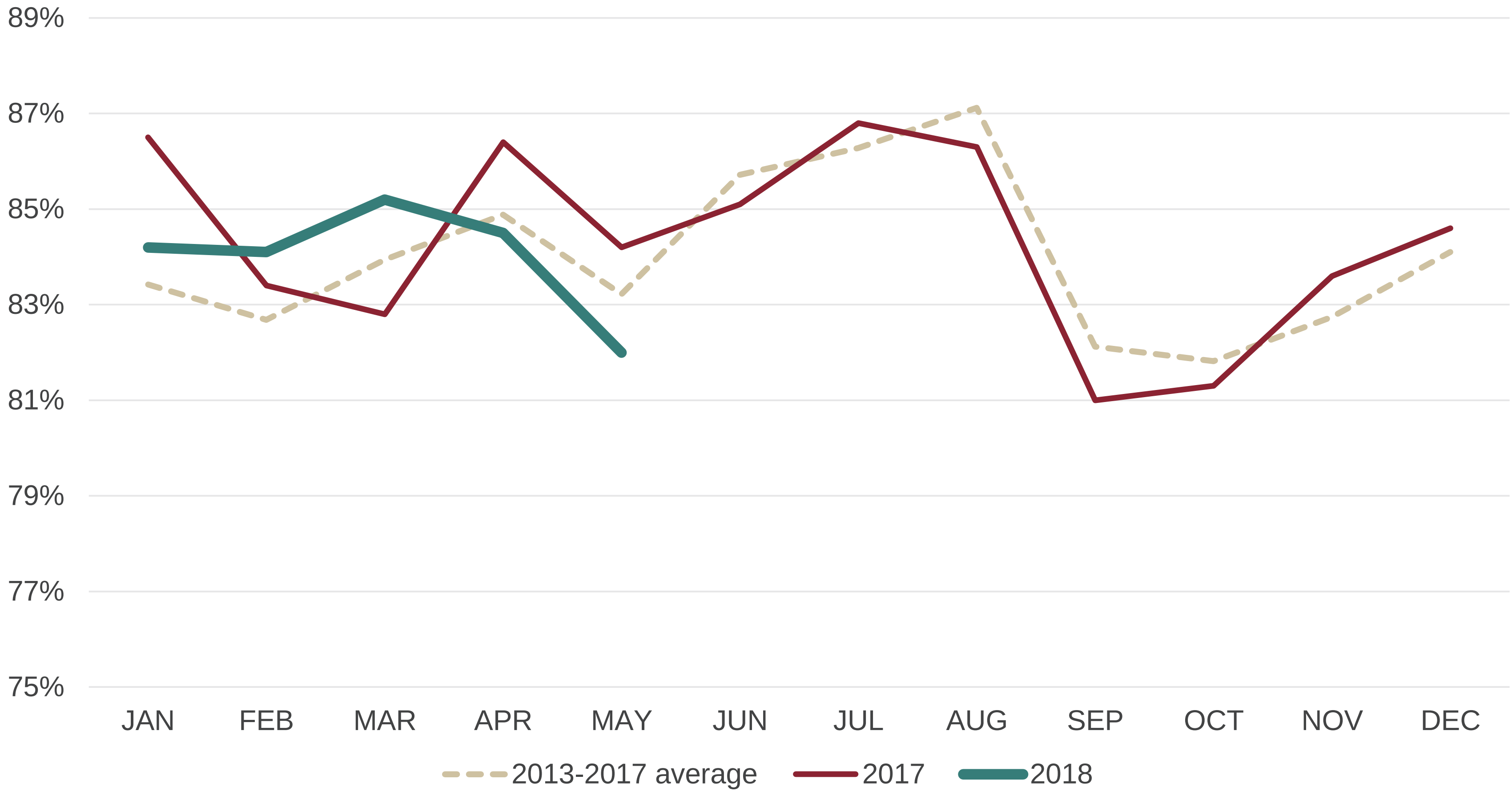
- Yield improved in both business and economy classes compared to the previous year attributed to continually robust frontend demand, better traffic mix, a weaker USD and higher fuel surcharge collection into Hong Kong.
- Competition remains intense, particularly in the back end

Load factor broadly stable

		Year to May 2018	Year to May 2017	% Var
ASK	Million	**62,976**	61,117	**+3.0%**
RPK	Million	**52,902**	51,755	**+2.2%**
Passengers carried	'000	**14,559**	14,353	**+1.4%**
Passenger load factor	%	**84.0**	84.7	-0.7%pt

YOY load factors remain satisfactory

Year to May Load factor
2018 : 84.0%
2017 : 84.7%



Regional operating performance

YTD May statistics

Europe

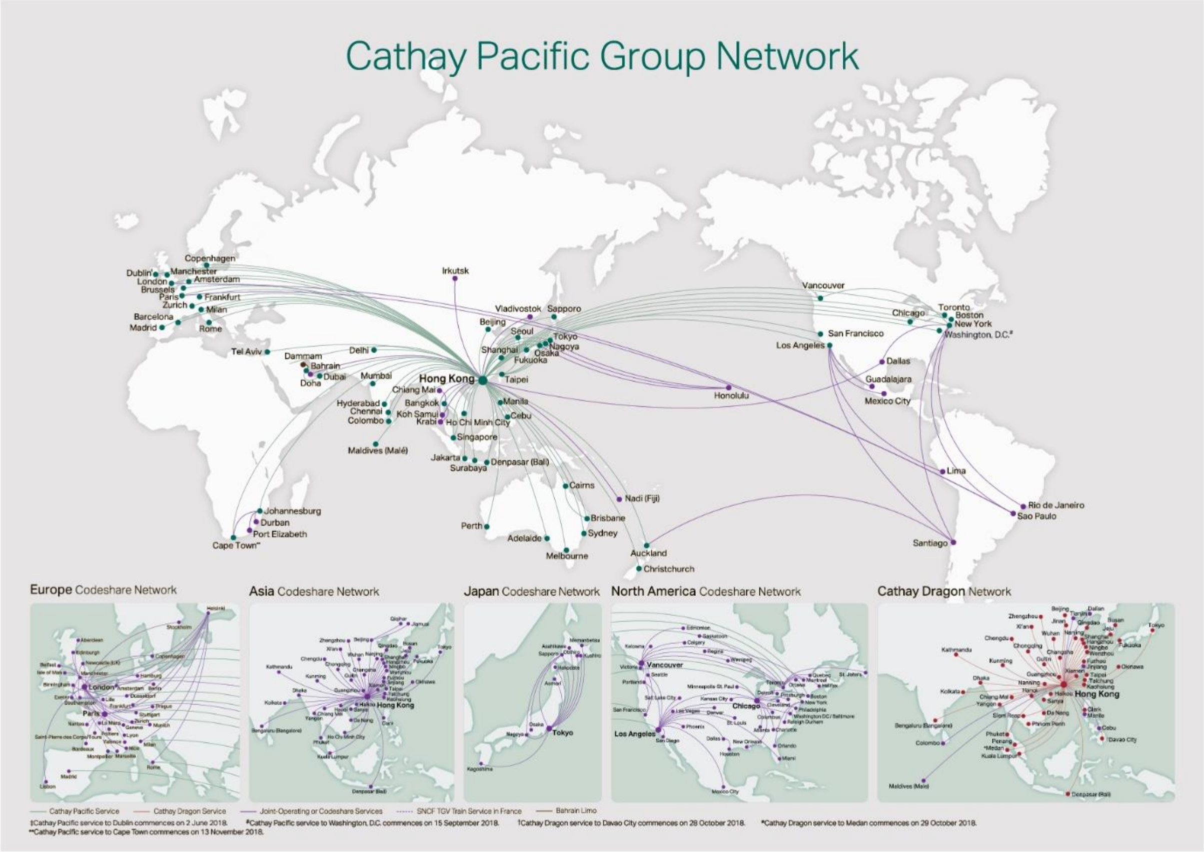
ASK: +11.5%
LF: -3.3%pts

Southwest Pacific & South Africa

ASK: +5.4%
LF: -3.4%pts

Southeast Asia

ASK: +2.0%
LF: -1.3%pts



India, Middle East & Sri Lanka

ASK: +1.2%
LF: -2.5%pts

North Asia

ASK: +1.1%
LF: -0.4%pt

North America

ASK: -1.4%
LF: +2.5%pts

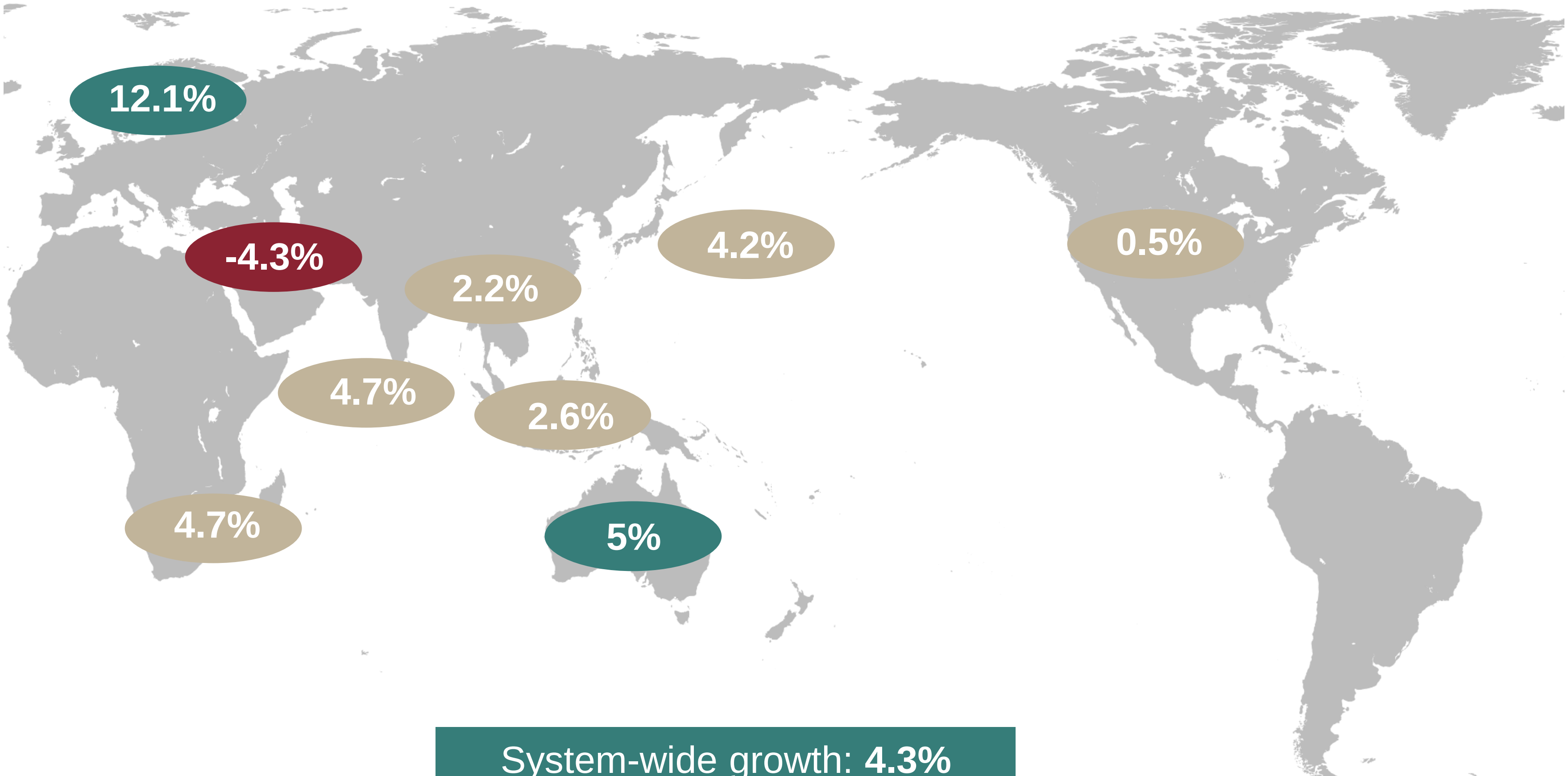
New destinations and frequencies strengthen the network

2018	
January	• Introduced a four-times weekly service to **Nanning**
February	• Announced new seasonal service to **Cape Town** with three-times weekly in September
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	• Announced new four-times weekly to **Davao** and three-times weekly to **Medan** in October • **Barcelona** service becomes year-round
May	• Introduced a three-times weekly seasonal service to **Copenhagen**
June	• Introduced a four-times weekly service to **Dublin**
September	• Introduction of a four-times weekly service to **Washington D.C.**

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

Planned network growth in 2018

2018 ASK growth by region



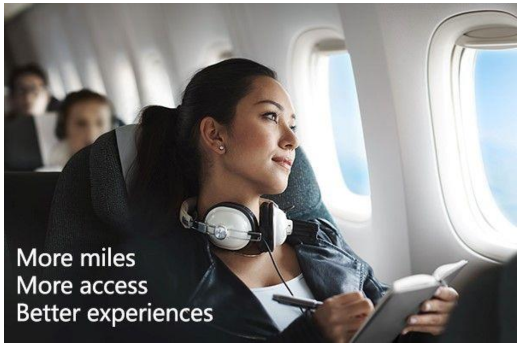
System-wide growth: 4.3%

Improving the Customer experience

The Deck

- New Hong Kong lounge opened in March
- Adopted a ‘contemporary living room’ concept
- Features ‘The Noodle Bar’ and ‘The Terrace’

Asia Miles



- Enhancement of the Asia Miles program
- Customers will earn more miles on flights and more access to redemption bookings.

Improving the Customer experience

New Economy Seats

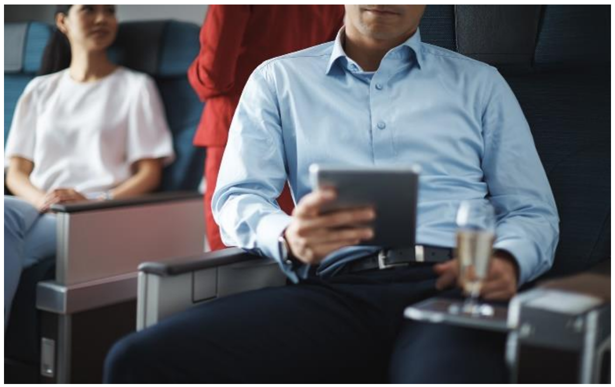
- New Economy class seats to be installed on the 777 fleet
- Consistent passenger experience across longhaul aircraft

New Business Dining

- New dining concept rolling out across longhaul Business
- New dishes, more choice, greater flexibility
- Enhanced hospitality

Improving the Customer experience

Connectivity



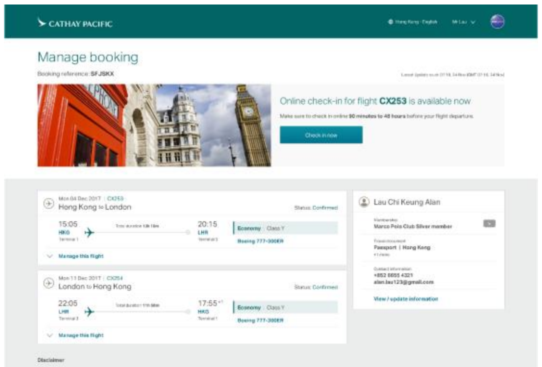
- Already available on all A350s
- Installation of the Gogo 2KU system has started
- B777 and A330 fleets to be equipped by 2020

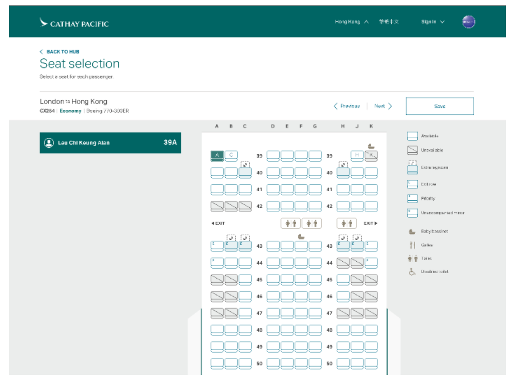
Inflight Entertainment

- HD movies now available
- Launched a ‘Made in Hong Kong’ category with old times movie favourites and curated TVB content

Improving the Customer experience

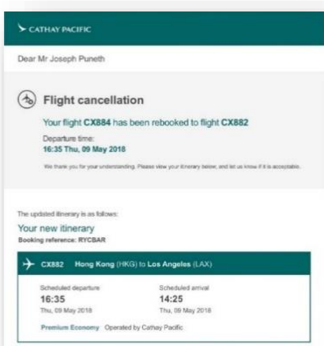
New Manage Booking

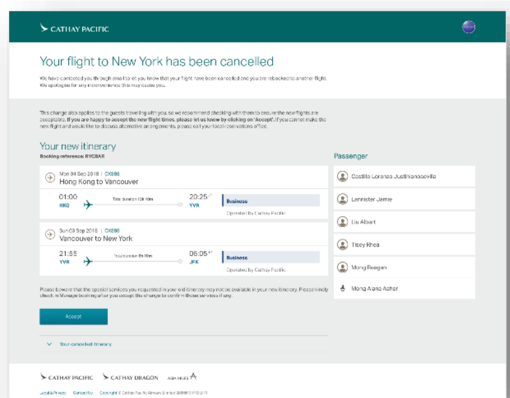




- New MMB launched in May
- New user interface for easy and intuitive navigation
- Basic platform to add in more self-service functions

Disruption Communications



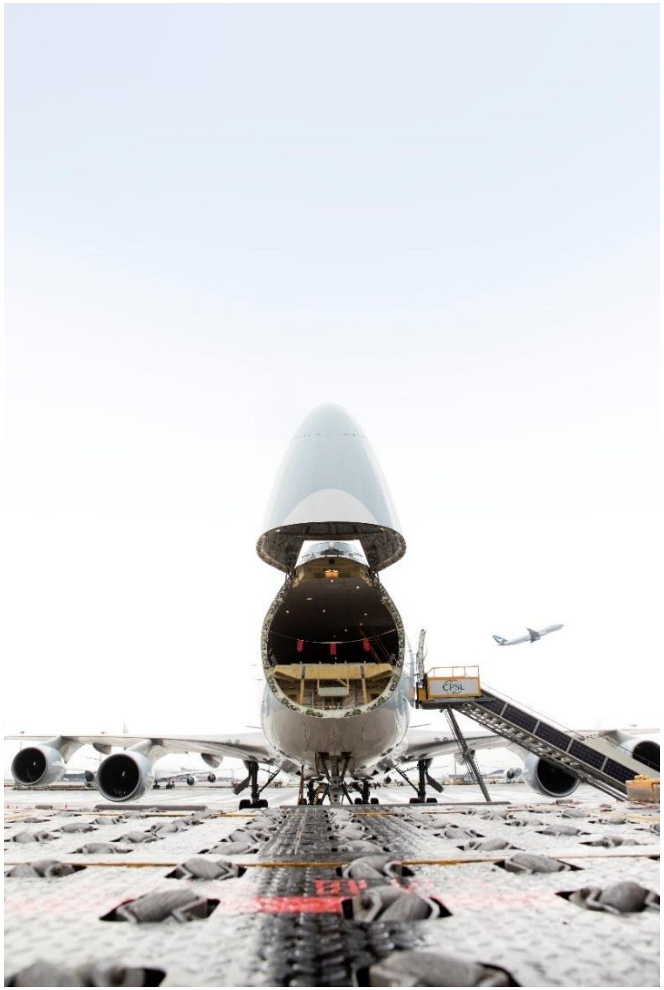


- 4 new flight disruption notifications (Disruption, Protection, Compartment change, Flight number change)
- Passenger can choose to accept protection and booking will be confirmed and ready to go

Operating performance

Cargo Services

Robust growth in capacity, yield and load factor



Capacity grows YOY

- Overall cargo capacity continues to grow
- Widebody passenger fleet increasing capacity in line with growth in global cargo demand

Yield recovery continues

- Yield increased as network demand strengthened, supported by favorable currency exchange and higher fuel surcharge collection.

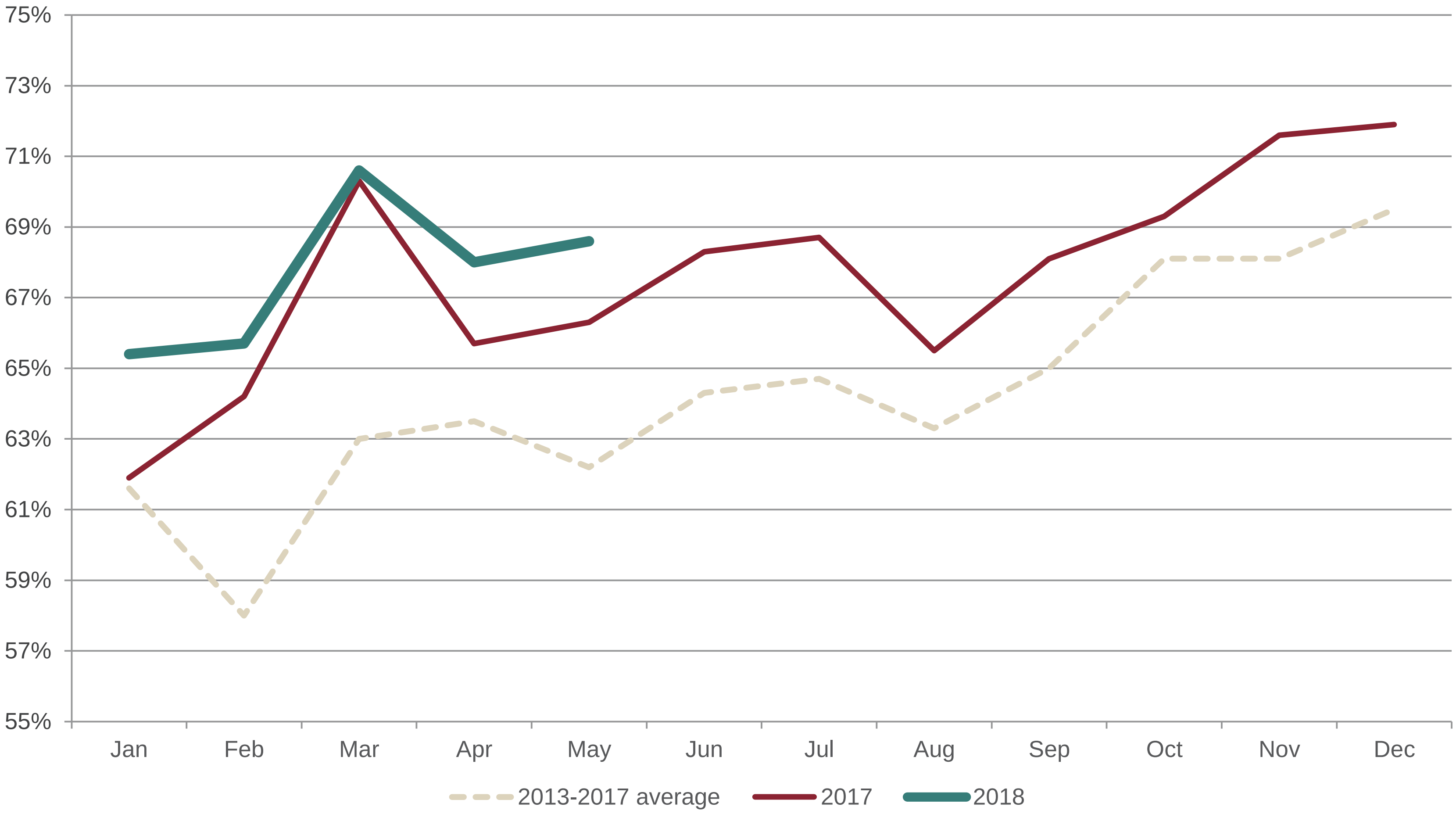
Load factor still strengthening

- Volume from Hong Kong and China was stable while network flows from Japan, India, Europe, SE Asia and Americas continued to show strength.

		Year to May 2018	Year to May 2017	% Var
Available cargo & mail Tonne Kilometres (AFTK)	**Million**	**7,087**	6,780	+4.5%
Cargo and mail RFTK	**Million**	**4,803**	4,461	+7.7%
Cargo & mail carried	'000 tonnes	**858**	795	+7.9%
Cargo & mail load factor	%	**67.8**	65.8	+2.0%pt

Load factor; continuous improvement

Year to May Load factor
2017 : 65.8%
2018 : 67.8%



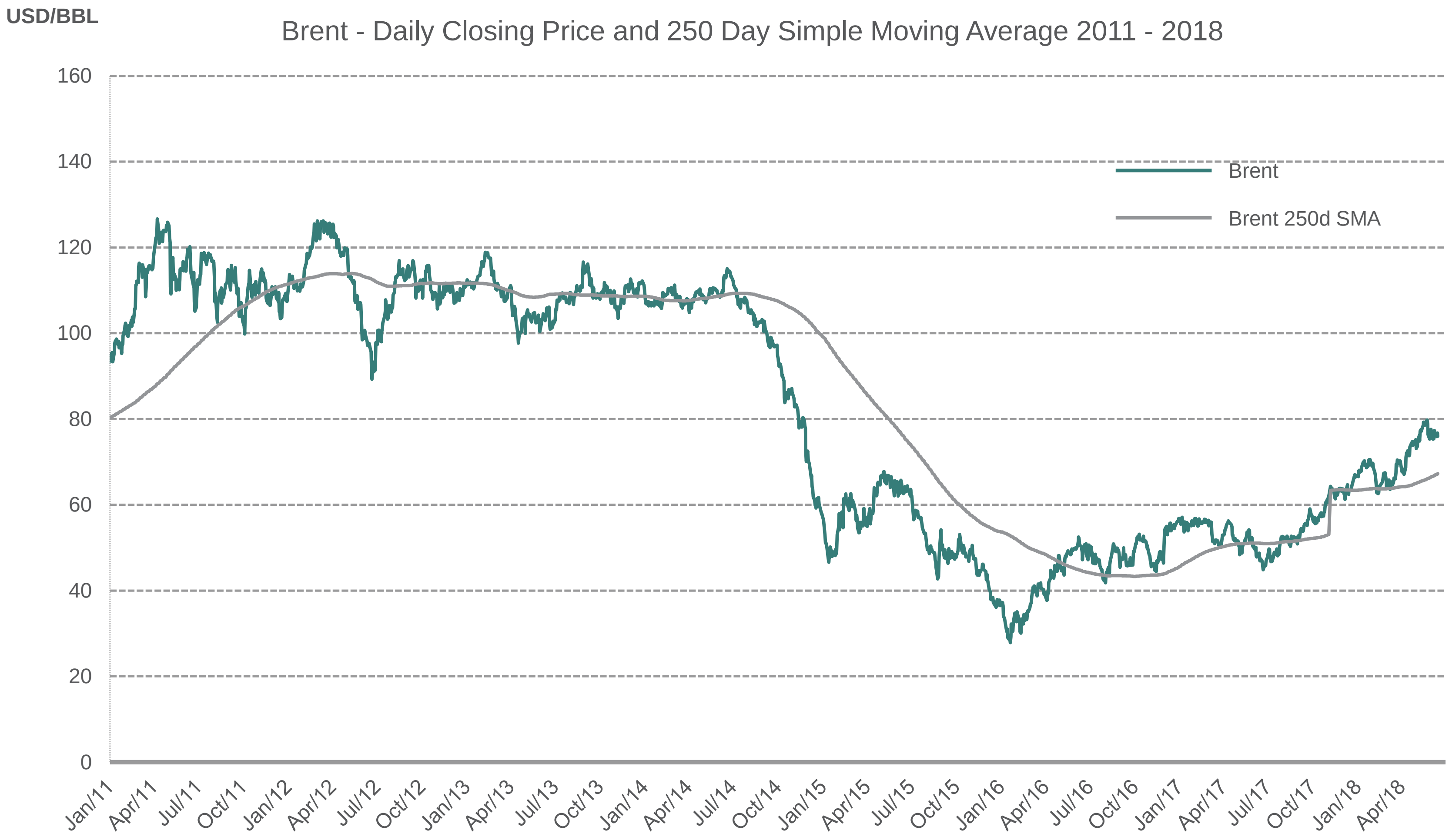
Operating performance

Operating costs

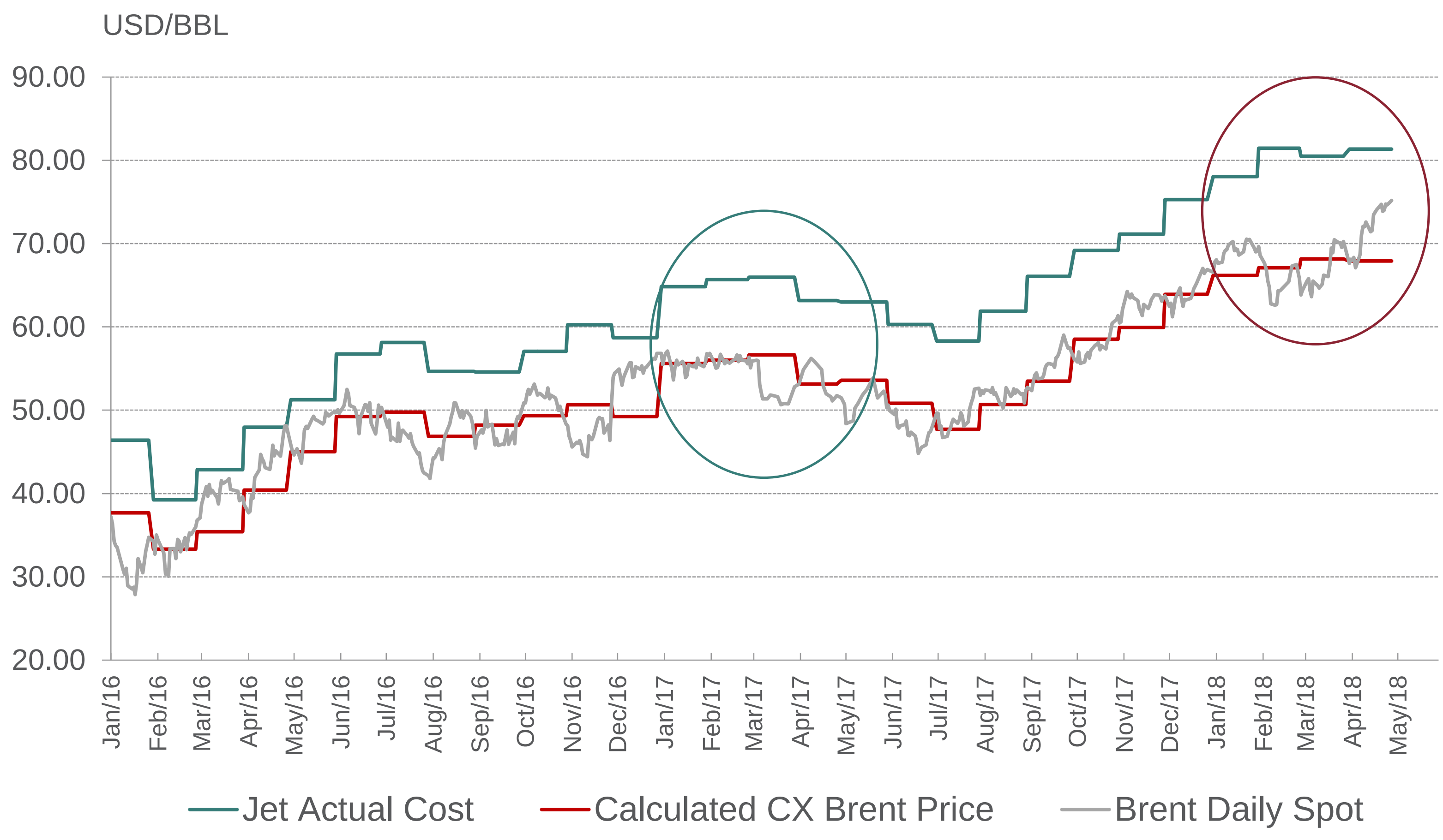
Growing external pressure on operating costs / ATK with and without fuel, but business recovering

- Significant increase in Fuel price, partially offset by smaller hedging losses
- Weaker US$ whilst benefitting revenue, has negative impact on our foreign denominated costs
- Higher depreciation and finance charges on investment in new capacity increases, but efficiencies in fuel consumption
- Maintenance costs remain under pressure
- Conscious decision to spend on the passenger experience earlier than previously planned
- Laser focus on our Transformation Project to enhance the resiliency of our business

Rising Brent adding cost pressure



YOY Into plane cost rises +24.4% YOY (crack widens +32.7%)



Forward Fuel Hedging

Fuel hedging coverage (as at 15 June 2018)

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
3rd Quarter 2018	45.1%	80.41
4th Quarter 2018	45.2%	80.58
1st Quarter 2019	31.0%	67.84
2nd Quarter 2019	29.0%	69.61
3rd Quarter 2019	30.8%	60.22
4th Quarter 2019	24.4%	61.36
1st Quarter 2020	15.8%	62.82
2nd Quarter 2020	5.2%	66.66

Beneficial weaker US$ but high volatility (DXY Index)

Operating performance

Subsidiaries and Associates

Major subsidiaries – mixed results

air Hongkong

- Increase in performance up to May 2018 compared to the same period in 2017
- Five of eight planned Freighter Sale and Leaseback transactions completed in Dec 2017. The remainder to be completed in 2018

CATHAY PACIFIC CATERING SERVICES

- Lower profit compared to the previous year
- An expanded facility with 40% additional capacity started operations last May resulting in increased operating costs

ASIA MILES

- Membership exceeds ten million worldwide.
- Increase in profit in compared with 2017 due to increased business volume.

CPSL

- Performance weaker as compared with 2017 as a result of transferring ramp handling operations to HAS and Eva Air leaving the cargo terminal

Associates – satisfactory performance

- Cathay Pacific has an **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.
- Increase in ASK and RPK and decrease in load factor for Q1 2018 as compared with Q1 2017

- Stronger results in the first five months of 2018 compared to 2017.
- Higher fuel prices were offset by higher yields.

Fleet Profile

Investments in our fleet

Younger and 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 we expect to receive 7 more deliveries by the end of 2018
- Retirement of older fleet types.
  - Three A330-300 aircraft were returned up to May 2018

In operation	Passenger	Freighter	Total
1 January 2018	176	20	196
New deliveries	-	-	-
Returned to lessors	(3)		(3)
31 May 2018	173	20	193

CX & KA Fleet profile as at 31 May 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**
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**	**58**	**193**

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

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	19
B777-9X				21	21
Total	**8***	**6**	**16**	**49**	78

** The first of the A350-1000s for 2018 was delivered in June*

Transformation –
First Half Performance

Transformation: the context

The market

Structural challenges continue

- Capacity is growing 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

In 2017 we laid the foundations

Organisation change

- New HQ organisation in place
    - Clearer accountabilities
    - Reduced 600 staff
- Centres of excellence to improve expertise and efficiency
- Design 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 more nimble
- 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

- Groundwork for GCC Transformation laid
- Crew productivity improvements from new rostering system
- Process to transformed IOC commenced
- Productivity driven in outport Line Maintenance system

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 drive towards continuous improvement

Productivity and Value Management

Process redesign

- Commitment to reengineer our 9 core processes
- 4 are already underway with the remainder to start by Q1 '19
- Will provide the platform to drive digitisation, LEAN and shared service

Digital / Lean

- 2100 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 – recovery continues despite headwinds

- The overall business environment is expected to remain challenging and the economic environment is getting tougher.
- Passenger business will continue to be affected by intense competition, particularly in the back-end.
- Higher fuel costs will adversely affect results.
- USD strengthening over recent months, reversing the positive impact of the weakening USD to date.
- Operational challenges and constraints will continue to impose costs on the Group.

But

- Passenger gross yields continue to improve, as we invest in the customer proposition.
- The cargo business is expected to remain strong.
- Fuel hedging losses are declining.
- Benefits continue to 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