



Analysts Briefing

21st June 2019

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Agenda



- Briefing highlights
- Operating performance
 - Passenger Services
 - Cargo Services
 - Operating costs
 - Subsidiaries and Associates
- Fleet profile
- Transformation update
- Outlook
- Q&A

Hosted by:

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



Briefing highlights

Strong Headwinds Leading to Cautious Outlook



Solid 1H Performance

- 1H stronger than same period last year owing to strong Q1

But Strong Headwinds

- Ongoing uncertainty due to intensified geopolitical and global trade tension
- Strong passenger volume growth but yield under intense pressure resulting in year-on-year yield decline
- Weakening cargo performance against all metrics
- Results negatively impacted by a strengthening USD
- Lower but more volatile fuel costs

Transformation Programme Remains Key Focus

- Various transformation programme initiatives are being intensified and new initiatives are being developed to counter a challenging environment
- Ongoing transformation programme continues to position the business to succeed over the long term – although targets will take slightly longer to meet due to headwinds



Operating performance

Passenger Services

Strong passenger volume growth, but yield under intense pressure due to competition and stronger USD



		Up to May 2019	Up to May 2018	% Var
ASK	Million	67,083	62,976	+6.5%
RPK	Million	56,177	52,902	+6.2%
Revenue Passengers carried	'000	15,161	14,559	+4.1%
Passenger load factor	%	83.7	84.0	-0.3%pt

- Capacity increase reflects the full year effect of new flights introduced since last summer, use of larger aircraft on popular routes as well as the introduction of new economy seats in our B777's
- Frontend demand remains strong but competition in backend continues to be fierce, particularly in various long haul routes
- Weaker travel sentiment observed in some markets in recent months

New destinations and frequencies continue to strengthen the network



March	<ul style="list-style-type: none">Introduced a four-times weekly service to SeattleIncreased services to Frankfurt from daily to 10 times weeklyIncreased services to Nanning from 4 times weekly to 5 times weekly between March and October 2019
April	<ul style="list-style-type: none">Introduced a two-times weekly seasonal service to Komatsu
May	<ul style="list-style-type: none">Increased services to Chongqing from daily to 8 times weekly between May and October 2019
June	<ul style="list-style-type: none">Increased services to Madrid from five weekly to daily between June and October 2019Increased services to Hyderabad from four times weekly to five times weekly
July	<ul style="list-style-type: none">Increased services to Paris ranging from 12 times weekly to twice daily between July and October 2019Increased services to Dhaka from four times weekly to five times weekly

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

Long haul capacity growth due to full year effect of 2018 expansion and B777 new economy seating



YTD May 2019 statistics

Europe

ASK: **+11.0%**

LF: **-0.6%pts**

Americas

ASK: **+10.2%**

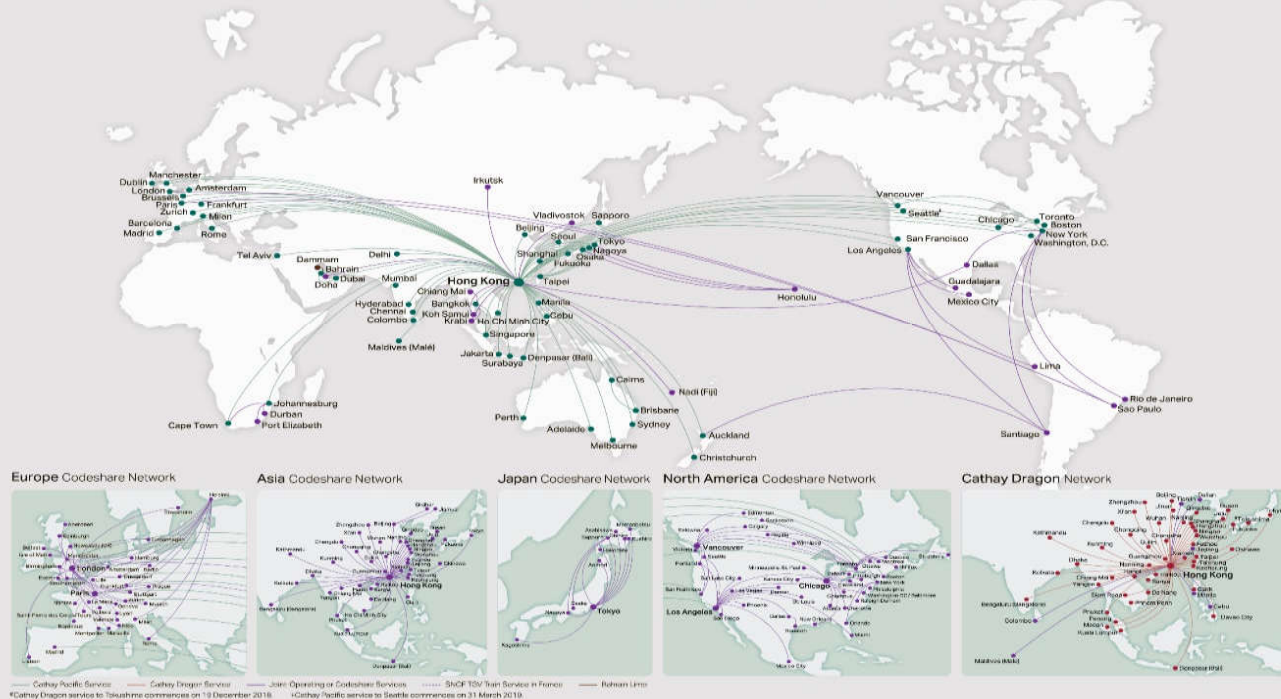
LF: **-2.8%pts**

South Asia, Middle East, and S. Africa

ASK: **+7.1%**

LF: **+1.5%pts**

Cathay Pacific Group Network



Southeast Asia

ASK: **+3.8%**

LF: **-0.4%pt**

North Asia

ASK: **+3.1%**

LF: **+0.0%pt**

Southwest Pacific

ASK: **+0.4%**

LF: **+3.7%pts**



Operating performance

Cargo Services

Air freight market suffers trade headwinds



		Up to May 2019	Up to May 2018	% Var
Available cargo & mail Tonne Kilometres (AFTK)	Million	7,157	7,087	+1.0%
Cargo & mail RFTK	Million	4,550	4,803	-5.3%
Cargo & mail carried	'000 tonnes	815	858	-5.0%
Cargo & mail load factor	%	63.6	67.8	-4.2%pt

- Capacity growth led by increase in passenger belly space, particularly on routes to Europe and Americas.
- The US-China trade dispute and Brexit continue to weigh upon major trade lanes. With the exception of Southeast Asia and Southwest Pacific, all other key markets recorded a year-on-year decline. Yield is under significant pressure.
- Perishable movements remain active and CX became the world's first airline awarded CEIV Fresh by IATA.



Operating performance

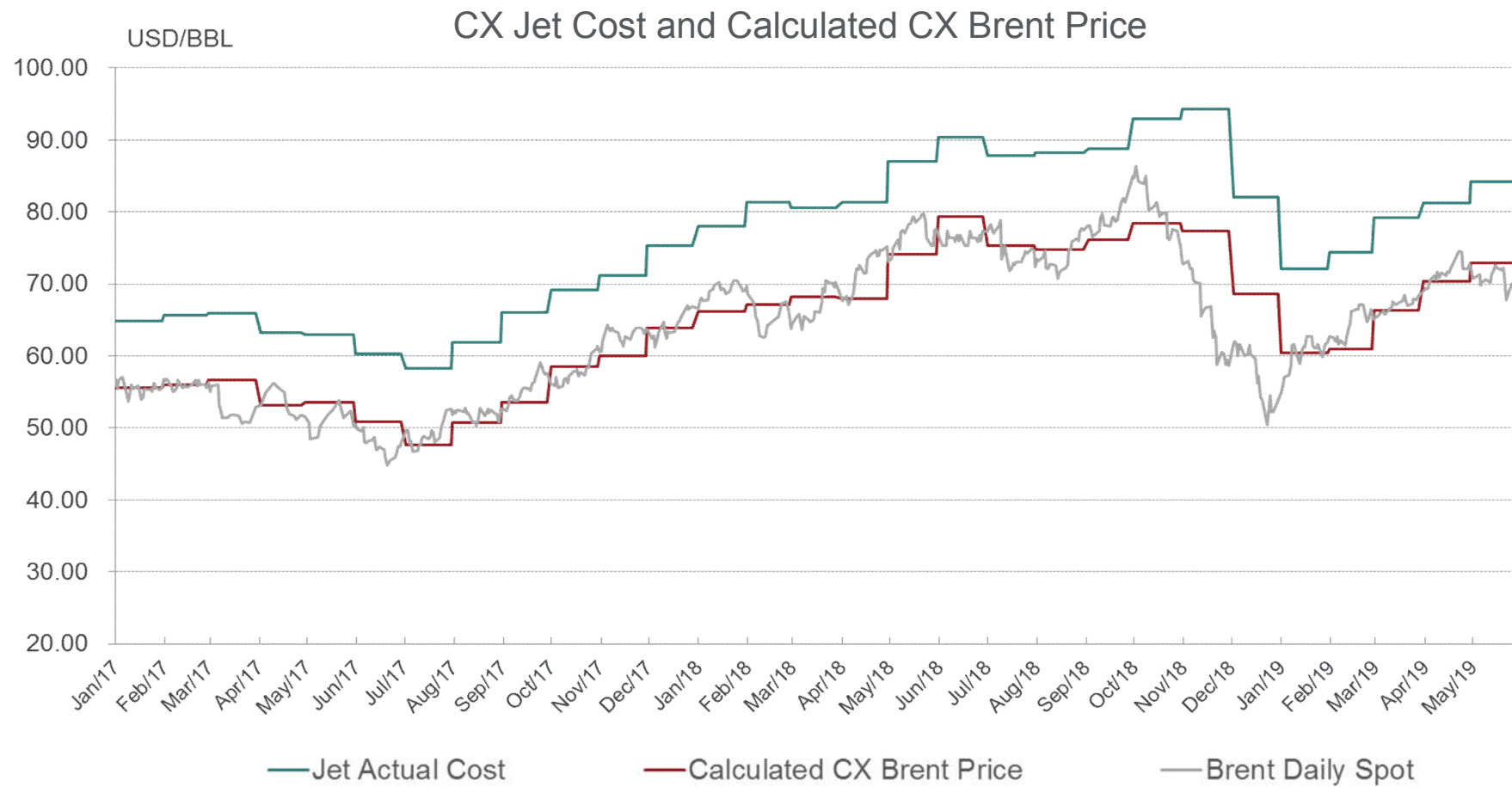
Operating costs

Transformation focus continues to counter pressures on cost per ATK (ex fuel) ➤



- Lower into-plane fuel costs, however, increased Brent volatility
- Higher depreciation and finance charges on investment in new fleet, partially offset by improving efficiencies in fuel consumption
- Continued investment into our customer experience, successful brand relaunch
- Inflationary pressure and operational constraints continue to impose costs
- USD continues to strengthen, resulting in weaker net revenues and exchange losses on USD denominated loans
- Transformation programme focus on productivity continues to counter rising unit cost pressures

Fuel Prices



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Forward fuel hedging position



Fuel hedging coverage as at end May

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
2 nd Quarter 2019	29.7%	69.71
3 rd Quarter 2019	33.4%	61.40
4 th Quarter 2019	33.0%	63.44
1 st Quarter 2020	33.2%	65.56
2 nd Quarter 2020	29.0%	66.96
3 rd Quarter 2020	26.2%	65.87
4 th Quarter 2020	21.8%	63.41
1 st Quarter 2021	13.7%	62.99
2 nd Quarter 2021	3.5%	62.72

US\$ strength returns and trends above long term average



The strengthening US\$ has an adverse impact on net revenues





Operating performance

Subsidiaries and Associates

Major subsidiaries



air Hongkong

- Performance remains steady
- Fleet modernization continues



CATHAY PACIFIC CATERING SERVICES

- Impacted by cost pressures including higher labour costs, equipment & IT maintenance, rent and rates, utilities and cleaning

ASIA MILES

- Membership now exceeds 11 million worldwide; increased business volume year-on-year



CPSL

- Decrease in cargo tonnage handled, offset by reduced outsourced worker costs

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 higher than last year, helped by the strengthening of the RMB in the first quarter; the reversal of this trend in the second quarter will impact our reporting in the second half of the year



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



Fleet Profile

CX & KA Fleet profile as at 31 May 2019



Aircraft type Includes parked aircraft	Total as at 31 Dec 2018	Owned	Finance Leased	Operating Leased	Total as at 31 May 2019	New aircraft deliveries June 2019 - 2021
A320-200	15	5	-	10	15	-
A321-200	8	2	-	6	8	-
A321NEO	-	-	-	-	-	32
A330-300	58	38	10	10	58	-
A350-900	22	16	4	2	22	6
A350-1000	8	9	3	-	12 +	8
747-400BCF	1	1	-	-	1	-
747-400ERF	6	-	6	-	6	-
747-8F	14	3	11	-	14	-
777-200	4	3	-	-	3 -	-
777-300	14	14	-	-	14	-
777-300ER	52	22	8	22	52	-
777-9	-	-	-	-	-	21
Total	202	113	42	50	205	67

Freighters

Focus on cost reduction in fleet deployment and enhancing customer experience



- **Continued simplification of the number of sub-fleets is reducing cost and complexity in deployment**
- **Continued investments in more fuel-efficient fleet provides enhanced customer experience**
 - New modern aircraft deliveries.
 - Delivery taken of four Airbus A350-1000 aircraft up to May 2019
 - 22 A350-900 aircraft and 12 A350-1000 aircraft are now in service
 - Two more A350 deliveries expected by the end of 2019
 - Retirement of older fleet types.
 - One Boeing 777-200 aircraft was retired in 2019
- **Forward aircraft deliveries**
 - A total of 67 scheduled new aircraft deliveries as at 31 May 2019



Updates on Transformation Programme

‘Move Beyond’ Brand Re Launch

- A ‘Brand Led, Customer Focused refresh of brand identity



Customer investment - On the Ground

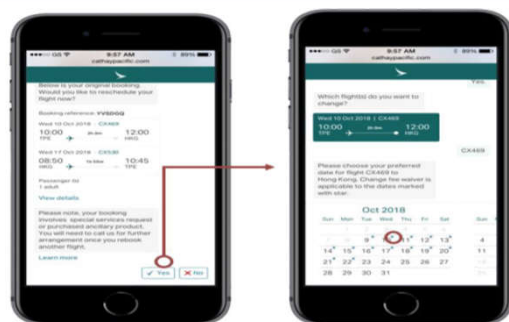


PVG Lounge



- Shanghai Pudong lounge fully renovated and re-opens in July 2019.
- High frequency and important route
- Renovated to our new award winning brand standards
- Improved densification

Disruption communications and self-service on mobile

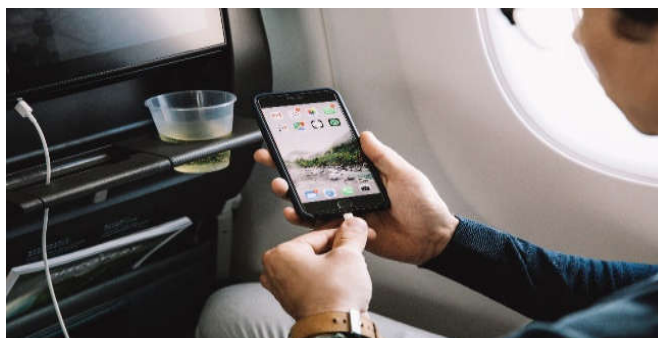
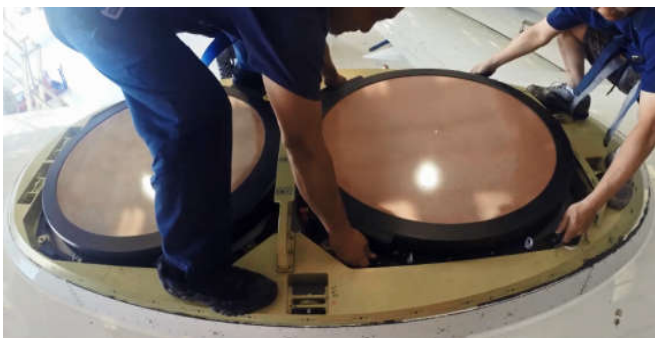


- Chatbot enhancements to allow eligible customers a seamless online booking amendment during disruption to a preferred flight, date and time.
- This can be achieved with a few simple clicks, avoiding the need for calls or queues.

Customer investment – In the Air

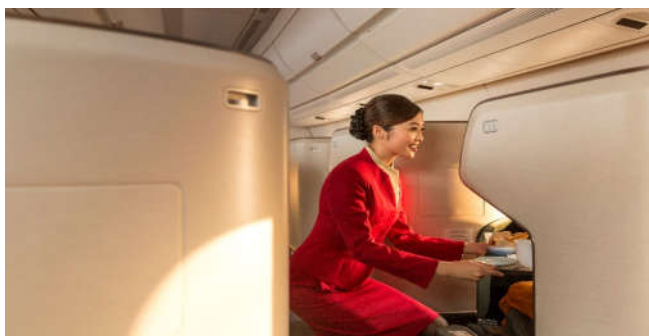


Inflight connectivity on all Boeing 777s and A330s



- Already available on all A350s
- Installation of the latest Gogo 2KU system has started for B777
- 27 Boeing 777's equipped as of June 2019

New business class long haul dining and service experience



- A la carte menu, plated meals, more choice, Hong Kong Flavours, breakfast order card
- All Australian/NZ routes have now been cutover
- Rollout to be completed by July 2019

Transformation established solid foundations in 2017 and 2018...



Organisation Change

- CX Operations outside of Hong Kong are fully restructured
- Investment in Digital, Lean and Global Business Services driving process and technological change across the business

Digital Capability

- New Digital Capabilities are being delivered
- Cargo Blockchain POC to improve contractual management of cargo handling
- Marketing Cloud live

Customer Wins

- Asia Miles proposition changes well received with increased seat availability for redemption
- Offer more disruption information and automated rebooking.

Customer Centric

- New lounge opening in Pudong Shanghai
- Preparations underway for A321 Neo and 777-9X delivery
- Increased Inflight Entertainment Options
- Driving connectivity with enlarged network

Operational Excellence

- Integrated Operations Centre (IOC) transformation efforts
- Customer Care reform
- All cabin and cockpit crew roster pairings now constructed in new crew rostering system

High Performance

- Revamped service delivery training allowing changes to inflight proposition
- “Serve to Lead”: front line experience for Senior Leaders
- New personalised digital employee portal

...and drive towards stronger productivity in 2019 and beyond

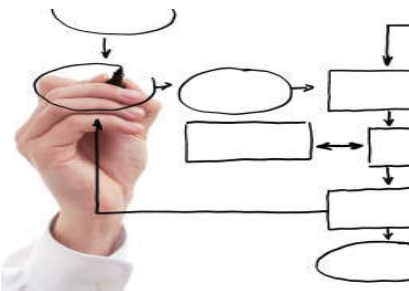


Productivity and Value Management

End-to-end process re-design

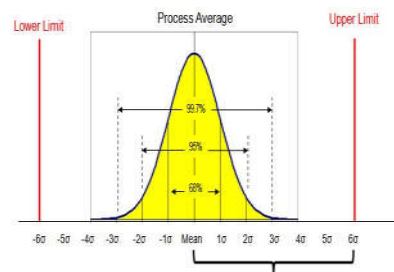
Process Transformation

- Commitment to transform our 9 core end-to-end processes
- 'Sub process' change initiatives around revenue, inventory, recruitment, invoicing, etc...
- Provides the platform to drive digitization and apply new technologies to our business



Digital / Lean

- 1154 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

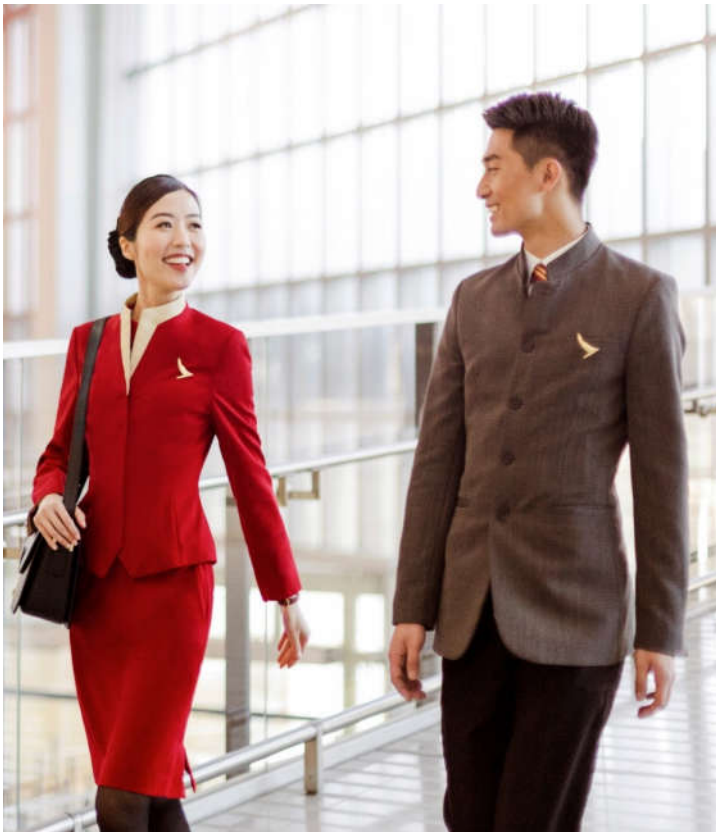
- As the core end to end processes are redesigned, tasks are shifting to GBS
- Steadily adding new capability (AP Processes outside of HKG being delivered)
- More efficient procurement processes (Ariba Guided Buying)





Outlook

Outlook: Near-Term Challenges but Long-Term Opportunity Still Strong



The Challenges:

- The overall business environment is expected to remain challenging with a strong US dollar and the increased 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
- Cargo volume and yield is expected to remain difficult - leading indicators point to further near-term weakness

The Positives:

- Our new fleet continues to improve the customer experience, provide network optionality and reduce fuel consumption
- The recent “Move Beyond” brand launch in May is expected to further enhance our customer proposition
- We are taking proactive action aimed at intensifying our transformation efforts and identifying further initiatives to counter the challenging environment
- The transformation programme continues to position the business to succeed over the long term – although targets will take slightly longer to meet due to headwinds
- We will provide additional outlook detail at Interim Results in August

Hong Kong Express



An announcement was made on 27th March 2019 confirming the acquisition of Hong Kong Express Airways Limited (“HKE”).

Upon completion of the transaction on or before 31st December 2019, HKE will become a wholly-owned subsidiary of the company.

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



Q&A

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

