



Analysts Briefing

14th November 2019

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Agenda



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

Hosted by:

- Martin Murray, Chief Financial Officer
- Ronald Lam, Chief Customer and Commercial Officer



Briefing Highlights

Hong Kong civil unrest leads to challenges and an uncertain outlook



- The civil unrest in Hong Kong since August has been exceptionally challenging, severely impacting demand and operations of the business
- Passenger traffic has dipped significantly, particularly for inbound demand from mainland China
- Yield is under intense pressure with reduced premium class travel and an increasing reliance on transit traffic
- The forward bookings outlook remains weak and uncertain
- Cargo demand has been depressed all year as a result of geopolitical tensions, however, we do see some year end improvement as the market enters into its traditional peak season
- Results are negatively impacted by a strong USD
- Despite cost reduction measures, our expectation remains that our second-half financial results will be significantly below those of our first-half



Operating Performance

Passenger Services

Declining load factor and yield under intense pressure



		Up to Oct 2019	Up to Oct 2018	% Var
ASK	Million	137,039	128,790	+6.4%
RPK	Million	112,740	108,423	+4.0%
Revenue Passengers carried	'000	29,615	29,479	+0.5%
Passenger load factor	%	82.3	84.2	-1.9%pt

- Inbound passenger traffic was down 38% in August and September, and 35% in October. Outbound passenger traffic was down 12% in August, 9% in September and 13% in October. Load factor decreased by 7.2% in August and September and 4.0% in October
- Reduced demand from mainland China and for premium class travel, together with increased reliance on transit passengers resulted in significant yield pressure
- In response to weakened travel sentiment, we have reduced passenger flight capacity 2-4% between August and October and 6-7% for November and December

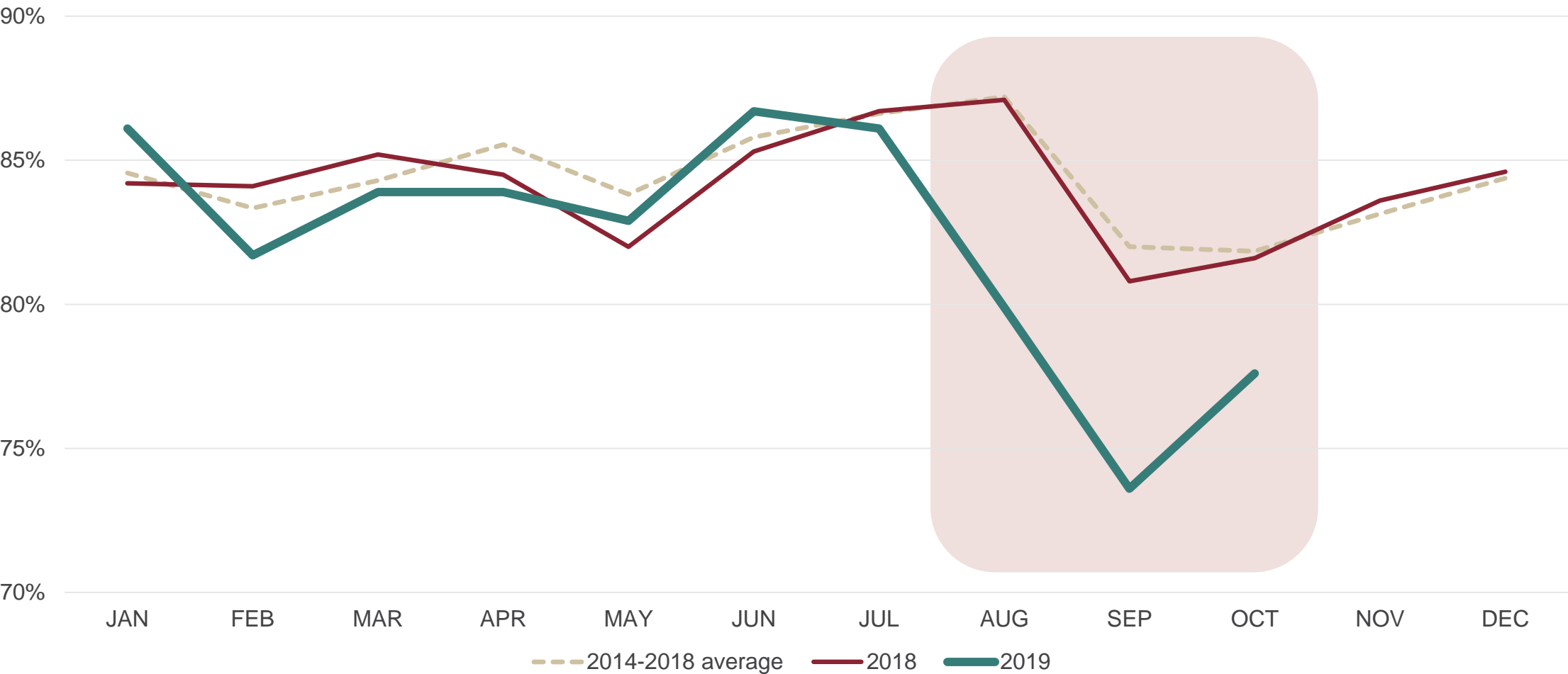
Passenger load factor adversely impacted from August



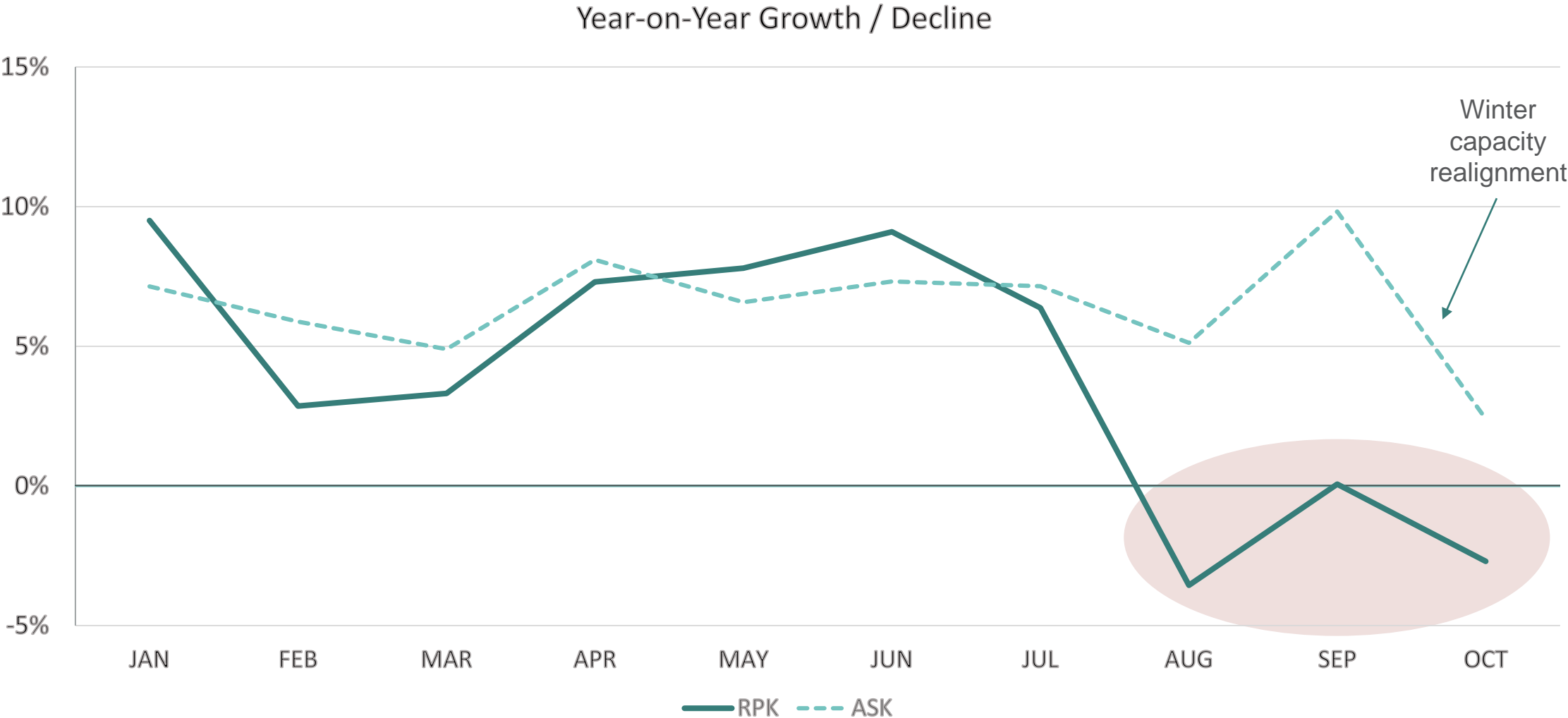
Year to October Load Factor

2018 : 84.2%

2019 : 82.3%



This is due to a significant RPK decline, despite ASK growth



2019 new destinations and frequencies



March	<ul style="list-style-type: none"> Introduced a four-times weekly service to Seattle Increased 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 2019 Increased 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 2019 Increased services to Dhaka from four times weekly to five times weekly
August	<ul style="list-style-type: none"> Announced the return of winter seasonal service to Tokushima from December 2019 until March 2020
October	<ul style="list-style-type: none"> Introduced a new two times weekly winter seasonal service to Niigata from October 2019 until March 2020

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

Capacity growth has been in long haul due to full year effect of 2018 expansion and B777 new economy seating



YTD Oct 2019 statistics

Americas

ASK: **+10.4%**
LF: **-4.5%pts**

Europe

ASK: **+9.8%**
LF: **-0.4%pts**

South Asia,
Middle East,
and S. Africa
ASK: **+7.2%**
LF: **-0.3%pts**

Southeast Asia

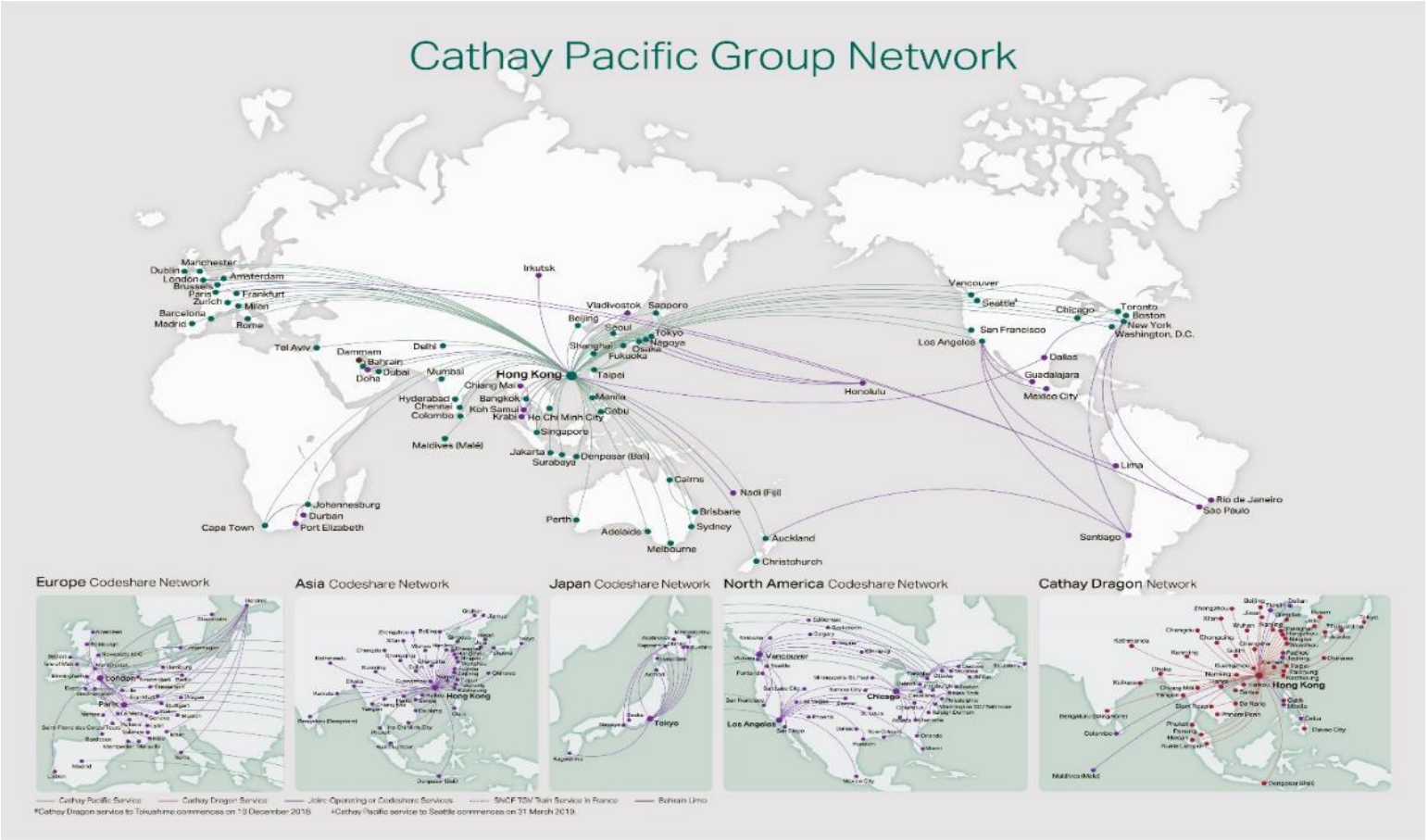
ASK: **+2.8%**
LF: **-1.8%pt**

North Asia

ASK: **+2.7%**
LF: **-3.8%pt**

Southwest Pacific

ASK: **+1.6%**
LF: **+2.8%pts**



However, winter capacity reductions have been necessary



- To counter weakened travel sentiment, we have made some ad hoc capacity adjustments to align with demand, and there will be some structural consolidation in frequencies on both long-haul and regional routes for the duration of our 2019 winter schedule to the following destinations:

Long Haul
Vancouver, New York, Washington
D.C., Frankfurt and Paris

Medium & Short Haul
Shanghai, Beijing, Taipei, Bangkok,
Tokyo (Haneda), Osaka, Seoul,
Denpasar, Bangkok and Colombo

- Our services to Dublin and Medan have been suspended for winter 2019



Operating Performance

Cargo Services

Weaker cargo market as a result of geopolitical tensions



		Up to Oct 2019	Up to Oct 2018	% Var
Available cargo & mail Tonne Kilometres (AFTK)	Million	14,627	14,569	+0.4%
Cargo RFTK	Million	9,333	10,024	-6.9%
Cargo carried	'000 tonnes	1,666	1,784	-6.6%
Cargo load factor	%	63.8	68.8	-5.0%pt

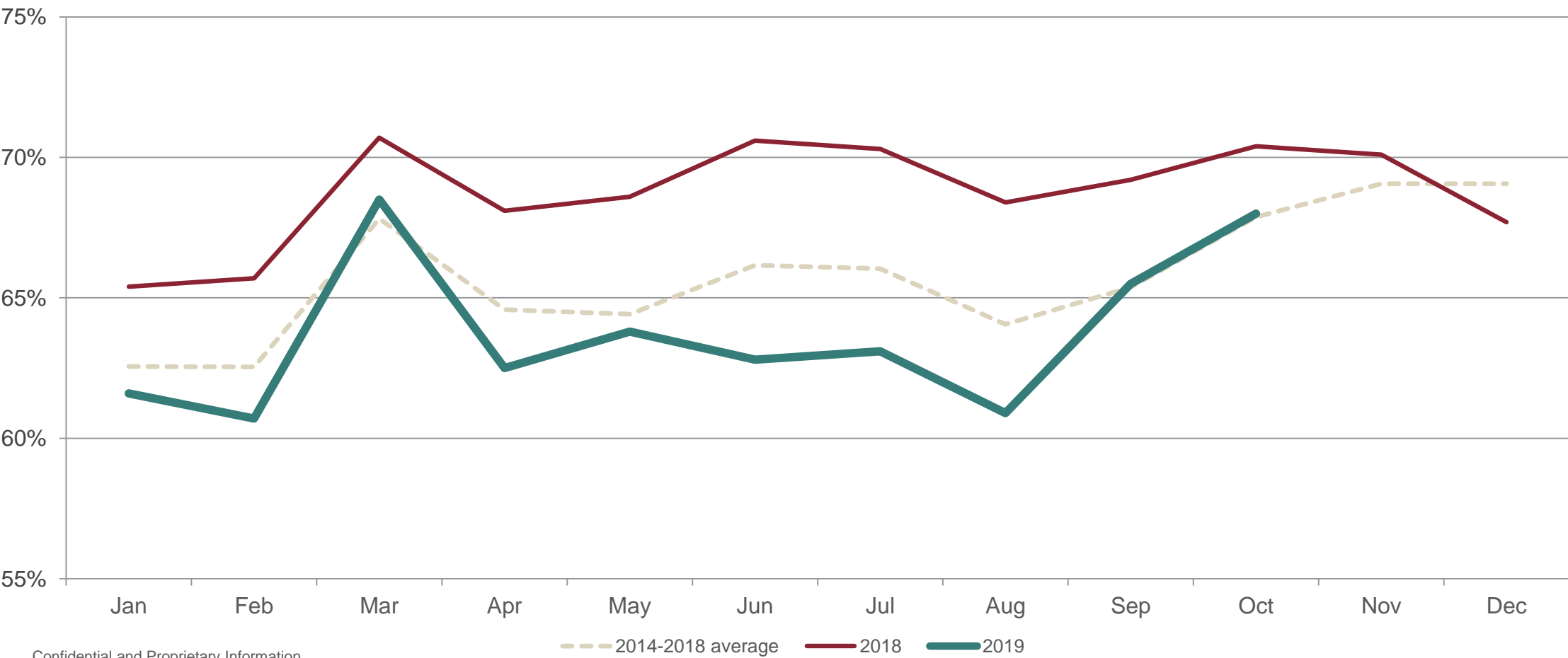
- Marginal capacity growth led by an increase in passenger belly space, partially offset by one freighter retirement
- Geopolitical tensions have impacted cargo traffic demand, however, there has been some positive momentum since September as the market enters its traditional peak season
- Overall cargo yield remains significantly below that of last year

Cargo load factor depressed



Year to October Load Factor

2018 : 68.8%
2019 : 63.8%



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Driven by lower traffic on largely static capacity





Operating Performance

Operating costs

Transformation programme continues to counter pressures on cost per ATK



- 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 in our customer experience
- Inflationary pressure and operational constraints continue to impose costs
- USD strengthening trend, resulting in weaker net revenues and exchange losses on USD denominated loans

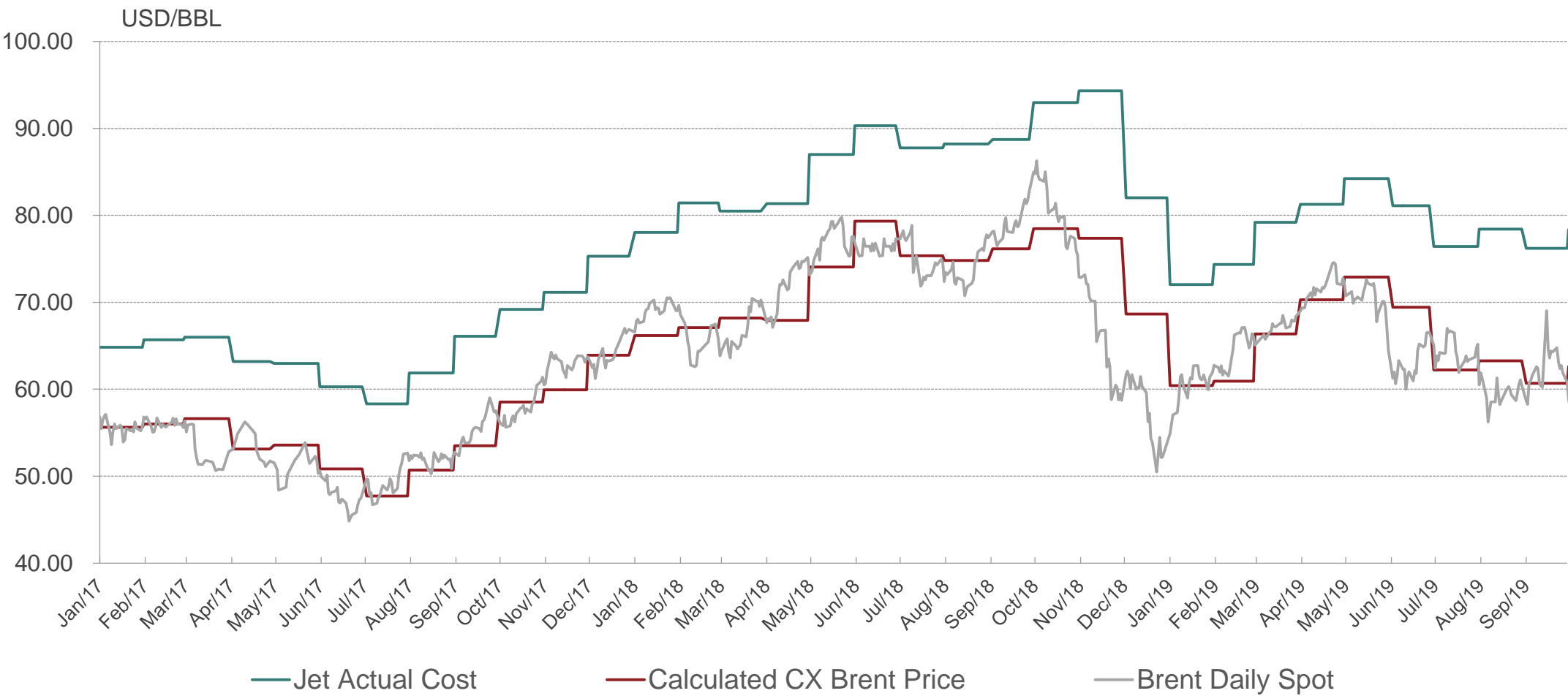
However

- Our transformation programme's focus continues to counter rising unit cost pressures
- Capacity reductions have been effected in both passenger and cargo to optimize traffic and reduce cost
- We are focusing on staff productivity and have implemented a hiring freeze. Projects have been prioritised and non critical spend deferred or cancelled

Fuel prices



CX Jet Cost and Calculated CX Brent Price



Forward fuel hedging position



Fuel hedging coverage as at end Oct

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
4 th Quarter 2019	40.7%	62.74
1 st Quarter 2020	35.8%	64.96
2 nd Quarter 2020	35.1%	65.41
3 rd Quarter 2020	36.8%	63.63
4 th Quarter 2020	34.8%	61.37
1 st Quarter 2021	29.5%	60.16
2 nd Quarter 2021	23.4%	58.49
3 rd Quarter 2021	13.0%	56.91
4 th Quarter 2021	1.4%	56.01

US\$ strength returns and trends above long term average



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





Operating Performance

Subsidiaries and Associates

Hong Kong Express update



- On 19th July 2019, Cathay Pacific completed the acquisition of 100% of the share capital of Hong Kong Express Airways Limited (Hong Kong Express), Hong Kong's only low-cost carrier
- A smooth transition has taken place and the airline continues to operate as a standalone low-cost carrier, operating 24 aircraft
- The current unrest is expected to lead to a small post acquisition loss for Hong Kong Express
- On 8 November 2019 we announced half of the new A321neo fleet (16 of 32 new aircraft) would be reallocated to Hong Kong Express

Other major subsidiaries



air Hongkong

- Operation of a freighter network to destinations in Asia for DHL International under a new block space agreement commenced on 1 January 2019



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



- Membership exceeded 11 million worldwide; increased business volume year-on-year



- Decrease in cargo tonnage handled, partially offset by reduced outsourced staff costs and productivity focus

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
- For the twelve months ended 30th September 2019, Air China's financial results improved compared to those for the twelve months ended 30th September 2018



- Air China Cargo's (ACC) financial results declined from the same period last year due to intense competition in the air cargo market
- From the 31 October 2019, Cathay Pacific's equity and economic interest of **49%** was diluted to **34.78%** as part of the controlling shareholder's (China National Aviation Holding Company, CNAHC) mixed-ownership reform in air freight logistics. The CNAHC group injected cash and equity interests to increase its shareholdings in ACC to 65.22%



Fleet Profile

Fleet simplification and investment programme leads to reduced costs and emissions and a better 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 for six Airbus A350 aircraft in 2019
 - 24 A350-900 aircraft and 12 A350-1000 aircraft are now in service
 - Used aircraft deliveries.
 - Delivery taken for three used Boeing 777-300 aircraft in 2019
 - Retirement of older fleet types.
 - Three B777-200 aircraft and one B747-400BCF freighter have been retired in 2019
 - Return of aircraft
 - Return of two A330-300s and one B777-300ER in 2019

CX & KA Fleet profile as at 31 Oct 2019*



Aircraft type Includes parked aircraft	Total as at 31 Dec 2018	Owned	Finance Leased	Operating Leased	Total as at 31 Oct 2019	Aircraft deliveries Nov 2019 - 2024
A320-200	15	5	-	10	15	-
A321-200	8	2	-	6	8	-
A321NEO	-	-	-	-	-	32
A330-300	58	38	10	8	56 -	-
A350-900	22	18	4	2	24 +	4
A350-1000	8	9	3	-	12 +	8
747-400BCF	1	-	-	-	- -	-
747-400ERF	6	-	6	-	6	-
747-8F	14	3	11	-	14	-
777-200	4	1	-	-	1 -	-
777-300	14	17	-	-	17 +	-
777-300ER	52	22	8	21	51 -	-
777-9	-	-	-	-	-	21
Total	202	115	42	47	204	65

Freighters

* Excludes Air Hong Kong and Hong Kong Express

Realignment of 2020 forward aircraft deliveries and retirements



Deliveries (including Hong Kong Express)

Airline	Aircraft type	2020 deliveries (latest fleet plan)	Deferred
UO	A320neo	4	1
KA	A321neo	6	3
CX	A350-900	4	-
CX	A350-1000	3	-
	Total	17	4

Retirements

Airline	Aircraft type	2020 retirements (latest fleet plan)	Accelerated
CX/KA	A330-300	3	-
CX	777-300ER	1	1
KA	A320-200	5	1
KA	A321-200	1	-
	Total	10	2

Net 6 less aircraft than previously planned.



Updates on Transformation Programme

Customer investment – in the air



Enriched inflight entertainment offering



- Four times the entertainment content from newly released movies and more complete boxsets to more Asian content
- Live coverage of sporting events from around the world on A350 aircraft

New first class experience



- Enhanced dining experience being progressively rolled out across First Class routes
- New wellness menus and range of JING teas
- Luxurious new bedding and amenity kits in collaboration with Bamford

Customer investment – in the air



New business class long haul experiences



- Introduction of mattress and slippers for all longhaul flights
- Luxurious new cotton duvet and pillow in collaboration with Bamford
- New dining experience has now been rolled out across all longhaul routes

Enhanced long haul economy class dining experience



- New collaboration with Black Sheep Restaurants with a more contemporary selection of global cuisines in addition to our Hong Kong Flavours range
- For the first time, Economy travelers can also enjoy our own locally brewed Betsy Beer

Customer investment – on the ground

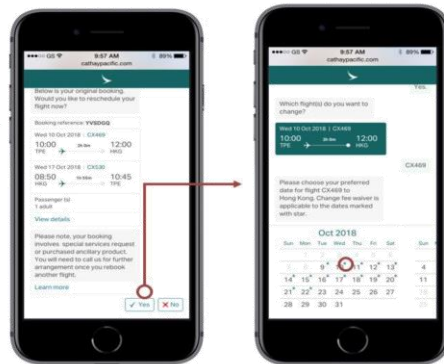


PVG Lounge



- Shanghai Pudong lounge fully renovated and re-opened in July 2019.
- High frequency and important route
- Renovated to our new award winning brand standards and features our iconic Noodle Bar
- Increased seating capacity

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.

Transformation established solid foundations in 2017 and 2018...



Organisation Change

- CX Operations outside of Hong Kong were 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 A321neo and 777-9 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

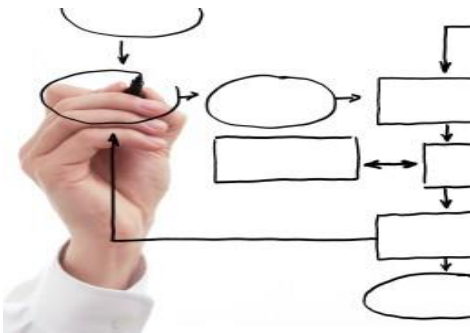


Productivity and Value Management

End-to-end process re-design

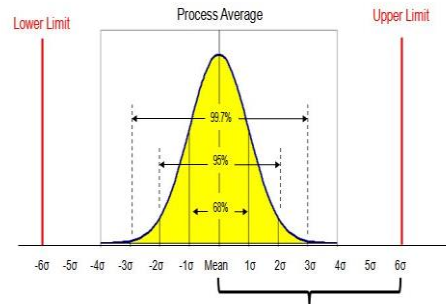
Process Transformation

- 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

- 1,419 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



- Second half results to date and the outlook for the remainder of 2019 is challenging
- Our second-half financial results will be significantly below those of our first-half
- Whilst transit passenger volumes show signs of improvement, advanced bookings for inbound traffic continue to show weakness, particularly from mainland China
- We anticipate our cargo business will continue to face headwinds. We do however see a year end improvement as a result of the traditional high-demand season, particularly from e-commerce
- We remain committed to providing an industry-leading experience to our customers
- We have reduced planned winter 2019 capacity growth by more than 6% to align capacity to passenger and cargo demand, with a keen focus on associated cost reductions
- Our transformation programme continues apace as we seek efficiencies in all areas.



Q&A

For more information, please visit our website

www.cathaypacific.com

