



Analysts Briefing 2019 Interim Results

7 August 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

Solid first half results but strong headwinds leading to cautious outlook



Solid 1H, Driven by Passenger Performance and Productivity Improvements

- Positive Group profit versus a loss in 1H of 2018
- Positive Airlines profit versus a loss in 1H of 2018
- Underlying costs per ATK (ex fuel) down 0.9%

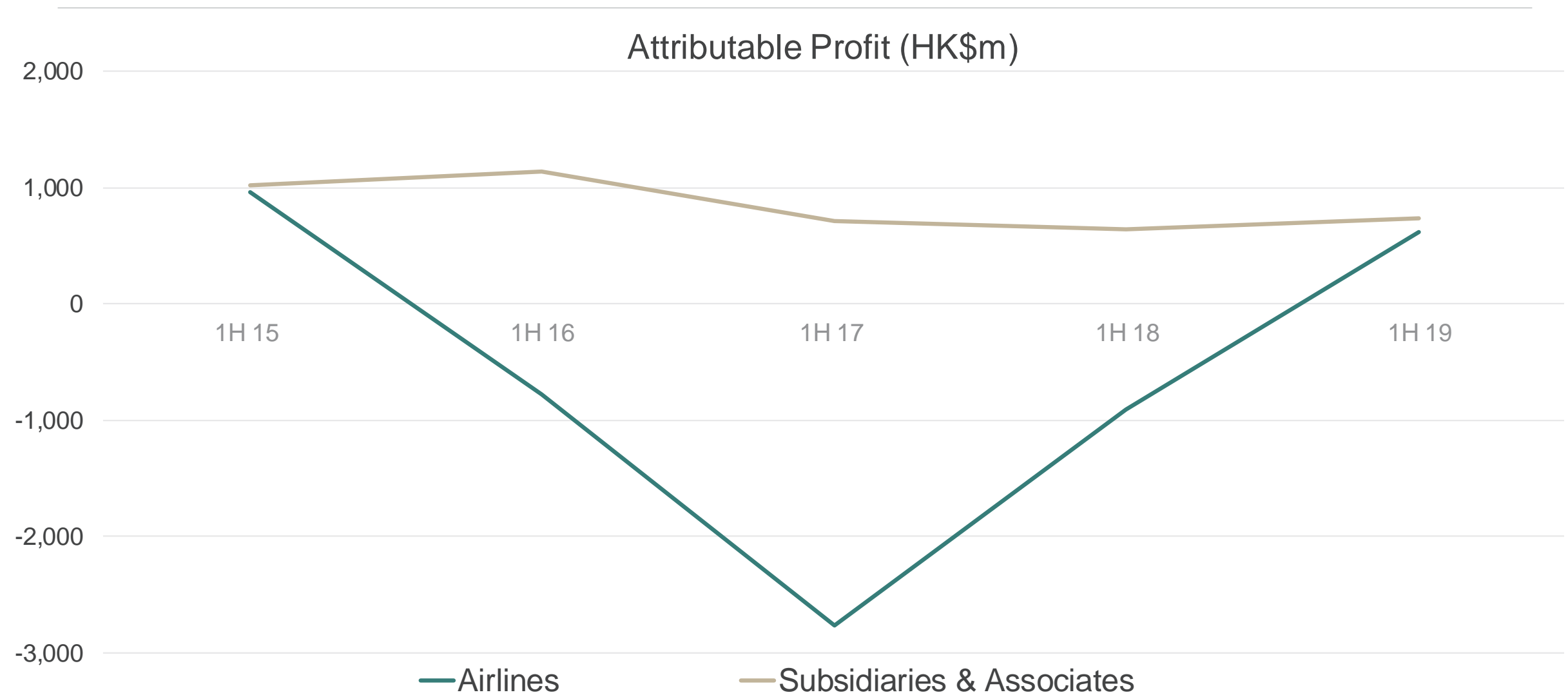
But Strong Headwinds

- Geopolitical and trade tensions impacting demand for air travel and freight
- Passenger yield declined by 0.9% due to intense competition
- Weakening cargo performance against all metrics
- Results negatively impacted by a strengthening USD
- Lower but more volatile fuel costs

Transformation Programme Remains Key Focus

- Ongoing transformation programme has made business more resilient and continues to position it to achieve sustainable long-term growth

Positive momentum driven by the improved performance of our airlines



The Group returned to a profitable first half



HK\$ million	1H 2019	1H 2018	% change
Airlines' profit/(loss) before taxation	907	(743)	+222.1%
Taxation	(292)	(161)	-81.4%
Airlines' profit/(loss) after taxation	615	(904)	+168.0%
Share of profits from subsidiaries & associates	732	641	+14.2%
Group attributable profit/(loss)	1,347	(263)	+612.2%

- The Group reported an attributable profit of HK\$1,347 million for the period, compared with a loss of HK\$(263) million in 2018
- Improved results driven by lower fuel and non-fuel unit operating costs, despite revenue headwinds

Financial and operating highlights

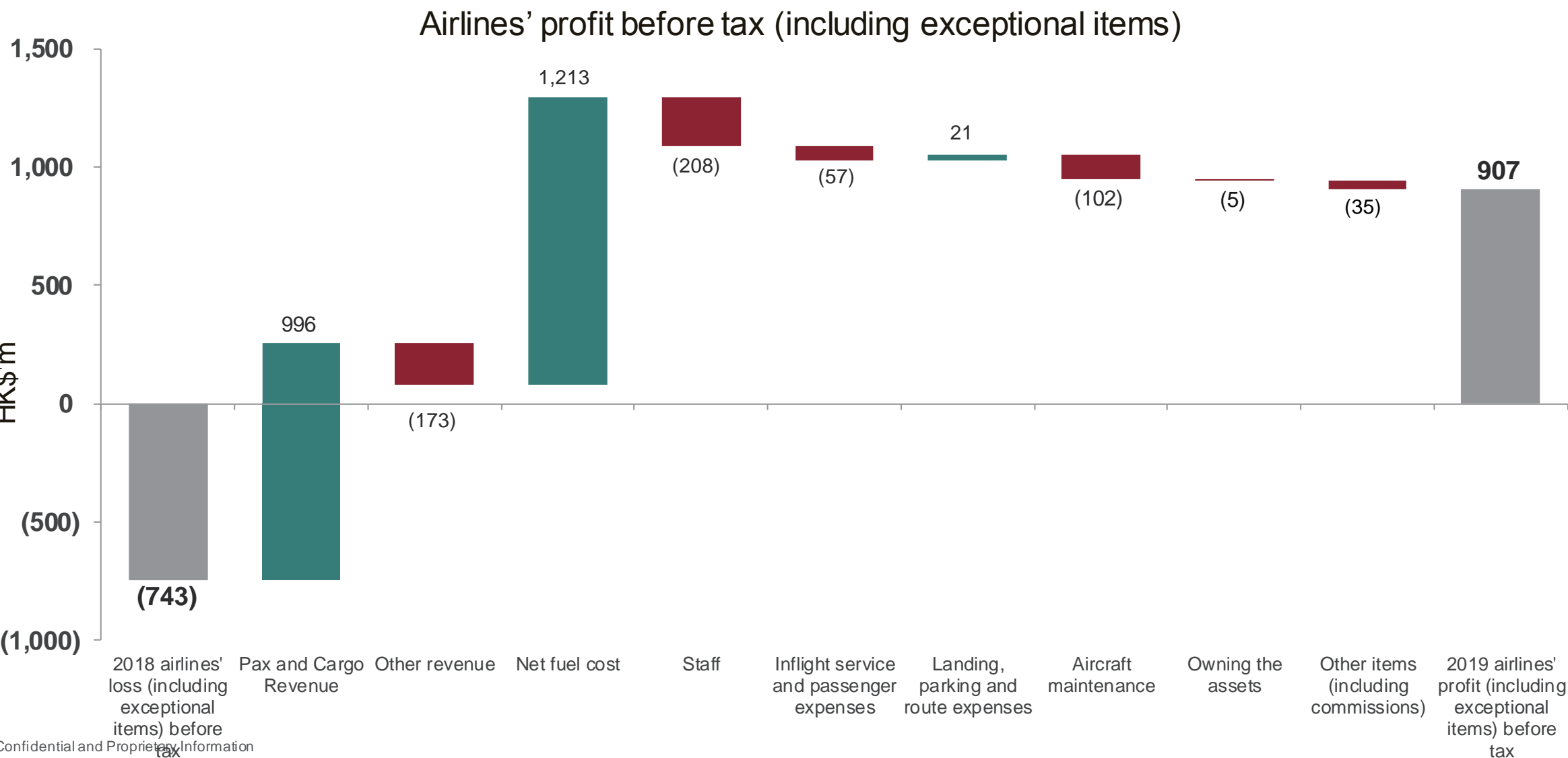


Group Financial Statistics		1H2019	1H2018	Change
Group Revenue	HK\$m	53,547	53,078	+0.9%
Airlines' profit/(loss) after taxation	HK\$m	615	(904)	+1,519
Group attributable profit/(loss)	HK\$m	1,347	(263)	+1,610

Operating Statistics – Cathay Pacific & Cathay Dragon		1H2019	1H2018	Change
Available tonne kilometres (ATK)	million	16,318	15,747	+3.6%
Available seat kilometres (ASK)	million	80,814	75,770	+6.7%
Available cargo & mail tonne kilometres (AFTK)	million	8,635	8,542	+1.1%
Passenger yield	HK¢	54.9	55.4	-0.9%
Cargo yield	HK\$	1.88	1.93	-2.6%
Cost per ATK (with fuel)	HK\$	3.12	3.29	-5.2%
Cost per ATK (without fuel)	HK\$	2.23	2.29	-2.6%
Underlying* cost per ATK (without fuel)	HK\$	2.27	2.29	-0.9%

* Excludes exceptional items and is adjusted for the effect of foreign currency movements and adoption of HKFRS 16

Limited cost increases despite growth in capacity





Operating Performance

Passenger Services

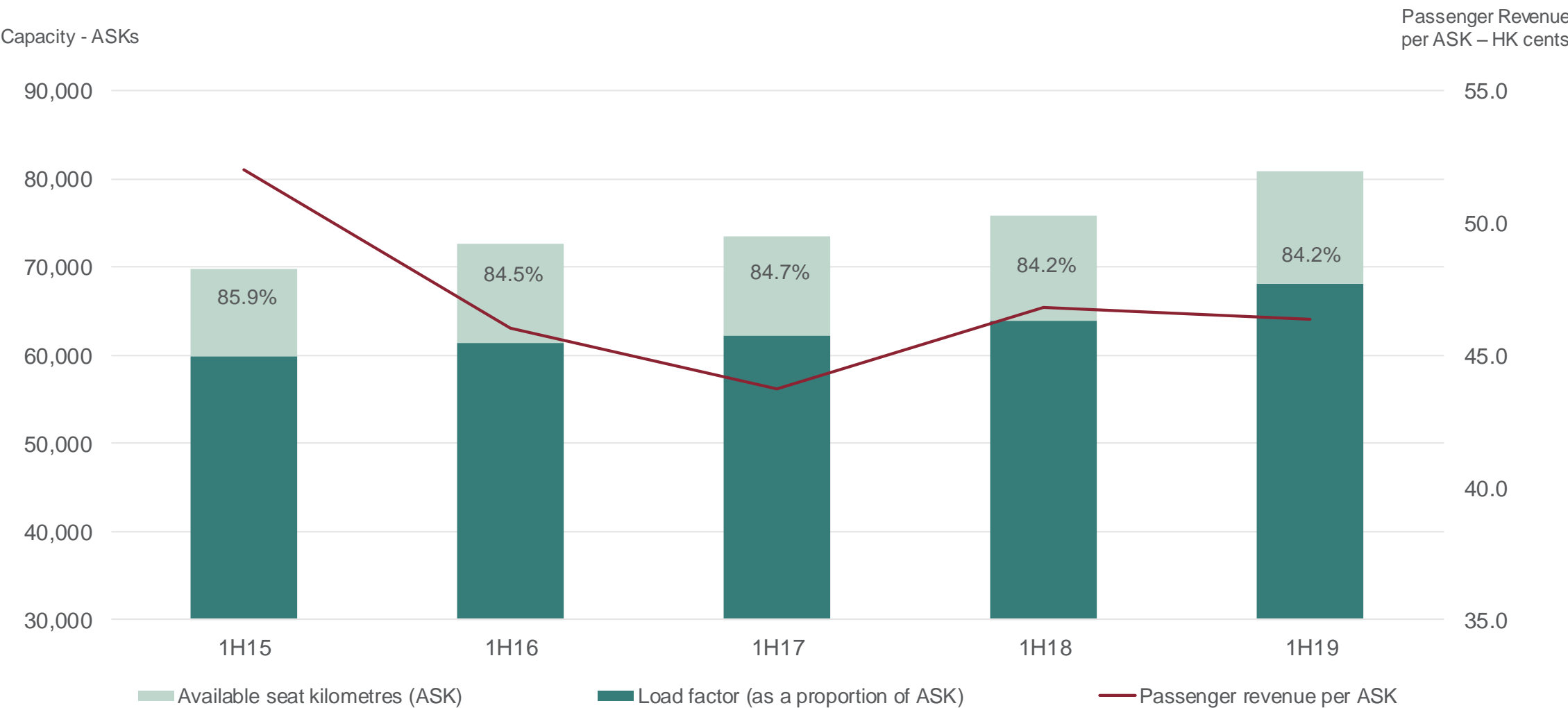
Strong passenger volume growth, but yield under intense pressure due to competition and stronger USD



		1H 2019	1H 2018	% Var
Passenger revenue	HK\$ million	37,449	35,452	+5.6%
ASK	Million	80,814	75,770	+6.7%
RPK	Million	68,078	63,810	+6.7%
Revenue Passengers carried	'000	18,261	17,485	+4.4%
Passenger load factor	%	84.2	84.2	-
Passenger yield	HK cents	54.9	55.4	-0.9%
Passenger Revenue per ASK	HK cents	46.3	46.8	-1.1%

- Capacity increase reflects the full impact of new routes introduced in 2018, launch of two new routes in 2019, increased frequencies on existing routes and use of larger aircraft on popular routes
- Overall load factor remained unchanged reflecting strong premium demand but weaker demand for long haul economy class
- Yield pressure reflects intense competition in both premium classes and long haul economy class, increase in number of transit passengers and unfavorable foreign currency movements

Capacity grew but revenue efficiency declined marginally



New destinations and frequencies continued to strengthen the network



March	<ul style="list-style-type: none"> Introduced a four-times weekly service to Seattle, which became daily in July 2019 Increased services to Frankfurt from daily to 10 times weekly 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 Announced a new two times weekly winter seasonal service to Niigata from October 2019 until March 2020 Announced the return of winter seasonal service to Tokushima from November 2019 until March 2020

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 Jun 2019 statistics

Europe

ASK: **+10.7%**
LF: **+0.1%pt**
Yield: **-1.8%**

Americas

ASK: **+10.3%**
LF: **-2.4%pt**
Yield: **-1.1%**

South Asia, Middle East and Africa

ASK: **+7.9%**
LF: **+1.7%pt**
Yield: **+2.2%**

Southeast Asia

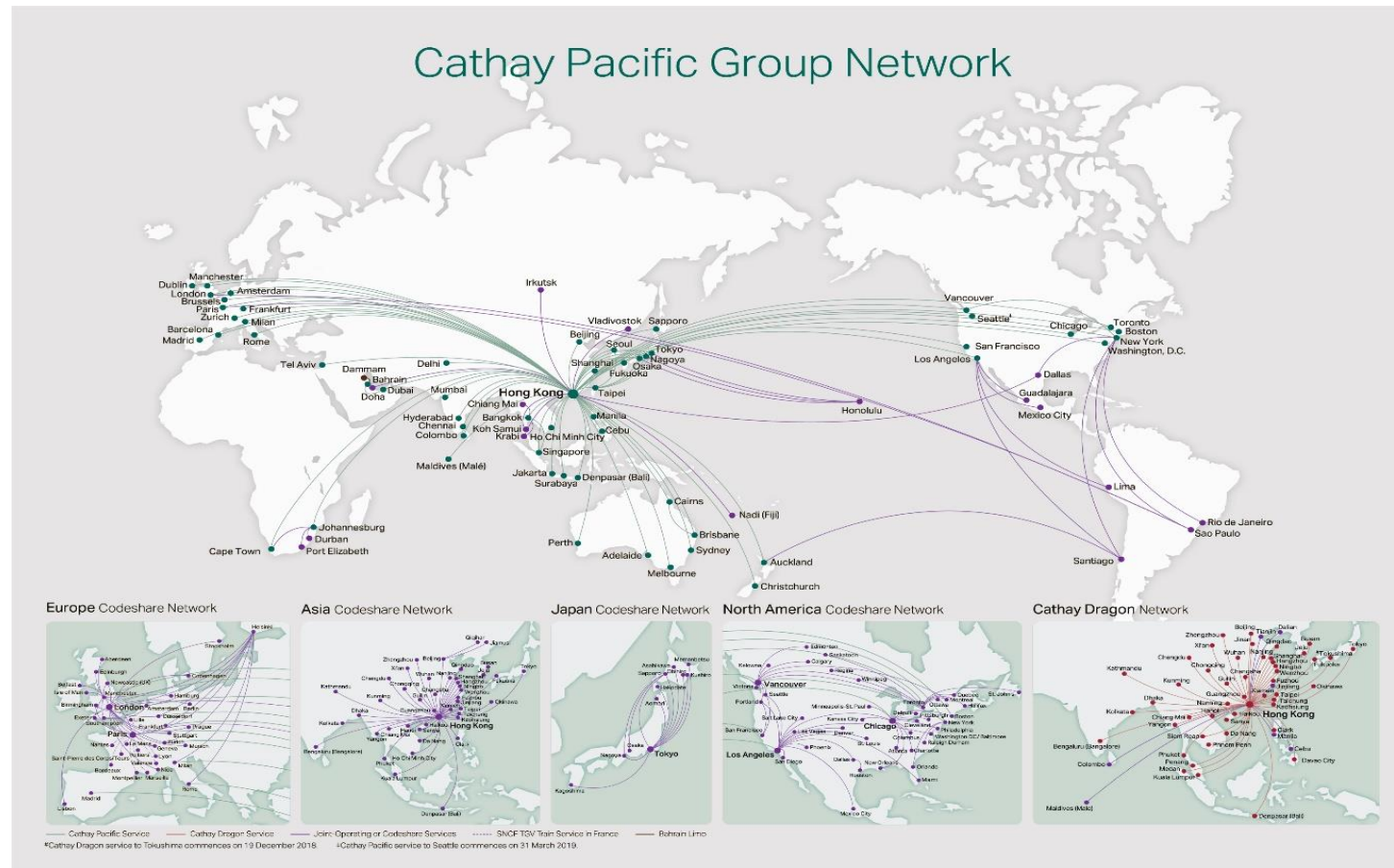
ASK: **+3.3%**
LF: **+0.1%pt**
Yield: **+0.1%**

North Asia

ASK: **+3.3%**
LF: **-**
Yield: **+0.2%**

Southwest Pacific

ASK: **+0.9%**
LF: **+3.8%pt**
Yield: **-2.3%**





Operating Performance

Cargo Services

Air freight market suffered trade headwinds

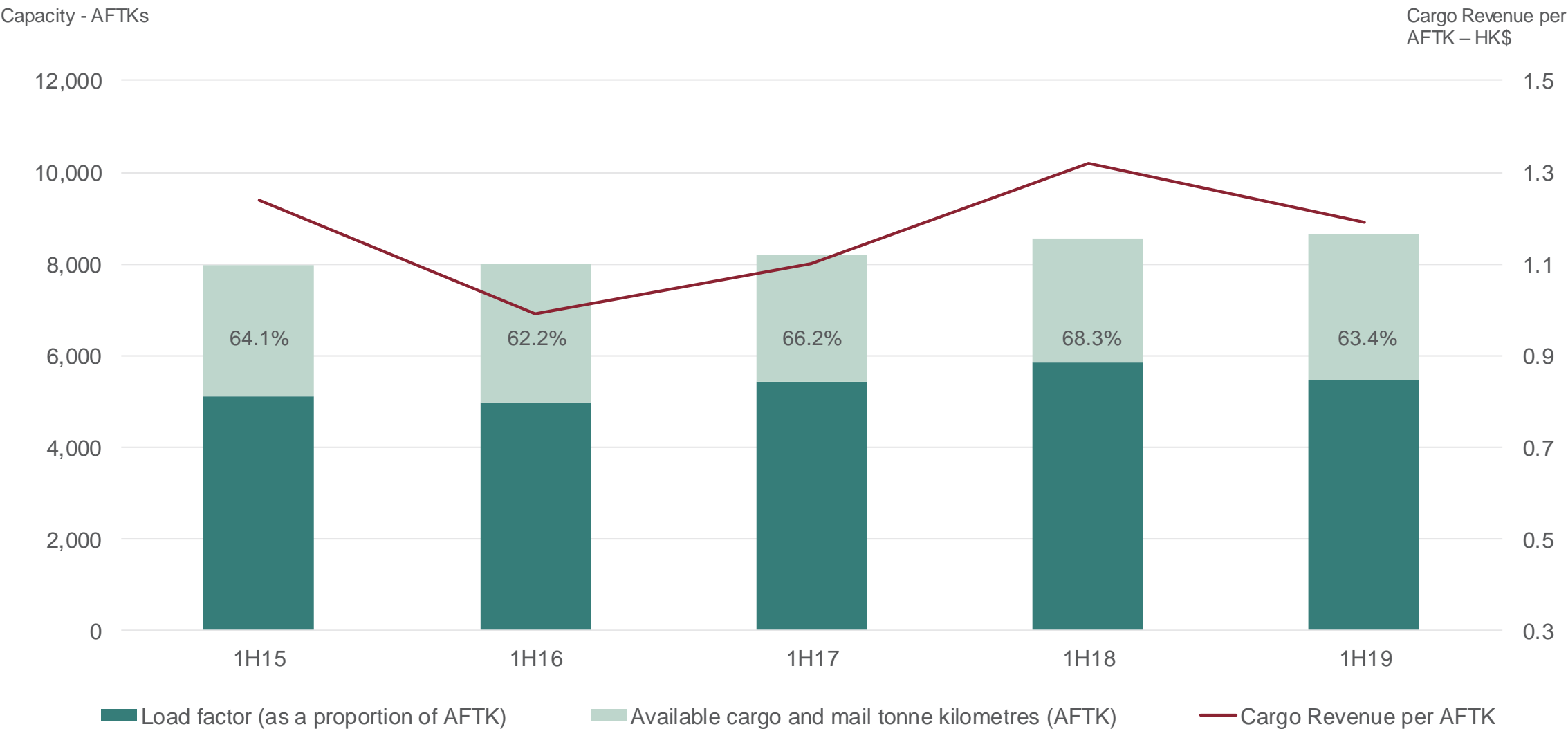


Cathay Pacific & Cathay Dragon:

		1H 2019	1H 2018	% Var
Cargo revenue	HK\$ million	10,275	11,276	-8.9%
Available cargo Tonne Kilometres (AFTK)	Million	8,635	8,542	+1.1%
Cargo RFTK	Million	5,477	5,831	-6.1%
Cargo carried	'000 tonnes	979	1,038	-5.7%
Cargo load factor	%	63.4	68.3	-4.9%pt
Cargo yield	HK\$	1.88	1.93	-2.6%
Cargo revenue per AFTK	HK\$	1.19	1.32	-9.8%

- Overall capacity grew principally due to additional belly space in newly acquired passenger aircraft
- We rationalized freighter capacity and emphasized shipments of specialist cargo
- The decline in cargo carried reflected weaker global trade brought about in part by US-China trade tensions. With the exception of Asia region, all other key markets recorded a year-on-year yield decline

Declining efficiency reflected trade headwinds

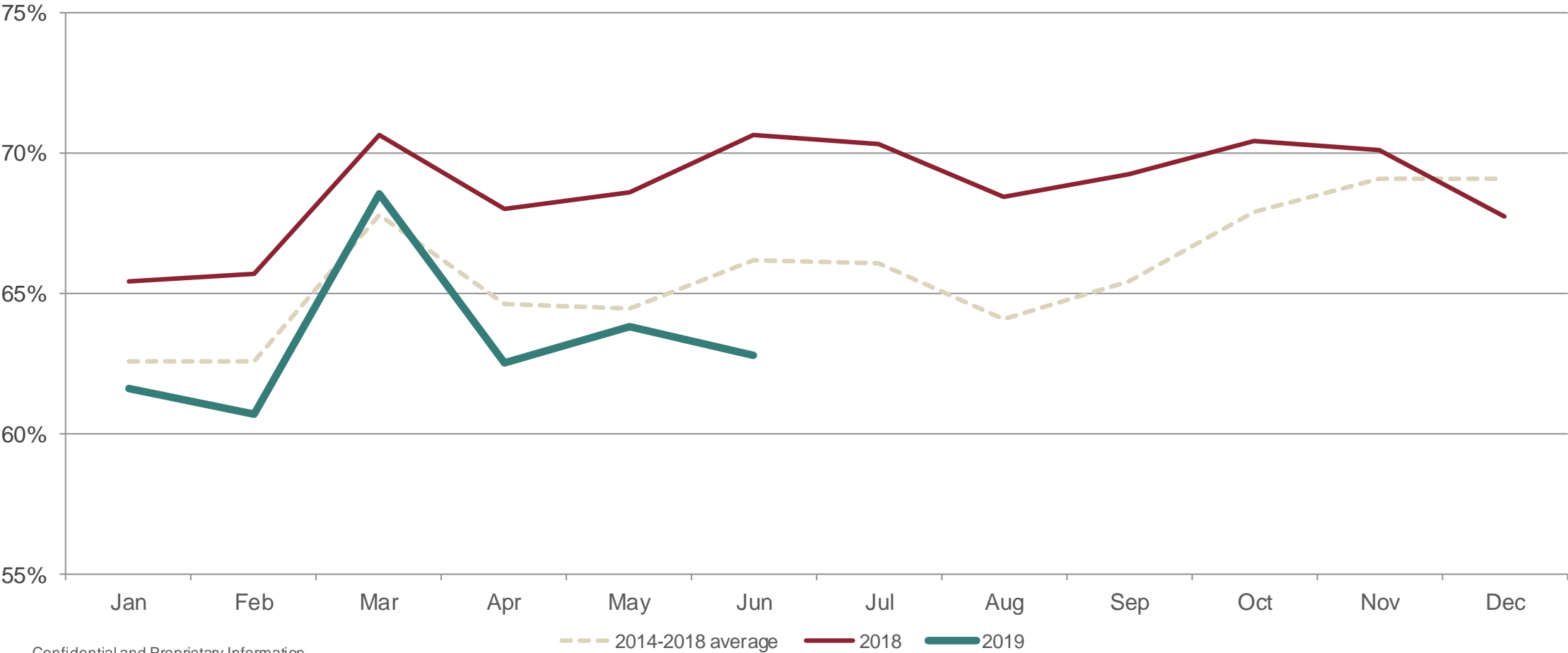


Cargo volumes and load factor fell in response to tariff rises



Year to June Load Factor

2018 : 68.3%
2019 : 63.4%





Operating Performance

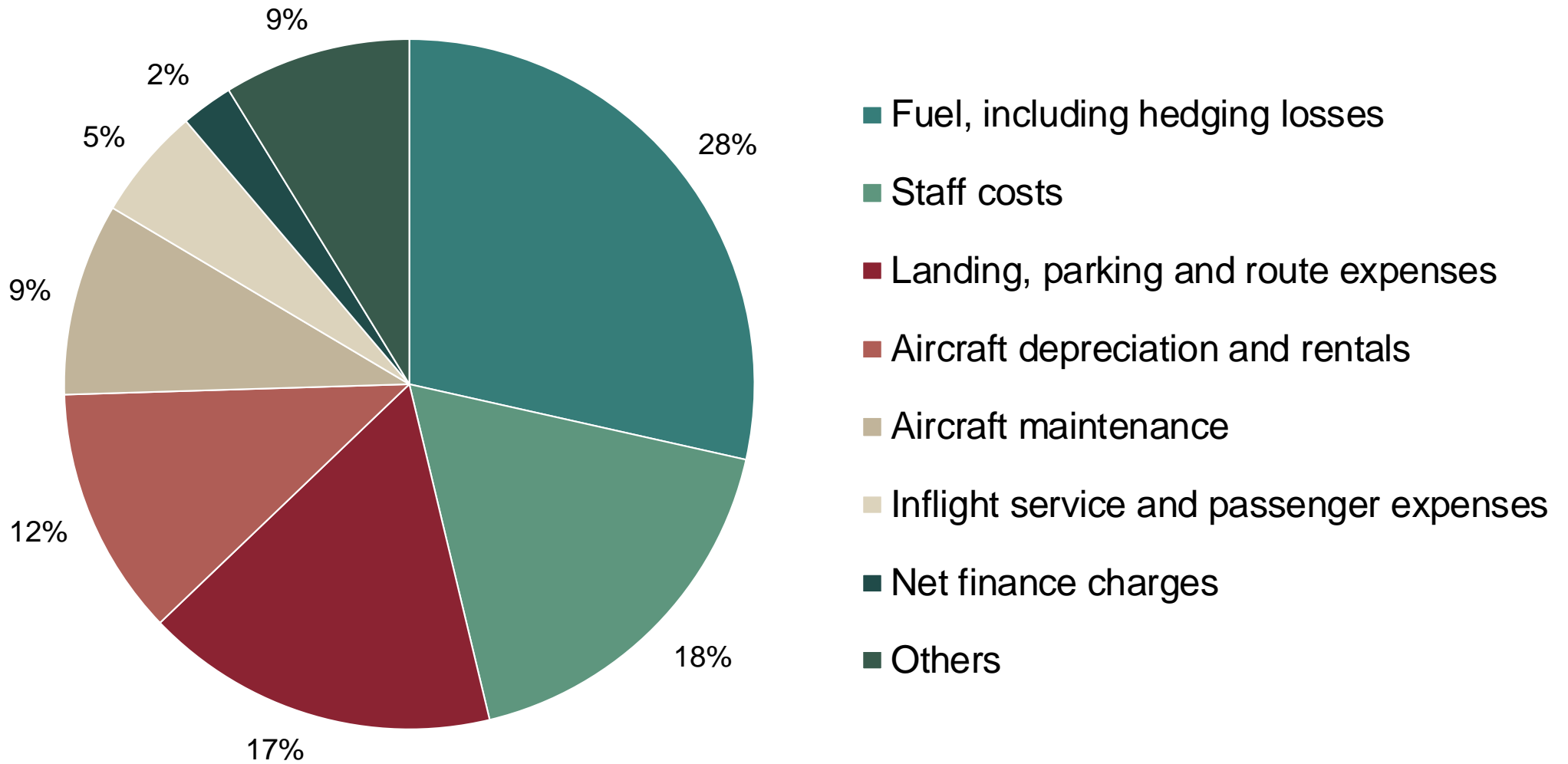
Operating Costs

Improvement in operating costs per ATK

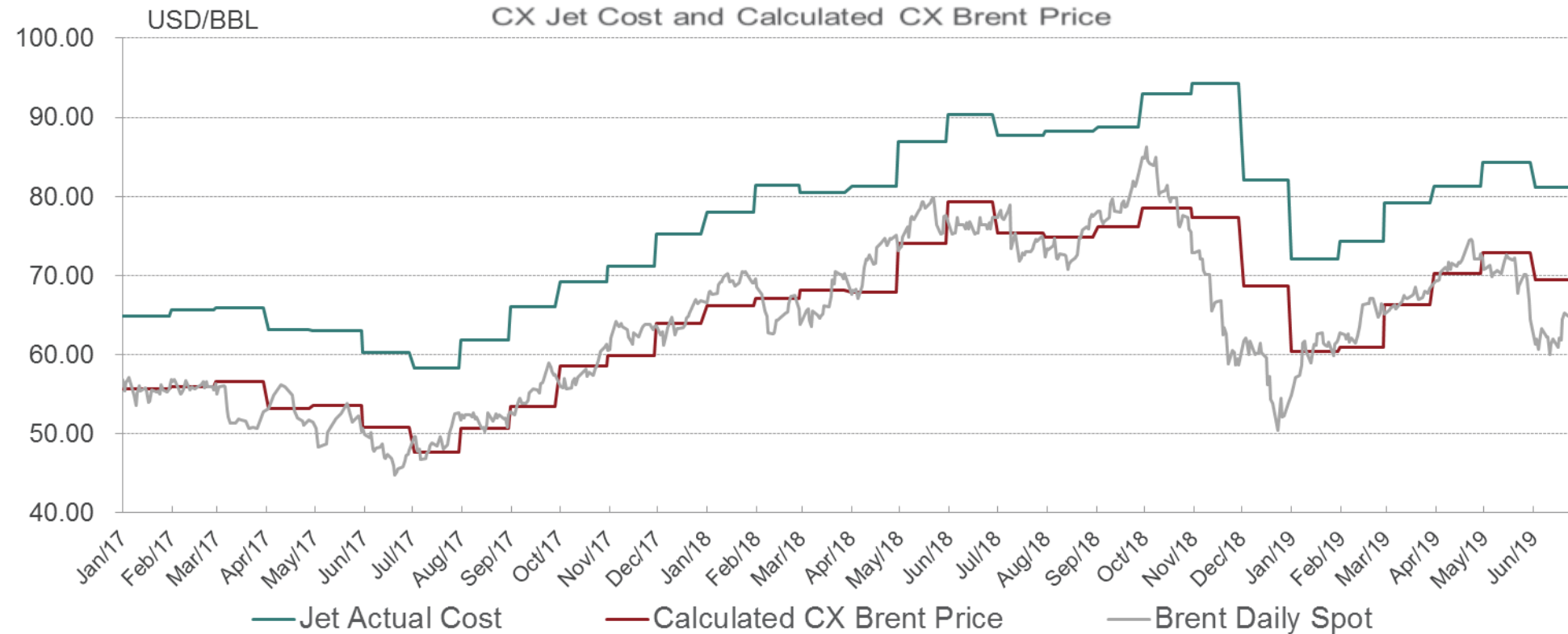


- Economies of scale from the introduction of larger aircraft and a change in economy class seat configuration
- Lower into plane fuel costs reflects growing and efficient A350 fleet and lower jet fuel prices
- Increased Brent volatility and reduced hedging impact
- Reduced unit staff costs and improved productivity following outport reorganisation
- Transformation driving productivity improvement in operations
- Decrease in rentals from fewer leased aircraft, partially offset by an increase in sales and marketing costs and higher net finance charges
- Continued investment in the Brand and the customer experience
- USD continued to strengthen

Operating cost breakdown



Into plane fuel prices



Fuel costs and KPI's	1H 2019	1H 2018	% Var
Group gross fuel cost (HK\$m)	14,693	15,393	-4.5%
Group fuel hedging losses (HK\$m)	114	653	-82.5%
Group fuel cost (HK\$m)	14,807	16,046	-7.7%
Average into-plane fuel price ex hedges (US\$/bbl)	\$82.2	\$88.0	-6.6%
Airlines Fuel consumption per mATK (bbl)	1,369	1,390	-1.5%

Forward fuel hedging position



Cash Flow Hedge reserve at June 2019 a loss of HK\$273m*

Period	Fuel hedging cover	Average strike price (Brent, USD/Bbl)
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	30.0%	66.68
3 rd Quarter 2020	28.1%	65.40
4 th Quarter 2020	24.8%	62.81
1 st Quarter 2021	16.7%	62.14
2 nd Quarter 2021	7.3%	60.59

* Pre-tax

Underlying costs per ATK (ex fuel) down 0.9%



As reported (HK\$M):	1H 2019	1H 2018	% Var
Staff	9,042	8,834	+2.4%
Inflight service and passenger expenses	2,682	2,625	+2.2%
Landing, parking and route expenses	8,451	8,472	-0.2%
Aircraft maintenance	4,592	4,490	+2.3%
Aircraft and other depreciation, amortisation and rentals	6,917	7,257	-4.7%
Net finance charges	1,241	896	+38.5%
Others (including commissions)	3,494	3,459	+1.0%
Total operating costs (without fuel)	36,419	36,033	+1.1%

Cost per ATK (without fuel)	2.23	2.29	-2.6%
Underlying * cost per ATK (without fuel)	2.27	2.29	-0.9%

* Underlying costs exclude exceptional items and are adjusted for the effect of foreign currency movements and adoption of HKFRS 16. Exceptional items include data security costs of HK\$20 million and costs of HK\$39 million associated with the acquisition of Hong Kong Express (2018: a HK\$101 million gain on the disposal of CO2 emissions credits).

US\$ strength returned and trended above the 10 year average of 87.3



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



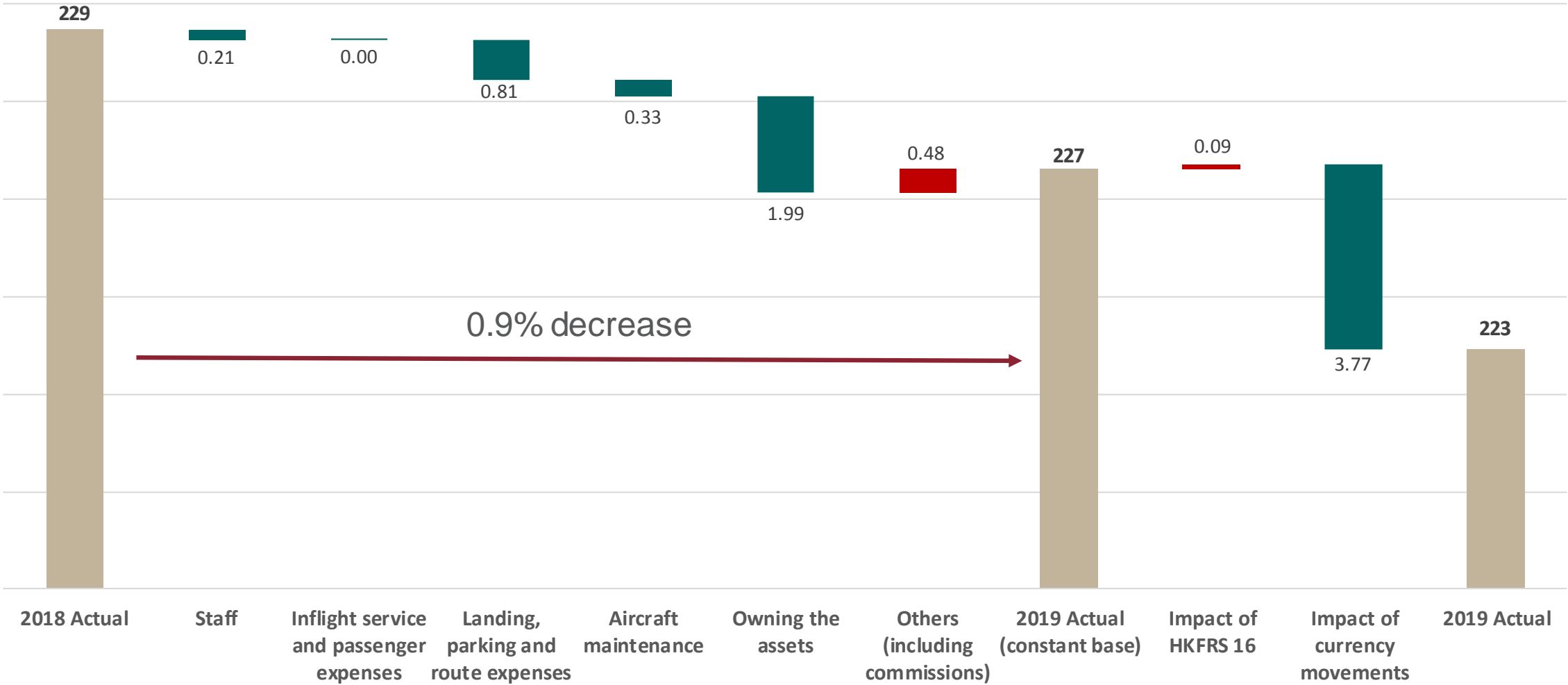
Airlines constant base adjustments



HK\$ million	Reported 2019	Exceptional*	HKFRS16	Currency	Constant base 2019
Passenger & cargo services	47,724			629	48,353
Catering, recoveries and other services	4,126			22	4,148
Total revenue	51,850	-	-	651	52,501
Staff	(9,042)			(78)	(9,120)
Inflight service and passenger expenses	(2,682)			(38)	(2,720)
Landing, parking and route expenses	(8,451)			(196)	(8,647)
Fuel, including hedging losses	(14,524)			18	(14,506)
Aircraft maintenance	(4,592)			(7)	(4,599)
Owning the assets	(8,158)		39	(6)	(8,125)
Others (including commissions)	(3,494)	59	(24)	(309)	(3,768)
Total operating expenses	(50,943)	59	15	(616)	(51,485)
Airlines profit before taxation	907	59	15	35	1,016

* Exceptional items include data security costs of HK\$20 million and costs of HK\$39 million associated with the acquisition of Hong Kong Express.

Underlying cost per ATK (without fuel) before impact of HKFRS16 and currency decreased 0.9%





Operating Performance

Subsidiaries and Associates

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, rent and rates, 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 six months ended 31st March 2019, Air China's financial results improved compared to those for the six months ended 31st March 2018



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



Operating Performance

Other Financials

Interim Cash Flow and Balance Sheet movements (Pre HKFRS 16)



Cash Flow	30 Jun 2019 HK\$M (Pre HKFRS 16)	30 Jun 2018 HK\$M	% Var (Pre HKFRS 16)
Net cash inflow from operating activities	8,209	8,493	-3.3%
Net cash outflow from investing activities*	(9,869)	(3,769)	-161.8%
Net cash (outflow)/inflow pre financing	(1,660)	4,724	n/a
Net cash outflow from financing activities	(1,185)	(8,486)	-86.0%

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

Balance Sheet	30 Jun 2019 HK\$M (Pre HKFRS 16)	31 Dec 2018 HK\$M	% Var (Pre HKFRS 16)
Shareholders' Funds	64,935	63,936	+1.6%
Net Borrowings	61,065	58,581	+4.2%
Capital Employed (including non-controlling interests)	126,003	122,520	+2.8%
Net Debt/Equity Ratio	0.94	0.92	+0.02 times

HKFRS 16 – Balance Sheet Impact



The opening impact on key account items at 1 January 2019 of adopting HKFRS 16 is as follows:

Key balance sheet accounts impacted by HKFRS 16	31st Dec 2018	1st Jan 2019	Adjustments	Description of adjustments
	HK\$M	HK\$M	HK\$M	
	Excl. HKFRS 16	Incl. HKFRS 16		
Property, plant and equipment (including leasehold land prepayments)	118,340	135,690	17,350	Right-of-use assets recognised for leases previously classified as operating leases and now brought onto the balance sheet. There is also a reclassification of leasehold land prepayments
Investments in associates	27,570	26,351	(1,219)	Impact to CX Group of HKFRS 16 for associate companies
Long term liabilities	(73,877)	(92,480)	(18,603)	Additional lease liabilities for leases previously classified as operating leases under HKAS 17
Equity	46,830	44,484	(2,346)	Impact to opening reserves for transition to HKFRS 16
Net Debt/Equity Ratio	0.92	1.25	0.33	

Note that the above table intentionally does not add through. There are additional non-material reconciling movements in other receivables, payables and deferred tax.

HKFRS 16 – Profit & Loss and Cash Flow Impact

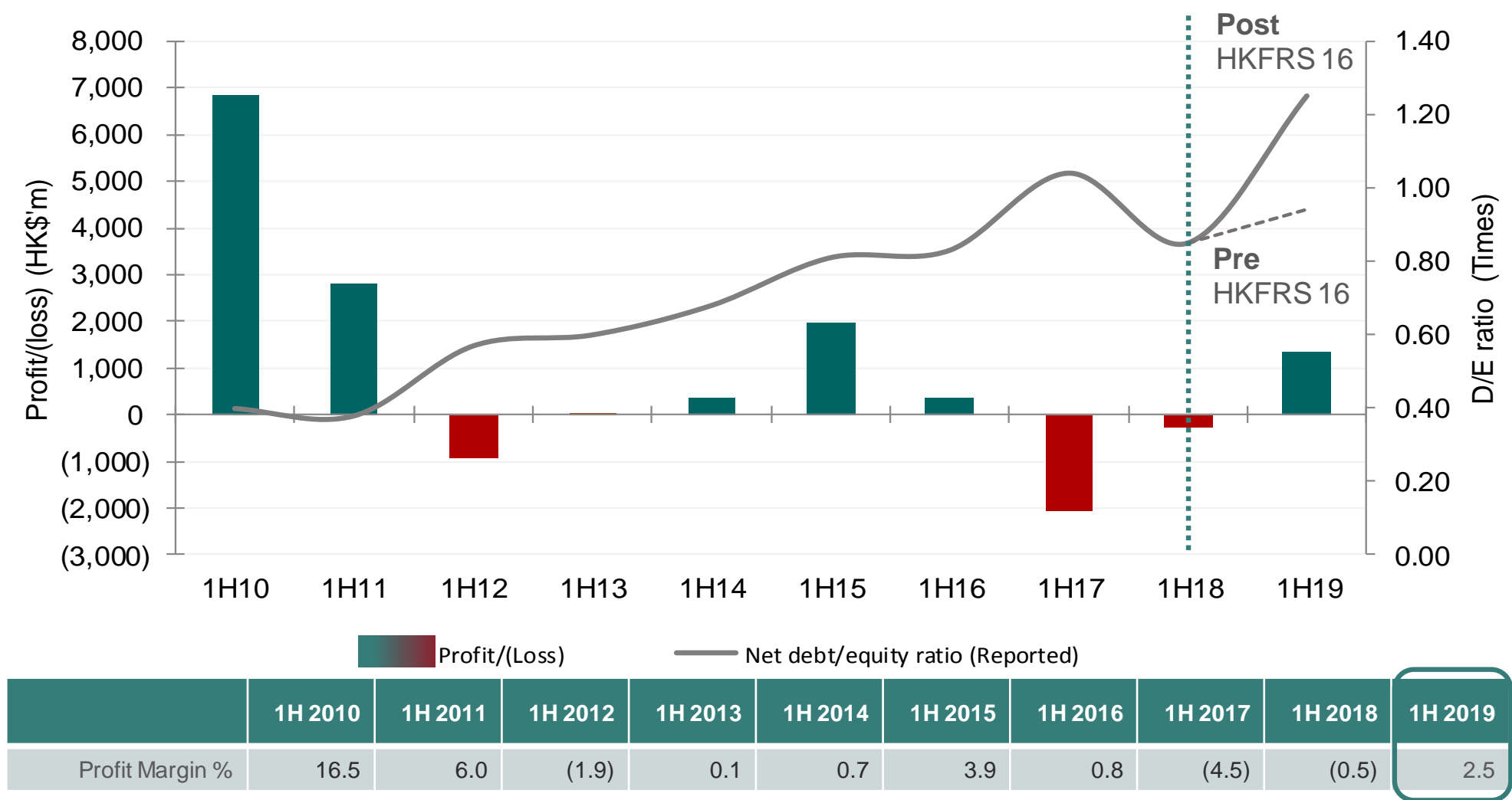


The in year impact for the 6 months to 30 June 2019 of adopting HKFRS 16 is as follows:

HKFRS 16 impact on statement of Profit & Loss	30th June 2019
	HK\$M
Decrease in lease charges	2,023
Increase in depreciation of property, plant and equipment	(1,732)
Increase in finance charges	(340)
Decrease in exchange differences, net	24
Decrease in taxation	2
Net impact (loss) to Profit & Loss	(23)

HKFRS 16 impact on statement of Cash Flows	30th June 2019
	HK\$M
Increase in cash generated from operations	1,999
Increase in interest paid	(340)
Increase in net cash inflow from operating activities	1,659
Increase in loan and lease repayments (principal element)	(1,659)
Increase in net cash outflow from financing activities	(1,659)
Net impact to statement of Cash Flows	Nil

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





Fleet Profile

CX & KA Fleet profile as at 30 Jun 2019



Aircraft type Includes parked aircraft	Total as at 31 Dec 2018	Owned	Finance Leased	Operating Leased	Total as at 30 Jun 2019	Aircraft deliveries Jul 2019 - 2024
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	15	-	-	15 +	2*
777-300ER	52	22	8	22	52	-
777-9	-	-	-	-	-	21
Total	202	114	42	50	206	69

Freighters

* Used aircraft

Fleet simplification and investment programme leads to reduced costs and emissions and a better customer experience



- **Continued simplification of the number of sub-fleets has reduced cost and complexity in deployment**
- **Continued investments in more fuel-efficient fleet provided enhanced customer experience**
 - New modern aircraft deliveries.
 - Delivery taken of four Airbus A350-1000 aircraft up to Jun 2019
 - 22 A350-900 aircraft and 12 A350-1000 aircraft are now in service
 - Two more A350 deliveries expected by the end of 2019
 - Used aircraft deliveries.
 - Delivery taken of one used Boeing 777-300 aircraft in the first half of 2019
 - Two used Boeing 777-300 will be delivered in the second half of 2019
 - Retirement of older fleet types.
 - One Boeing 777-200 aircraft was retired in 2019
- **Forward aircraft deliveries**
 - A total of 69 scheduled aircraft deliveries as at 30 Jun 2019, 67 of which are new and 2 are used



Updates on Transformation Programme

‘Move Beyond’ Brand Re Launch

- Our ambition is to become one of the world's greatest service brands



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

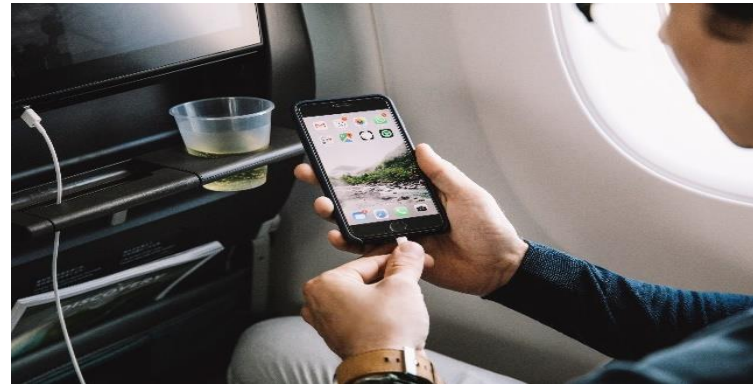
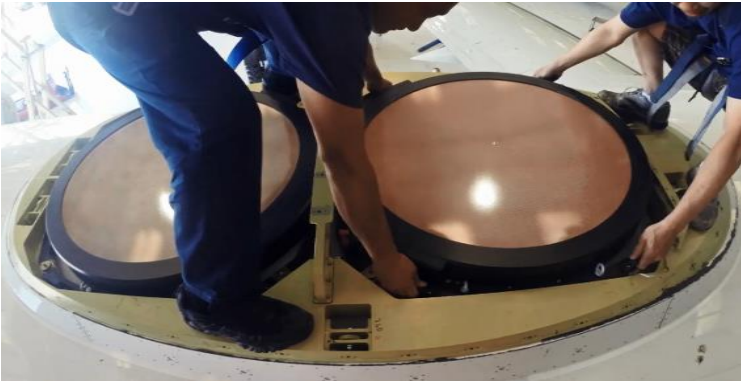


- Chatbot enhancements to allow eligible customers a seamless online booking amendment during disruption to a preferred flight, date and time.
- This can be achieved with a few simple clicks, avoiding the need for calls or queues.

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
- Rollout now completed across all lonhaul routes

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 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

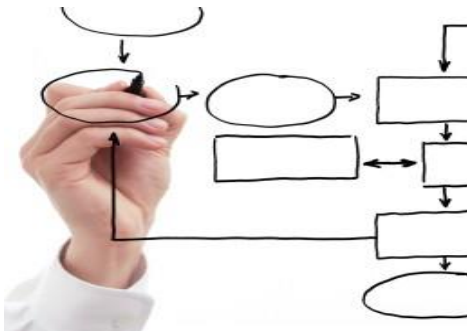


Productivity and Value Management

End-to-end process re-design

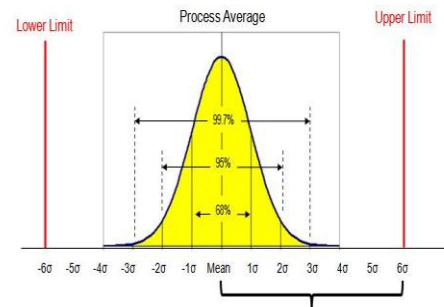
Process Transformation

- 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



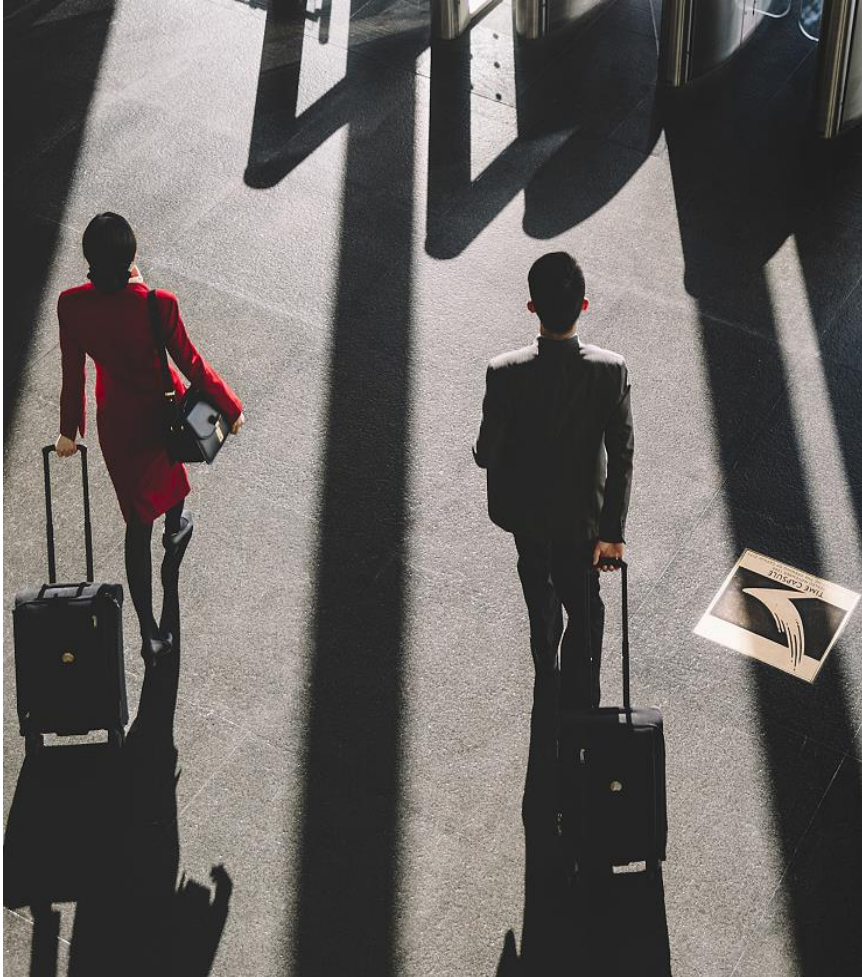
Global Business Service

- 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



Short-term:

- Geopolitical and trade tensions have escalated and are expected to continue to affect the global economy with the knock-on impact on demand for air travel and freight
- The protests in Hong Kong reduced inbound passenger traffic in July and are adversely impacting forward bookings
- Passenger business will continue to be affected by intense competition and cargo volume and yield is expected to remain difficult
- We expect the USD to remain strong
- Fuel costs have recently weakened but we continue to expect price volatility

Medium-term:

- We remain confident in Hong Kong's position as the largest aviation hub in Asia and its connectivity with the Greater Bay Area
- Our transformation programme continues and we believe we are on track to achieve our objective of sustainable long-term performance

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.
- The total consideration of HK\$4.93 billion, which comprises cash of HK\$2.25 billion and a novated loan note of HK\$2.68 billion, is subject to completion adjustments as previously announced.
- Hong Kong Express is now a wholly owned subsidiary of Cathay Pacific. It will continue to operate as a standalone low-cost carrier. Our current focus is on ensuring a smooth transition.
- We believe this transaction will be beneficial to Cathay Pacific, Hong Kong Express, the traveling public and the Hong Kong hub.
- Completion accounts are being prepared.



Q&A

For more information, please visit our website

www.cathaypacific.com