



Analyst Briefing

COVID-19 Restructure

20 November 2020

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Agenda

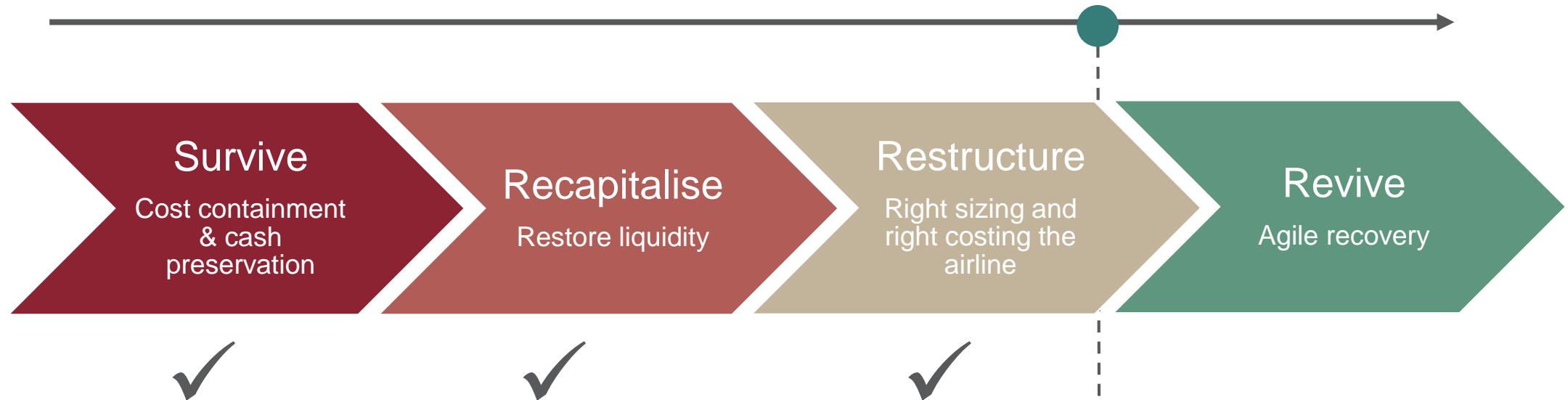


- 2020 Operating Performance
- Initial Responses to COVID-19
- The Restructure
- Outlook
- Q&A

Hosted by:

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

The impact of COVID-19 & our response





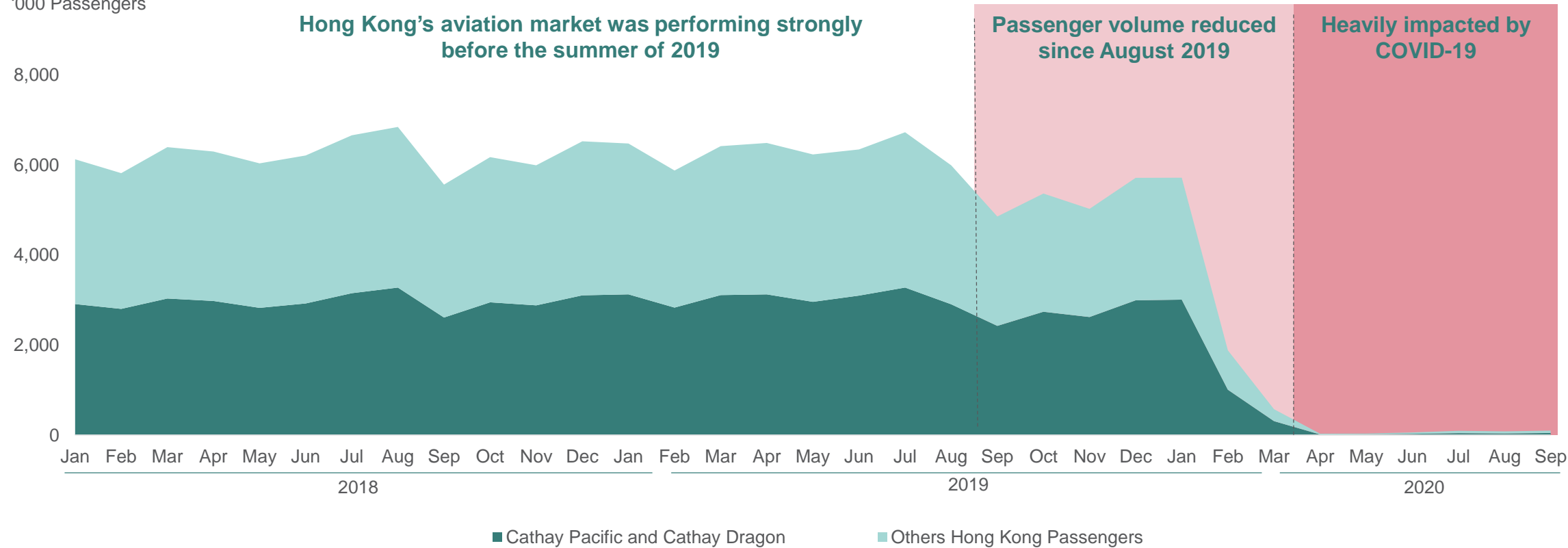
2020 Operating Performance

Significant impact on Hong Kong aviation environment



Monthly Air Passengers in Hong Kong

'000 Passengers



Sources: Hong Kong International Airport, Cathay Investor Relations

Unprecedented impact of COVID-19 on the Group's businesses



Interim results recap:

HK\$ million	1H 2020
Cathay Pacific and Cathay Dragon's profit before taxation	(8,224)
Taxation	863
Cathay Pacific and Cathay Dragon's profit after taxation	(7,361)
Share of (losses)/profits from subsidiaries	(2,095)
Share of profits from associates	(409)
Group attributable profit	(9,865)
Underlying* Group attributable profit	(8,445)

Strong January followed by rapid deterioration in passenger travel resulting in a skeleton schedule from late March when arrival restrictions on all non-resident visitors to Hong Kong, including transit passengers, introduced.

Cargo demand remained strong, with demand for medical supplies initially replacing weaker traditional flows. Yields high due to restricted belly capacity.

Includes impairment and related charges of HK\$2,464 million.

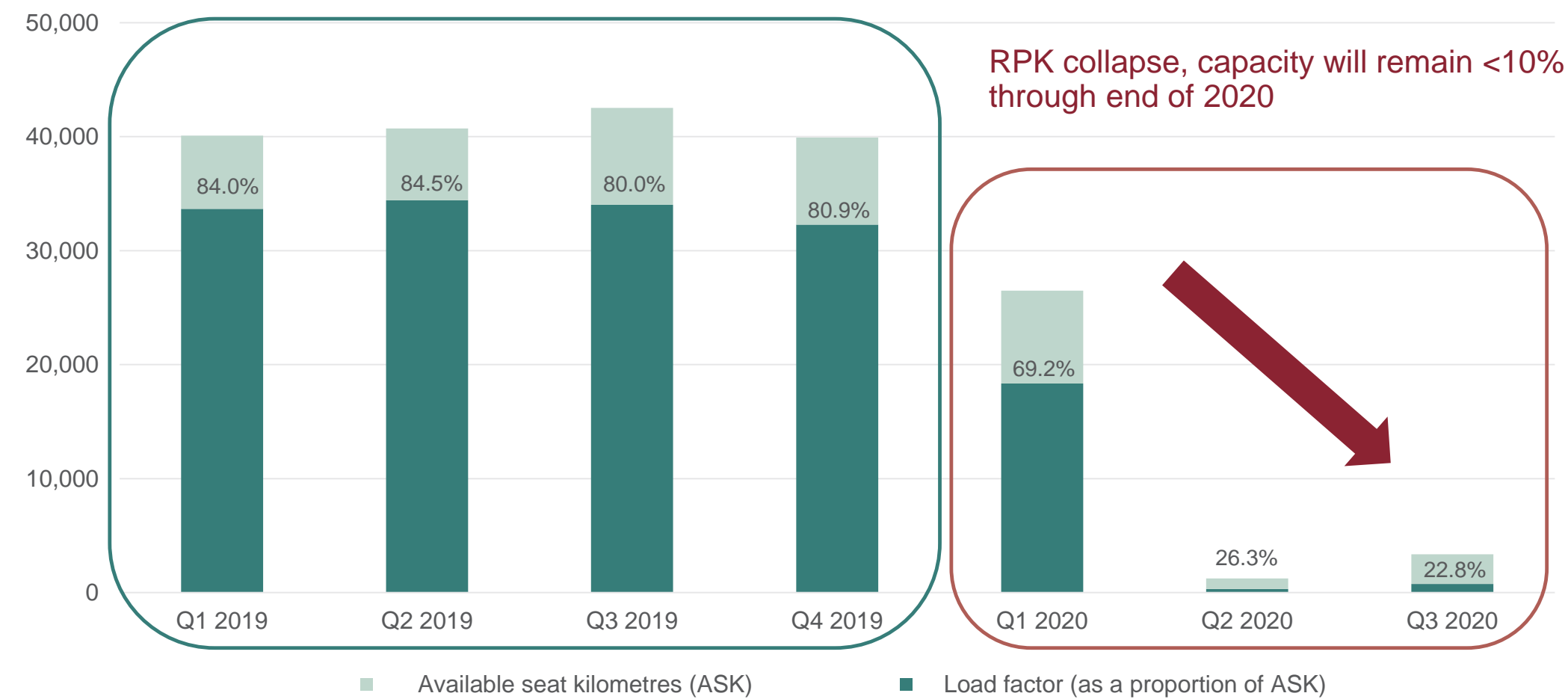
Air China results reported 3 months in arrears, thus only 2 months of COVID impact included.

* Excluding the after tax effect of government grants and impairments

Passenger traffic significantly impacted by travel restrictions and quarantine requirements



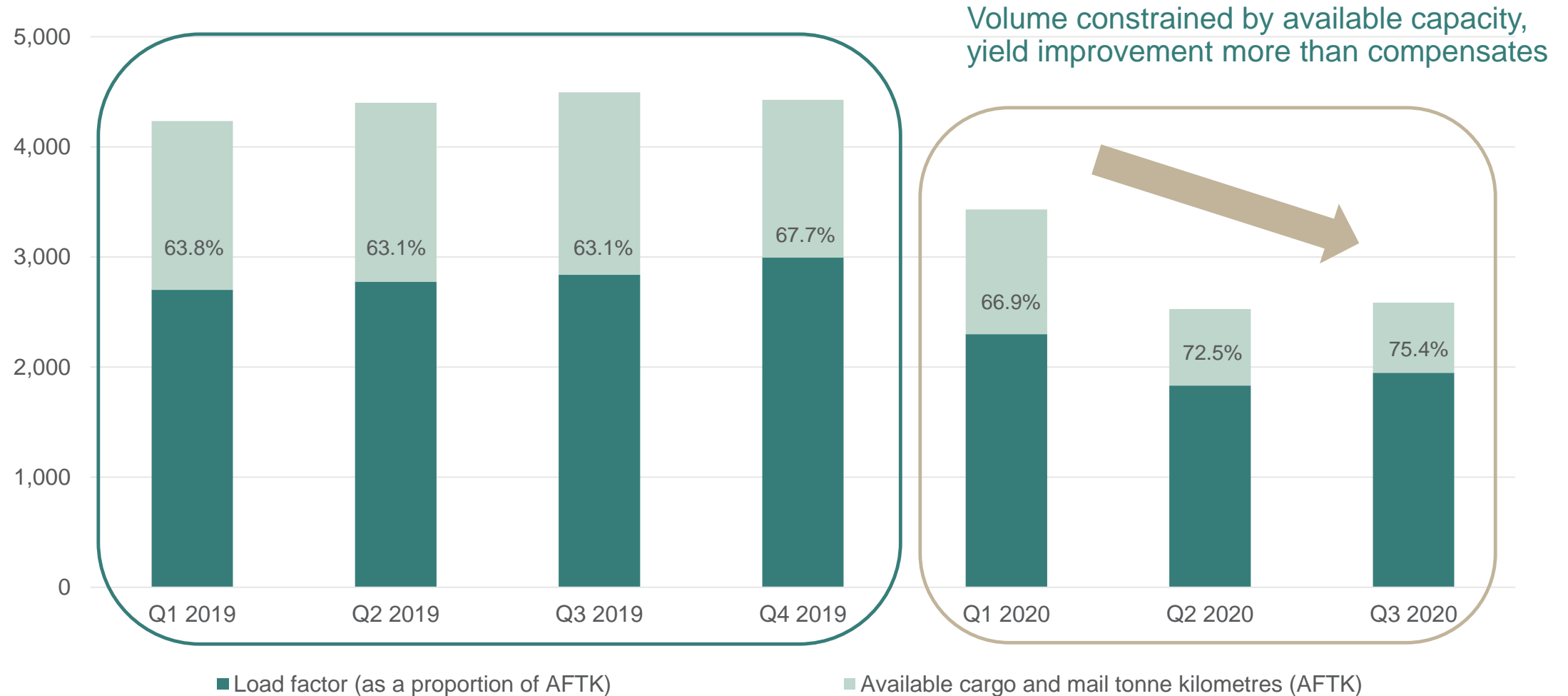
Capacity - ASKs



Cargo constrained by passenger belly availability, offset by higher yield



Capacity - AFTKs



Cargo supplemental capacity



+75.3%

Efficiency

4,207

Cargo only passenger
pair flights flown

March – end-Oct 2020

+14.5%

Revenue

83

Cabin-load passenger
operations

July – end-Oct 2020

-34.7%

Capacity

622

Air Hongkong pair
charters flown

up to end-Oct 2020



Initial Responses to COVID-19

COVID-19 immediate response actions



Flight capacity

- Significant reductions in passenger flight capacity to match demand (**94% reduction in total capacity** for April to September 2020) and skeleton flight schedule in the coming months due to border restrictions and minimal demand
- Cargo capacity loss due to extensive cuts to passenger schedule, but freighters operating at full capacity



Workforce

- **Two rounds of voluntary unpaid leave scheme** – with 80% and 90% employee uptake respectively
- Employee furloughs/ stand-downs are in place in several regions where labor laws allow
- **Executive pay cuts**



Operating costs

- **Cut in discretionary spending** (e.g. marketing, training, travel etc)
- Coordinated discussions with priority relationship vendors re **cash deferral, discounts, mitigations**, etc.
- Working with the HKSAR Government and Hong Kong Airport Authority on **cost saving and cash deferral measures**



Capital expenditure

- **Capex deferrals** where possible
- A321neo and A350 **deferred fleet deliveries**
- Advanced negotiations ongoing with Boeing for the deferral of 777-9 deliveries

Liquidity & government support



Government support to conserve cash and reduce costs

- The Group was initially losing cash at a rate of HK\$2.5 to 3.0 billion per month as it serviced a high level of customer refunds
- This subsequently reduced (as net refunds cycled through) to a rate of approximately HK\$1.5-2.0 billion per month with minimal passenger services are in place
- Up to October 2020 the Group has received approximately HK\$2.4 billion in government grants globally, mostly in relation to COVID-19
 - HK\$1.4 billion in relation to income grants are recognised as revenue from other services and recoveries
 - HK\$1.0 billion in relation to cost reductions or waivers are recognised net of respective cost categories
- In addition HKAA have supported the Group with HK\$1 billion of advance ticket sales

Steps taken to increase liquidity

- January – SGD175m public bond issuance (MTN)
- February – HKD400m HK Private Placement issuance
- March – USD304m net sale and leaseback of six aircraft (gross funding HKD704m)
- June/July – HKD6.0bn in short term commercial bridging loans
- August – HKD31.2bn recapitalisation completed
- Sep/Oct – Secured financing and SLB for all CX/KA 2020 aircraft deliveries

Recapitalisation support from HKSAR Government and all major shareholders



- ✓ **HKSAR Government committed a total of HK\$27.3Bn to Cathay**
 - HK\$19.5Bn investment via Preference Shares subscription
 - HK\$7.8Bn Bridge Loan Facility
 - Appointment of two observers to Cathay's board
- ✓ **Continued Commitment from All Major Shareholders**
 - Swire Pacific, Air China, and Qatar Airways signed irrevocable undertakings to take up their pro-rata portion of the Rights Issue (HK\$10Bn)
 - The Rights Issue was over subscribed by 137%
- ✓ **Investment into Cathay as Core to Hong Kong's Status as an International Aviation Hub and Global Financial Centre**
 - Cathay is responsible for 55.3% of passenger traffic at the Hong Kong International Airport
 - The aviation and foreign tourism sector contributes to 10.2% of Hong Kong's GDP, with aviation supporting ~333,000 jobs

Source: IATA The Importance of Air Transport to Hong Kong 2018 Report, OAG 2019

Pro Forma Financial Impact as at 30 June 2020

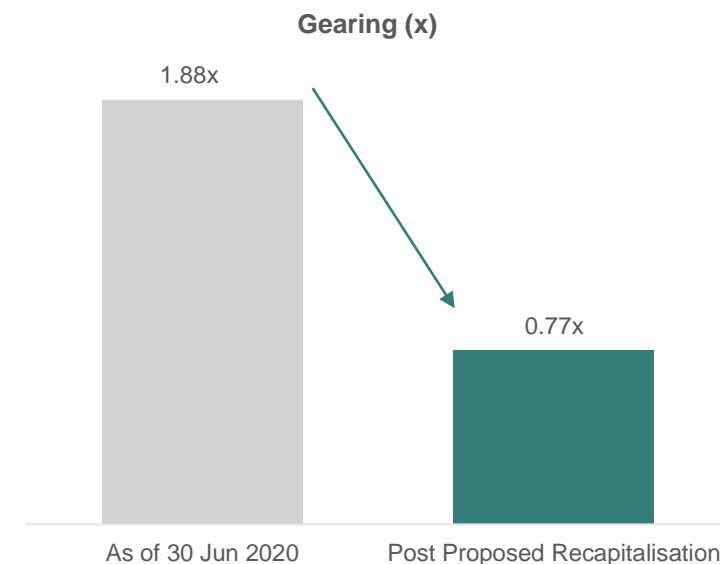
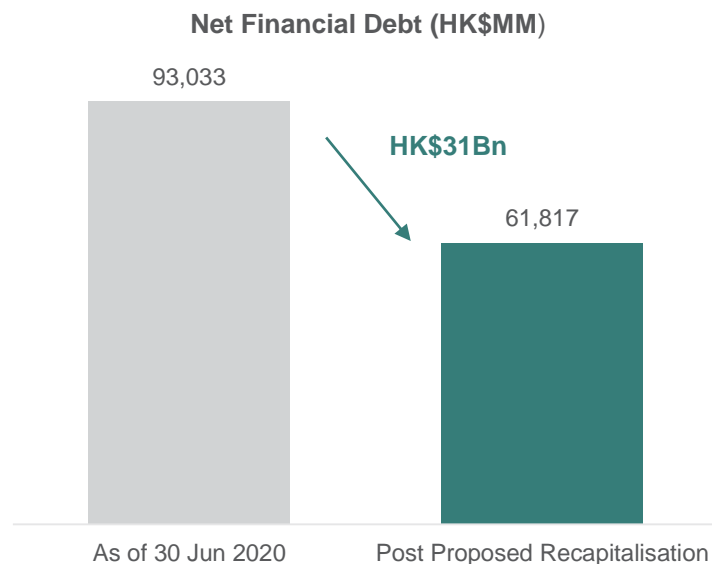
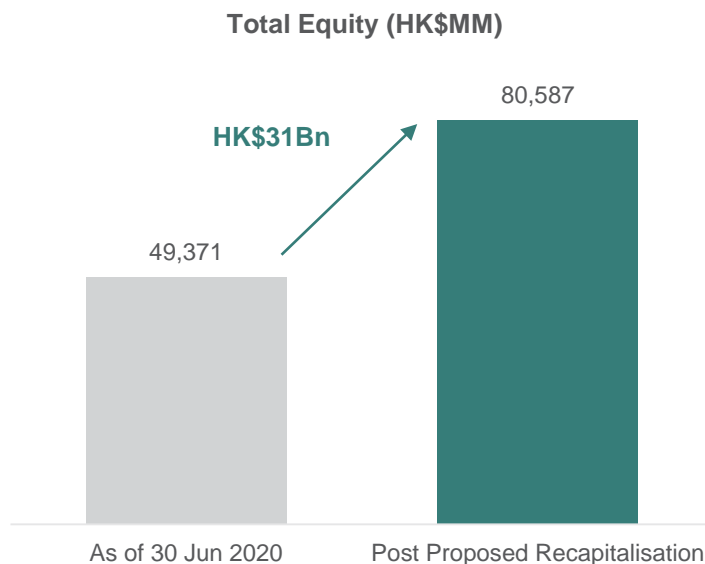


Based on Post-HKFRS 16 Financials as of 30 June 2020

**Increase equity balance by at least
HK\$31Bn**

**Reduce net debt by at least
HK\$31Bn**

**Reduce gearing to
0.77x**



* Includes Preference Shares

* Net Financial Debt = Total Financial Debt - Cash

* Gearing = Net Debt / Total Equity (post-HKFRS 16)

Notes: Refer to previous slide for detailed information on size, maturity and mechanism. Assumes that the Preference Shares and Rights Shares had been issued, in respect of balance sheet on 30 June 2020. The pro forma financial effects of the Recapitalisation Plan as presented (a) are for illustrative purposes only and do not purport to be indicative or a projection of the results and financial position of Cathay immediately after the completion of the Recapitalisation Plan, (b) are based on the audited consolidated financial statements of Cathay for Interim 2020

Available liquidity



* Adjusted net debt/equity ratio, excluding leases without asset transfer components (group borrowing covenants set at x2.0)



The Restructure

Restructure to be more focused, efficient and competitive



Dual Brand

- Cessation of Cathay Dragon with effect from 21 October 2020
- Regulatory approval sought for a significant number of routes to be operated by Cathay Pacific and Hong Kong Express
- Clear delineation of full service and low cost propositions
- Elimination of operational duplication between CX & KA

Rationalisation

- Early voluntary retirement for senior cockpit crew
- Approximately 8,500 positions eliminated representing ~24% of the groups established headcount. Actual redundancies of ~5,800 costing HK\$2.2bn
- Majority of Hong Kong-based pilots and cabin crew agreed to new conditions of service. Additional termination of ~600 staff who did not accept.

Impairments

- Interim HK\$1.2bn impairment of 16 aircraft considered unlikely to re-enter meaningful economic service
- Interim HK\$1.2bn impairment of Cathay Pacific Catering Services and Vogue Laundry Services carrying value of assets
- Impairment of Cathay Dragon HK\$1.3bn deferred tax asset
- Will reassess carrying values at end of 2020

Brand focus and operational efficiency



- Our goal was to achieve a business more focused, more efficient and more competitive
- There was not enough meaningful differentiation between CX & KA, and it was evident that there were significant savings and synergies to be had with one premium full service brand and one low cost leisure travel brand
- The most cost effective approach was to cease the operations of KA, resulting in operational and brand synergy
- Giving up KA does not mean that we want to give up KA's network; it's up to the regulatory authorities but we will apply for a significant number of those slots & rights under CX & UO
- Memories of KA's iconic 35 year old brand will be cherished



Staff rationalisation



Right-sizing

- ~8,500 positions made redundant = 24% of establishment
- ~5,200 Hong Kong staff impacted (including ~170 head office staff, which follows the 2017 30% management and 20% back office reductions)
- ~600 outport staff impacted
- Total cost ~HK\$2.2bn
- ~HK\$1bn > statutory minimum (inc MPF offset)

Right-costing

- New conditions of service offered to all remaining Hong Kong-based CX crew
- Terms benchmarked, competitive and fair. More alignment of interests via productivity focus
- >90% accepted, however ~600 terminated for not accepting
- HK Express has also this week offered a new conditions of service

Realignment of fleet deliveries and accelerated retirements



Deliveries contracted (EIS)

Airline	Aircraft type	YTD	Q4	2020	2021	2022+
ex.KA	A321neo	0	2	2	4	10
CX	A350-900	2	1	3	1	2
CX	A350-1000	1	0	1	2	3
CX	B777-9	0	0	0	0	21
	Total	3	3	6	7	36

Airline	Aircraft type	YTD	Q4	2020	2021	2022+
UO	A320neo	2	2	4	1	0
UO	A321neo	0	0	0	0	16
	Total	2	2	4	1	16

Retirements>Returns (EOS)

Airline	Aircraft type	2020	2021
CX/ex.KA	A330-300	11	0
CX	777-300ER	5	2
ex.KA	A320-200	9	0
ex.KA	A321-200	4	0
	Total	29	2

Airline	Aircraft type	2020	2021
UO	A320ceo	0	3
	Total	0	3

- Airbus & Boeing fleet deliveries deferred to meet the Group's requirement
- Grounding and transfer of 83 passenger aircraft to parking locations outside of Hong Kong (~45% of passenger fleet)
- Accelerated retirement of older fleet types (note EOS also includes those parked and not expected to return to meaningful economic service)

Monthly cash burn reduces by ~HK\$500m



Cash burn from operations, non-aircraft capex and servicing aircraft leases / loans has been running at HK\$1.5-2.0 billion



The restructuring will reduce our cash burn by about HK\$500 million per month, bringing it down to HK\$1.0-1.5 billion per month.

+/- Movement in unsecured loans (repayment, refinancing and new)

Other cash-preservation measures continue unabated including:

- **Executive pay cuts** will continue throughout 2021
- A **third voluntary Special Leave Scheme** for non-flying employees will be introduced for the first half of next year.
- There will be **no salary increases** for 2021 nor payment of an annual discretionary bonus for 2020 across the board for all employees

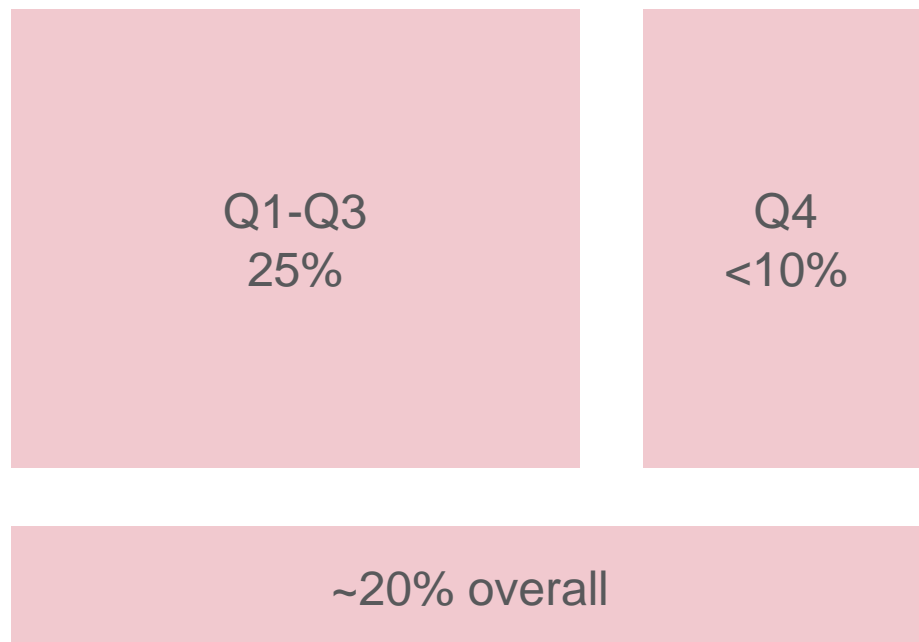


Outlook 2020 & 2021

Expected pre-pandemic passenger flight capacity 2020



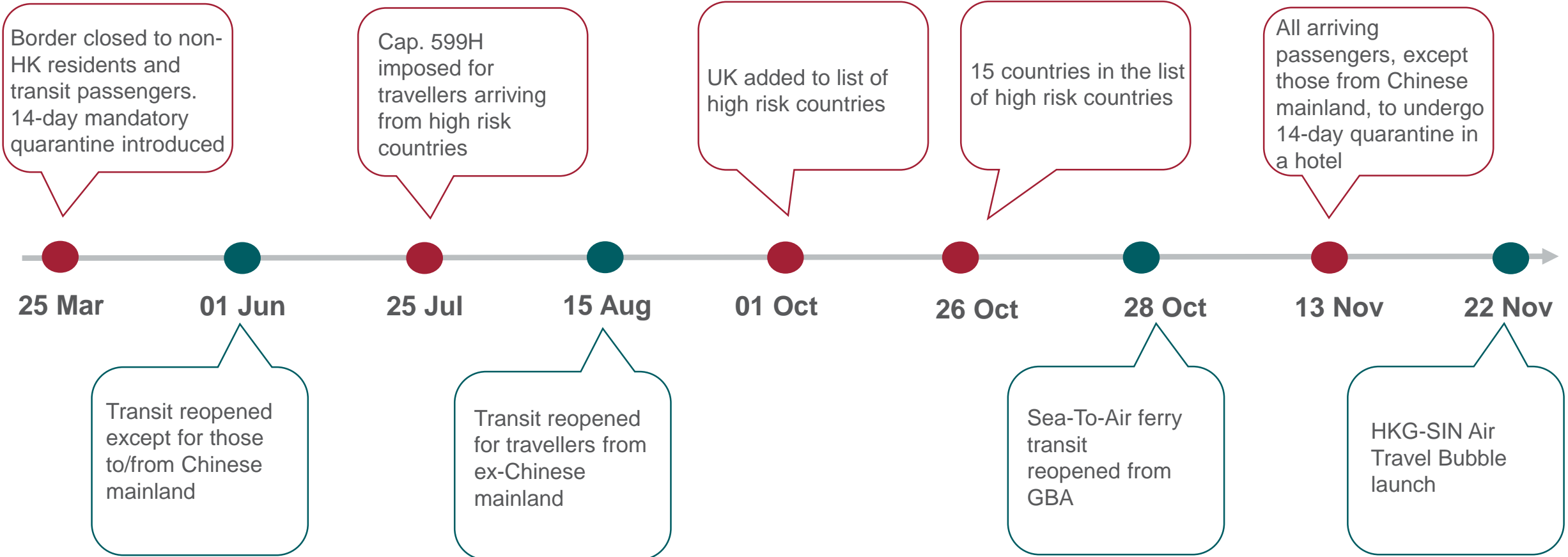
2020 passenger capacity outlook



Available seat capacity vs 2019

- 2H continues to see a skeleton passenger service
- Cargo remains strong
- HK\$2.4bn impairment made in 1H
- HK\$3.5bn restructure cost (HK\$2.2bn redundancies and HK\$1.3bn deferred tax impairment)
- Strict cash preservation measures continue
- Given extended pandemic recovery outlook, further aircraft and inventory impairments will be considered at 31 December 2020 year end
- Overall result will be very poor

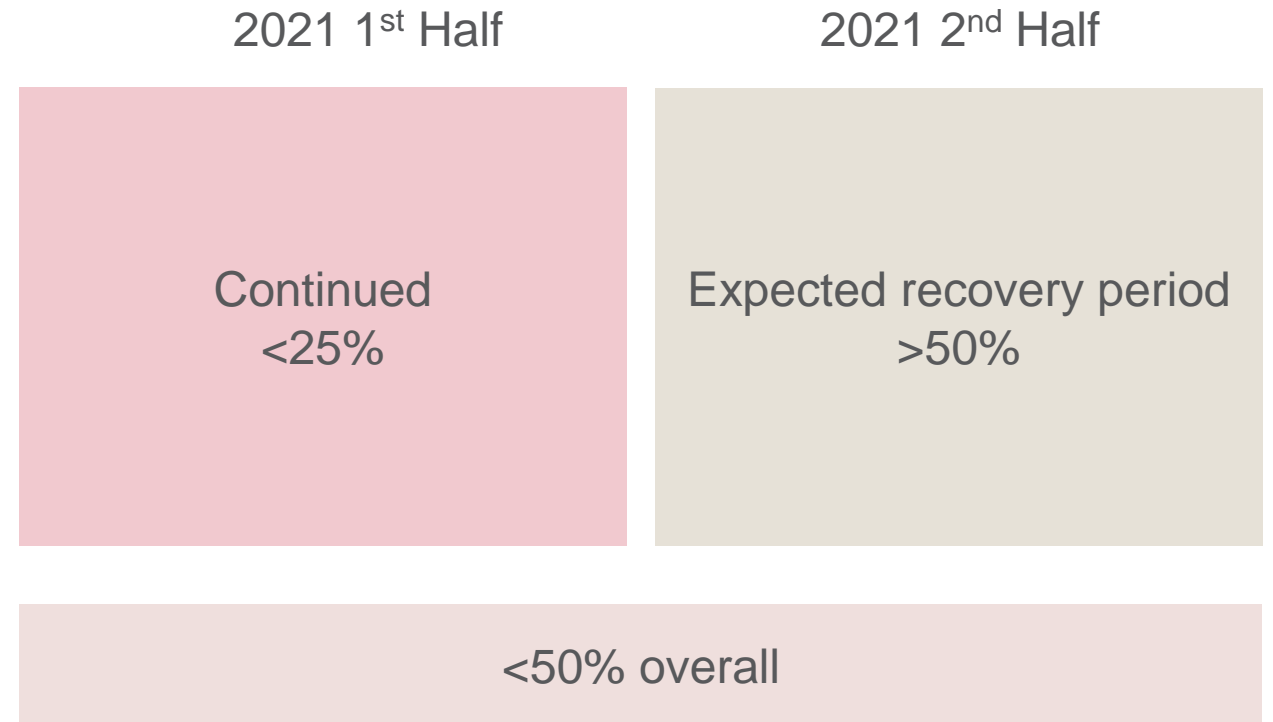
The journey to restart



Expected pre-pandemic passenger flight capacity 2021



- 2021 outlook remains challenging
- 1H will depend on existence of travel bubbles & other mitigating factors (testing & quarantine)
- 2H assumes the vaccines currently under development prove to be effective and are widely adopted in our key markets by summer 2021
- Macro factors remain unpredictable
- We remain agile to respond to all scenarios



Available seat capacity vs 2019

Hong Kong Singapore Travel Bubble & Vaccine Development



Travel Bubble

The Hong Kong Singapore Air Travel Bubble will launch on 22 November and will allow movement between the two cities without the need for quarantine.

We hope that the success of this travel bubble will be used as a template for other countries and other travel bubbles around the world.



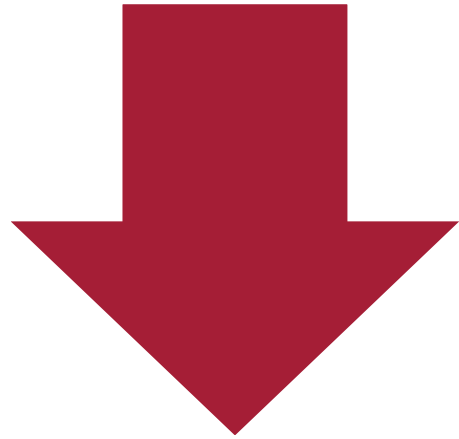
Vaccine Development

Encouraging progress has been made worldwide with vaccine development.

Successful development and distribution of a vaccine will help to facilitate cross-boarder travel, significantly improving our business outlook.



Cargo outlook remains a bright spot



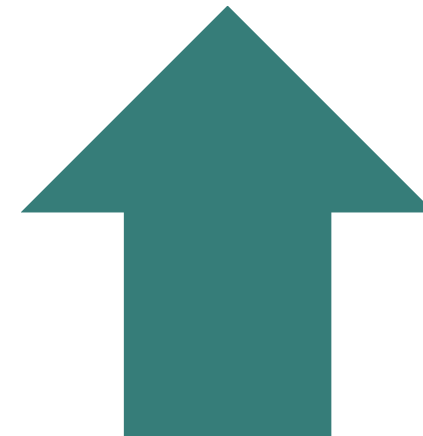
Capacity

- Still a serious constraint due to grounding of passenger fleet
- Record high number of freighters and utilization in the air
- Cargo only passenger flights being deployed



Demand

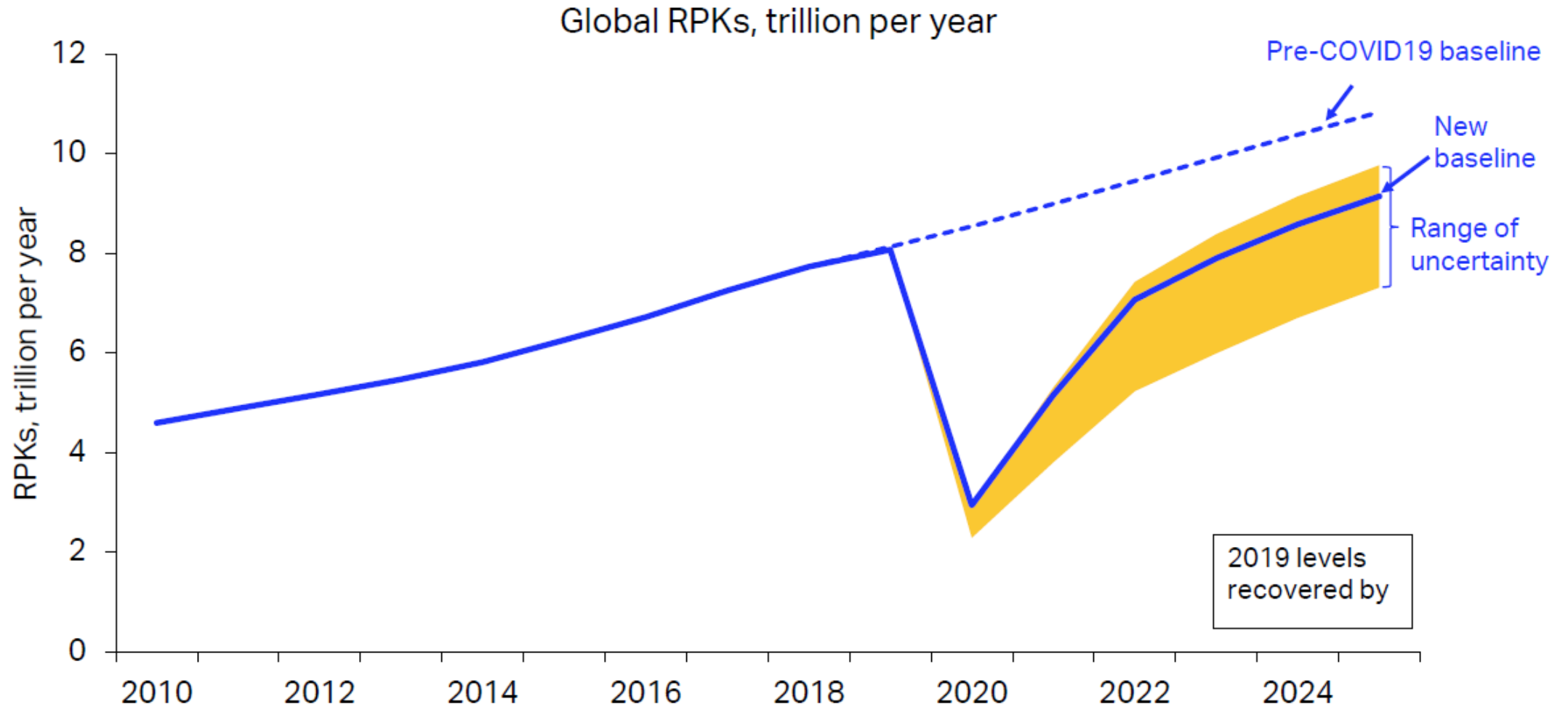
- Confidence of manufacturers, who are a critical driver for air cargo, has rebounded very sharply
- Demand on US-China trade lane is back to pre-COVID level, as a result of robust e-commerce
- Air is the preferred mode of transport to get inventory as quickly as possible





Outlook Beyond 2021

IATA sees a prolonged passenger revival, risk to the downside



Source: IATA/ Tourism Economics Air Passenger Forecasts

Core to Hong Kong and the Greater Bay Area as an International Aviation Hub and Global Financial Centre

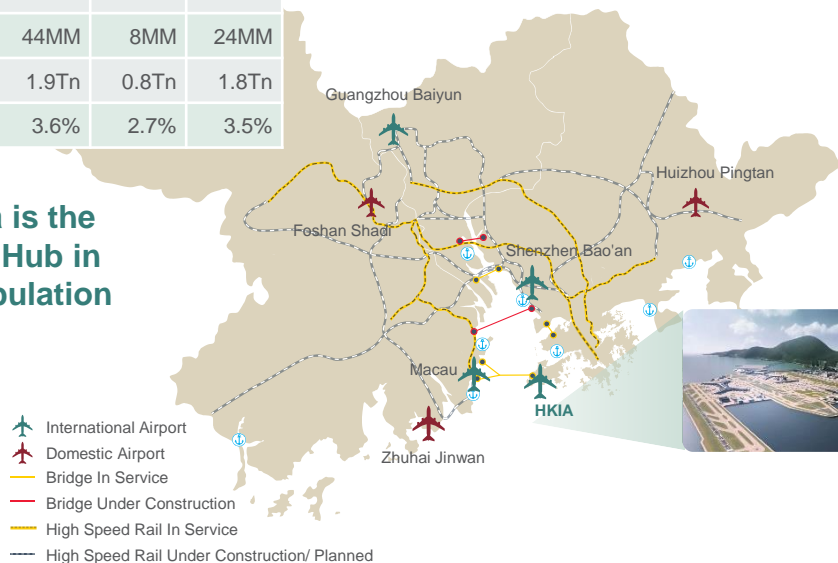


- Hong Kong is a premier logistics hub and springboard to the Chinese mainland, with strategic location and world-class infrastructure
- Greater Bay Area Plan will continue to enhance Hong Kong's position as an international aviation, maritime and logistics hub

	GBA	Tokyo	SF Bay	NY Met
# of Airports	7	2	4	7
Surface Area	56.5K	36.7K	17.4K	34.5K
Population	68MM	44MM	8MM	24MM
GDP	1.4Tn	1.9Tn	0.8Tn	1.8Tn
GDP Growth	7.9%	3.6%	2.7%	3.5%

7 Airports in GBA with 3 Airports Serving +50MM Passenger Traffic Annually

Greater Bay Area is the Largest Aviation Hub in the World by Population Served



- The Greater Bay Area Plan supports consolidating and enhancing Hong Kong's status as international financial centre
- China Development Bank has committed RMB360Bn (2020 quota) to the development of the Greater Bay Area
- Strengthens Hong Kong's status as a global offshore RMB hub and as an international asset management centre



- Increased cross-boundary RMB interbank lending
- Enhanced Shenzhen-Hong Kong Stock Connect
- Relaxed bond capital market issue requirements
- Reduced regulation on insurance industry

Source: Greater Bay Area Aviation Report 2019, 2018 Constitutional and Mainland Affairs Bureau



Summary

Summary



- 2020 full year results will be extremely poor, and the outlook remains uncertain.
- The recapitalisation has strengthened the balance sheet, improved gearing and provided significant liquidity.
- The restructure enables the Group to be more focused, efficient and competitive.
- Liquidity and minimizing the cash-burn remains the short term focus.
- Whilst still very early, discussions on vaccines and travel bubbles provide some optimism.
- The cargo business remains strong.
- The recovery will be prolonged, but all stakeholders remain very bullish on the long term prospects of Hong Kong and the GBA and a strong aviation HUB.



Q&A

For more information, please visit our website

www.cathaypacific.com

