

Cathay Pacific Airways

2010 Analyst & Investor Briefing

June 2010



Airline Strategy

- Remains largely unchanged
- Grow our international network, expand frequencies and further develop Hong Kong as one of the world's leading aviation hubs
- Ensure that quality and our brand are not compromised and the service proposition to the customer remains strong
- Maintain a prudent approach to financial risk management
- Develop benefits available from strategic relationship with Air China.



HAECO and HACTL

HACTL

- Required to sell under terms of our new cargo terminal
- Proceeds of HKD640m, gain of HK\$329m recognised

HAECO

- Non-core asset disposal
- Purchase price was 25% premium over market
- Proceeds of 2.6bn, gain of 1.8bn recognised



Performance to May10

Capacity Data

CATHAY PACIFIC / DRAGONAIR COMBINED TRAFFIC	YTD MAY 2010	% change YTD
ASK (000)		
- China	3,846,161	7.6%
- North East Asia	5,786,549	-7.7%
- South East Asia	5,685,858	-3.0%
- India, Middle East, Pakistan & Sri Lanka	4,577,834	7.6%
- Europe	8,110,382	-7.8%
- South West Pacific & South Africa	7,754,075	-0.7%
- North America	10,578,858	0.6%
ASK Total (000)	46,339,717	-1.6%
Pax load factor	83.8%	5.0%
Available cargo & mail tonne km (000)	5,025,820	4.8%
Cargo and mail load factor	78.6%	13.4pt
ATK (000)	9,437,556	-0.7%



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Performance to May10

Traffic Data

CATHAY PACIFIC / DRAGONAIR COMBINED TRAFFIC	YTD MAY 2010	% change YTD
RPK (000)		
- China	2,949,825	19.2%
- North East Asia	4,727,752	9.9%
- South East Asia	4,655,126	3.4%
- India, Middle East, Pakistan & Sri Lanka	3,578,708	14.5%
- Europe	6,944,201	-4.7%
- South West Pacific & South Africa	6,286,909	1.1%
- North America	9,668,433	5.4%
RPK Total (000)	38,810,954	4.6%
Pax carried	10,737,333	5.3%
Cargo and mail tonne km (000)	3,948,268	26.3%
Cargo and mail carried (000Kg)	723,065	25.4%
No. of flights	23,531	-2.5%



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Operating Performance

- Passenger
 - Strong demand from end of 2009 continued in the first half of 2010
 - Extra sectors added during CNY and Easter peaks
 - Specific routes boosted by Shanghai Expo, Canton Trade Fair and World Cup
 - Premium demand significantly higher than '09, but still lower than 2008
 - Promising advance bookings for June and throughout summer
 - Impact of Euro & GBP depreciation on yields

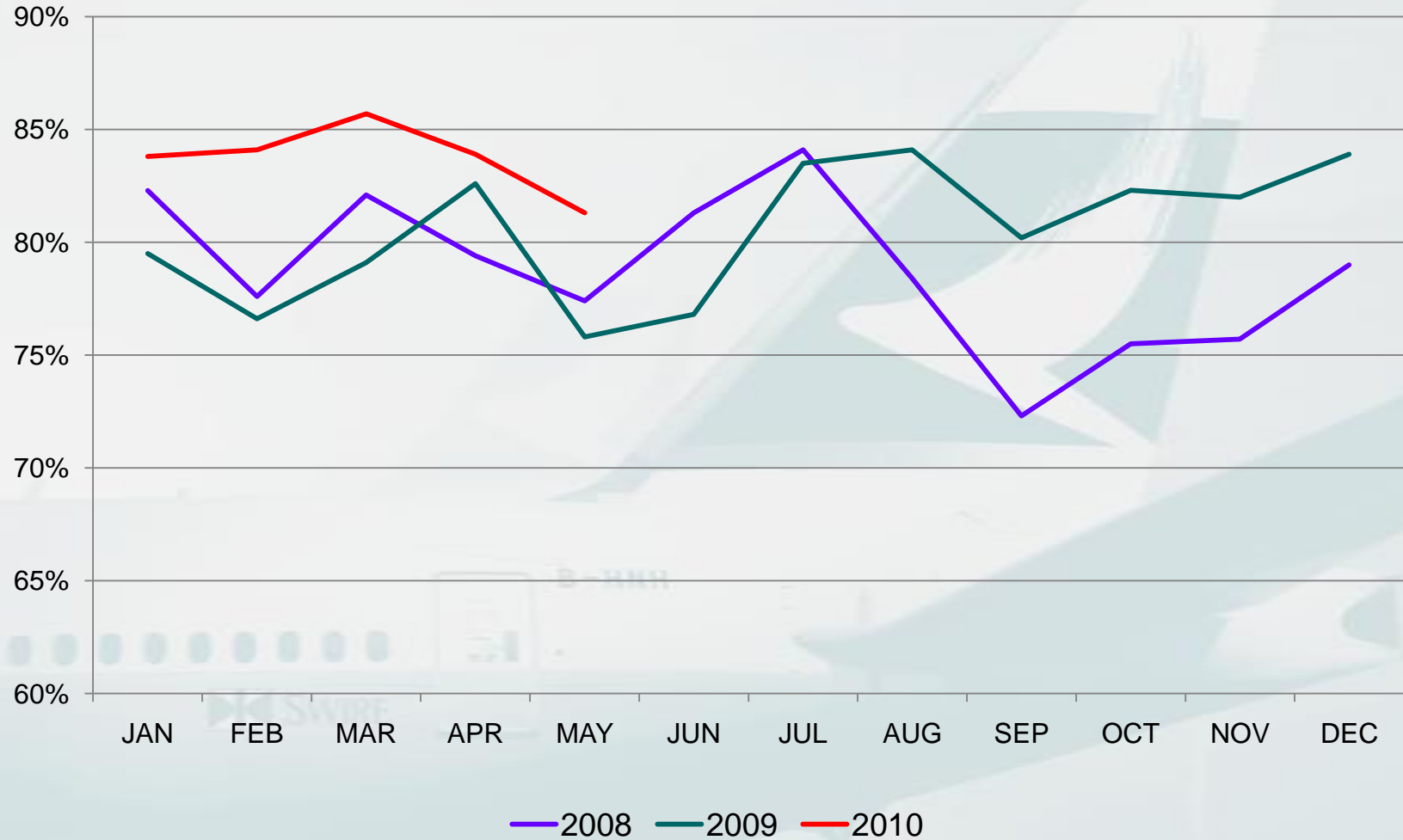


Operating Performance

- New destinations
 - Santiago – via new codeshare arrangement with Lan Airlines from May 2010
 - Mexico City/Guadalajara – via new codeshare arrangement with Mexicana from June 2010
 - Moscow – thrice-weekly service from Jul 2010
 - Haneda – Launch a twice-daily service from Oct 2010
- Increased frequencies
 - CX – Taipei, Jeddah, Paris, Singapore, Bali and Jakarta
 - KA – Kaohsiung, Xiamen and Wuhan



PASSENGER LOAD FACTOR (08 - MAY10)



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Product and Services - Passenger

- Lounge upgrades – at London, Heathrow and HKIA
- Long haul business class installation completed by Nov 2009
- Launched Asia Miles mobile sites
- Cathay Pacific was named Best Transpacific Airline and Dragonair was named World's Best Regional Airline in the Skytrax World Airline Award

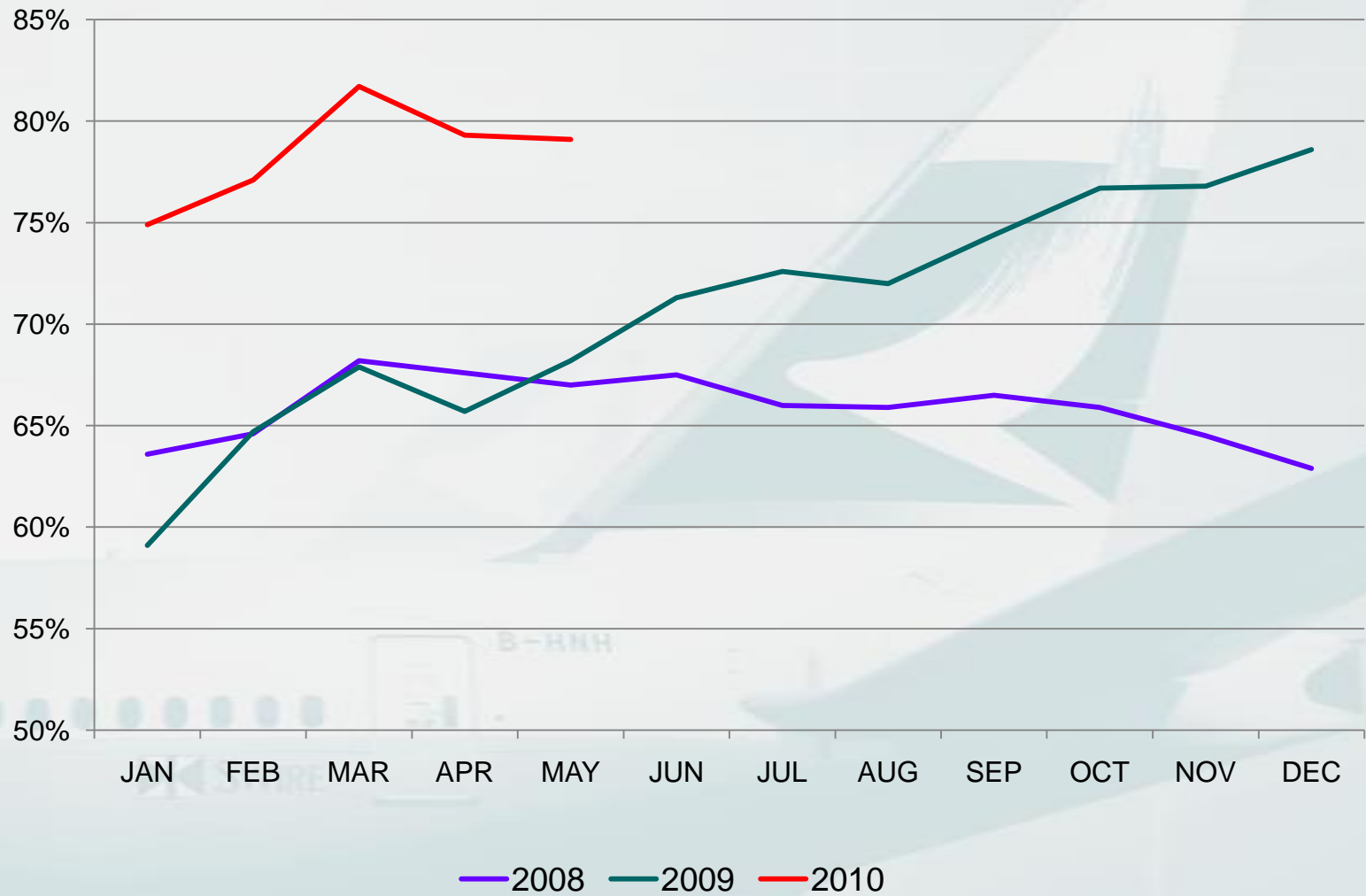


Operating Performance

- Cargo
 - Demand continues to be strong with load factor above 70% for 11 consecutive months
 - Mount extra sectors and charter flights in response to market needs
 - Increased frequencies on 13 routes
 - Launch the first round-the-world freighter flight in July
 - Strong demand also leads to healthy yield improvements
 - All previously parked freighters will be reactivated by July to restore capacity



CARGO AND MAIL LOAD FACTOR (08 - MAY10)



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Cargo Development

E-Airwaybill

- Target for 100% export shipments from HKG by 1Jan2011
- IATA target for worldwide adoption by 2014
- An important step towards e-freight, ultimately improve our products, services & efficiency

Cargo Terminal

- Main building contract awarded – works underway
- HACTL disposal complete
- Opening scheduled for 2013
- Total capital expenditure of approximately HK\$5.5B



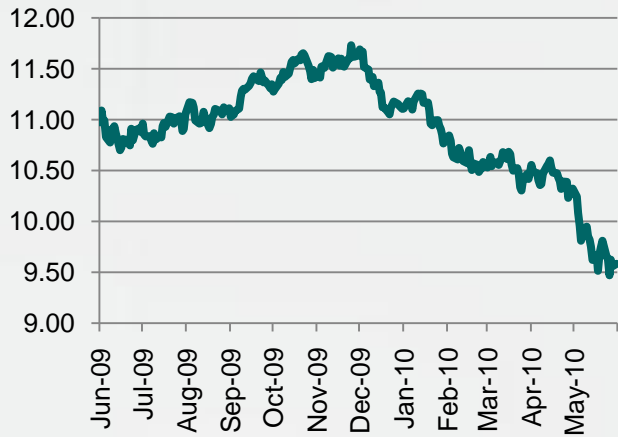
Financial Risk Management

- Currency
 - Currencies depreciated against USD, particularly EUR/GBP
 - Currency hedging helps reduce our FX exposure
- Liquidity
 - Strong operating performance and asset disposals lift cash
 - Unpledged liquid funds and undrawn committed lines exceed HK\$16bn
- Interest rates
 - Overall cost of debt remains below 3%
 - Margins have narrowed, yield curve now inverted
 - Strategic management of fixed/floating ratio



Spot rates of 6 top currencies (Jun09-May10)

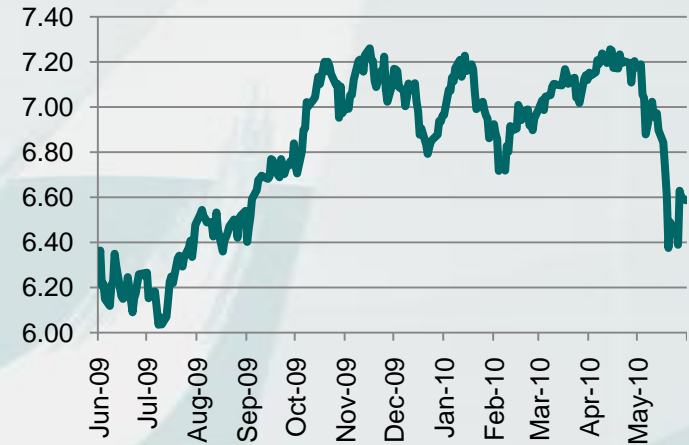
HKD/EUR (01Jun09-31May10)



HKD/GBP (01Jun09-31May10)



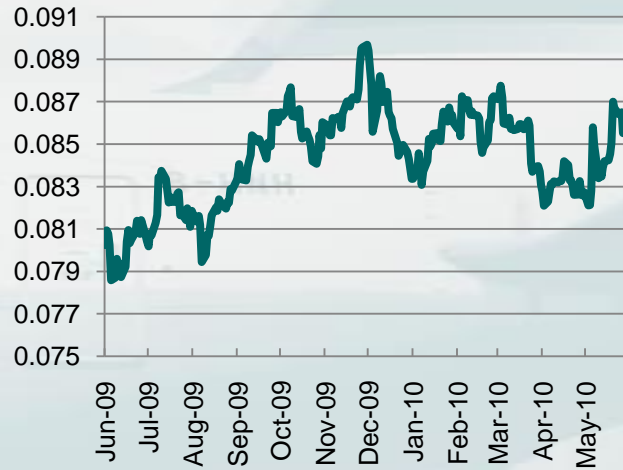
HKD/AUD (01Jun09-31May10)



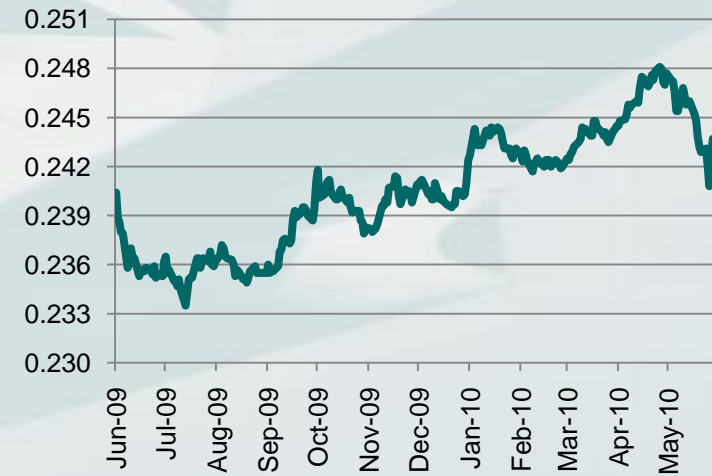
HKD/RMB (01Jun09-31May10)



HKD/JPY (01Jun09-31May10)



HKD/TWD (01June09-31May10)



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Fleet Plan : 2010

	In operation			Parked		
	<u>Passenger</u>	<u>Freighter</u>	<u>Total</u>	<u>Passenger</u>	<u>Freighter</u>	<u>Total</u>
Total aircraft at 31Dec09	125	19	144	5	5	10
Less:						
Parked	-1	0	-1	1	0	1
Lease returned	-1	0	-1	0	0	0
Air China Cargo JV	0	-2	-2	0	0	0
Leased to AHK	0	-1	-1	0	0	0
Add:						
New delivery	7	0	7	0	0	0
Reactivated	0	5	5	0	-5	-5
Projected total aircraft at 31Dec10	<u>130</u>	<u>21</u>	<u>151</u>	<u>6</u>	<u>0</u>	<u>6</u>



Fleet Plan (cont'd)

- Passenger
 - Seven aircraft delivery in 2010; nine in 2011; eight in 2012
 - Currently no plan to reactivate aircraft from desert
- Freighter
 - No delivery in 2010; six in 2011 and four in 2012 (all 747-8F)
 - All parked aircraft will re-enter into service by July
 - Two BCFs to joint venture in 2010, another two in 2011



Financing plan

Repayment profile of long term liabilities as at 31 December 2009:

Within one year HK\$M	After one year but within two years HK\$M	After two years but within five years HK\$M	After five years HK\$M	Total HK\$M
9,590	9,323	20,387	17,234	56,534



Net debt to equity ratio

May10	2009	2008	2007	2006	2005
Approx. 0.5	0.62	0.69	0.30	0.36	0.26

- Gearing ratio is close to our target level
- Continue to adopt prudent financial strategy, build up adequate cash reserves
- Capex on aircraft and cargo terminal will be over HK\$30B in these 3 years

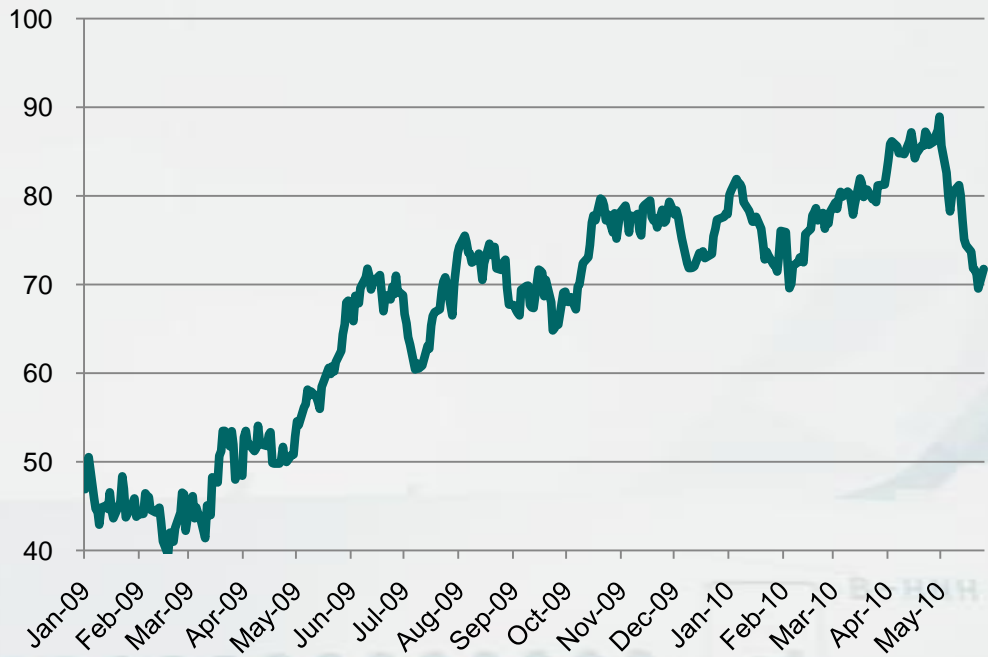


Fuel

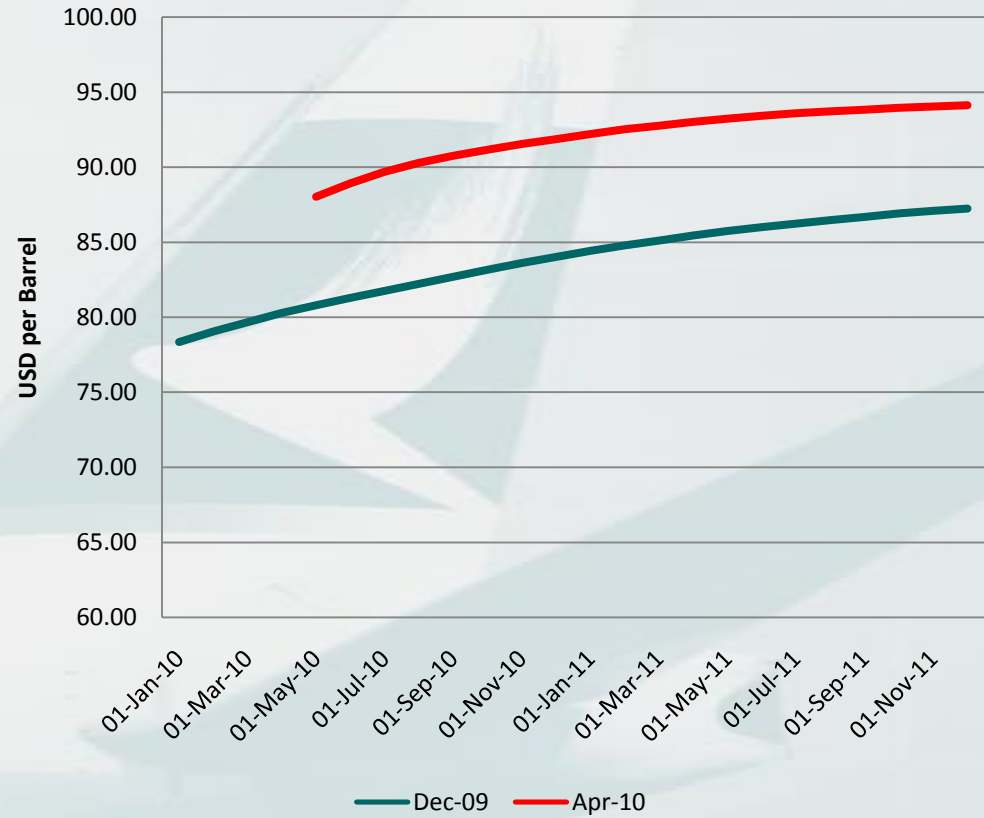
- Latest Brent price of USD74/bbl
 - Rising fuel costs affect margins – average Brent price for first five months of 2010 was 60% higher than the same period in 2009
 - Highly volatile, as Brent price hit USD88.94 just one month ago
 - We dynamically manage our hedging position
 - Policy retains a conservative focus based upon the use of cash flow hedge instruments
 - Most of the MTM movement now passes through reserves
 - Fuel surcharges expected to continue to offer some form of relief against rising cost of fuel



Daily Brent Price (Jan09-May10)



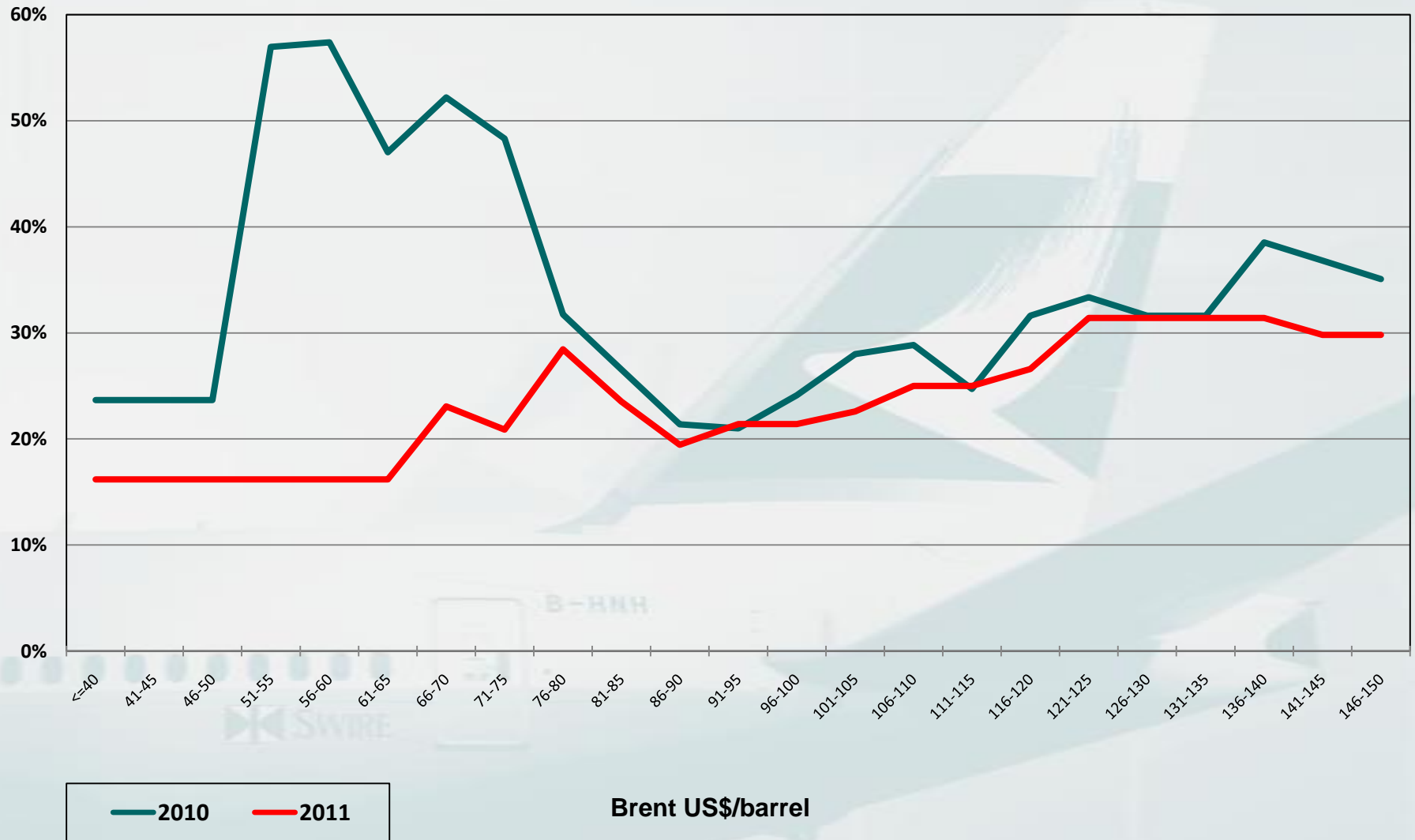
IPE Brent Forward Price



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Max Fuel Hedging Exposure as at 31-May-2010



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Air China

- CA recorded significant increase in 1Q2010 earnings, positive impact to CX results in 1st half 2010
- Announced new share issue is likely to dilute CX's holding
- Recent share purchases to dampen dilution impact
- Further cooperation in cargo JV, preparation in progress

Air China Cargo JV

- Target to be the biggest freighter operator in Mainland
- Will be jointly managed by CX and Air China
- A preparation team has started to work with counterparts in Air China Cargo
- Target to commence operation in 2H 2010 once the regulatory approval is received
- CX will take a lead in the commercial, planning and services areas



Outlook

- **General Market**

- Uncertainty arising from European debt crisis
- Sustained strength of USD but low interest rates
- Solid economic growth – China 11.9%, HK 8.2%, USA 3.0%
- Fuel price remains a cause of concern



Outlook

- **Our situation**
 - Business much improved since 2009
 - Demand and yields continues to recover from a low base, demand for premium traffic is still lagging 2008 level
 - Ongoing focus on effective strategic cost management
 - Continue to strengthen the balance sheet
 - Enforce appropriate financial risk management
 - Continue to enhance premium products and services
 - Commitment to future expansion



Q & A

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



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