

*Cathay Pacific Airways*

*2010 Analyst & Investor Briefing*

*December 2010*



# Airline Strategy

- 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
- Develop benefits available from strategic relationship with Air China.
- Maintain a prudent approach to financial risk management



# Performance to Oct 10- Capacity Data

| CATHAY PACIFIC/ DRAGONAIR COMBINED CAPACITY |             | Cumulative<br>Oct 2010 | % change<br>YTD |
|---|-------------|------------------------|-----------------|
| China                                       |             | 8,023,516              | 14.8%           |
| North East Asia                             |             | 11,957,003             | 1.3%            |
| South East Asia                             |             | 11,819,779             | 2.1%            |
| India, Middle East, Pakistan & Sri Lanka    |             | 9,133,223              | 5.6%            |
| Europe                                      |             | 17,388,175             | 1.8%            |
| South West Pacific & South Africa           |             | 15,016,705             | 2.3%            |
| North America                               |             | 22,131,545             | 5.1%            |
| ASK   | Total (000) | 95,469,946             | 4.0%            |
| Passenger load factor                       |             | 84.1%                  | 4.0pt           |
| Available cargo and mail tonne km (000)     |             | 11,010,249             | 14.2%           |
| Cargo and mail load factor                  |             | 76.0%                  | 6.7pt           |
| ATK (000)                                   |             | 20,098,265             | 9.3%            |



# Performance to Oct 10- Traffic Data

| CATHAY PACIFIC AND DRAGONAIR COMBINED TRAFFIC |             | Cumulative Oct 2010 | % change YTD |
|---|-------------|---------------------|--------------|
| China   |             | 6,353,734           | 30.3%        |
| North East Asia                               |             | 9,910,858           | 15.3%        |
| South East Asia                               |             | 9,710,206           | 8.8%         |
| India, Middle East, Pakistan & Sri Lanka      |             | 7,063,472           | 8.0%         |
| Europe  |             | 15,156,434          | 3.9%         |
| South West Pacific & South Africa             |             | 12,042,786          | 2.1%         |
| North America                                 |             | 20,071,838          | 10.1%        |
| RPK   | Total (000) | 80,309,328          | 9.2%         |
| Passengers carried                            |             | 22,334,469          | 11.2%        |
| Cargo and mail tonne km (000)                 |             | 8,363,365           | 25.1%        |
| Cargo and mail carried (000Kg)                |             | 1,489,046           | 19.9%        |
| Number of flights                             |             | 49,049              | 4.9%         |



# Operating Performance- Passenger

- Passenger
  - Strong demand from end of 2009 continued throughout 2010
  - Extra sectors added during summer holiday
  - Specific routes boosted by Shanghai Expo and Canton Trade Fair
  - Premium demand continued to improve
  - Satisfactory advance bookings for December and January
  - Yields lifted by forex appreciation



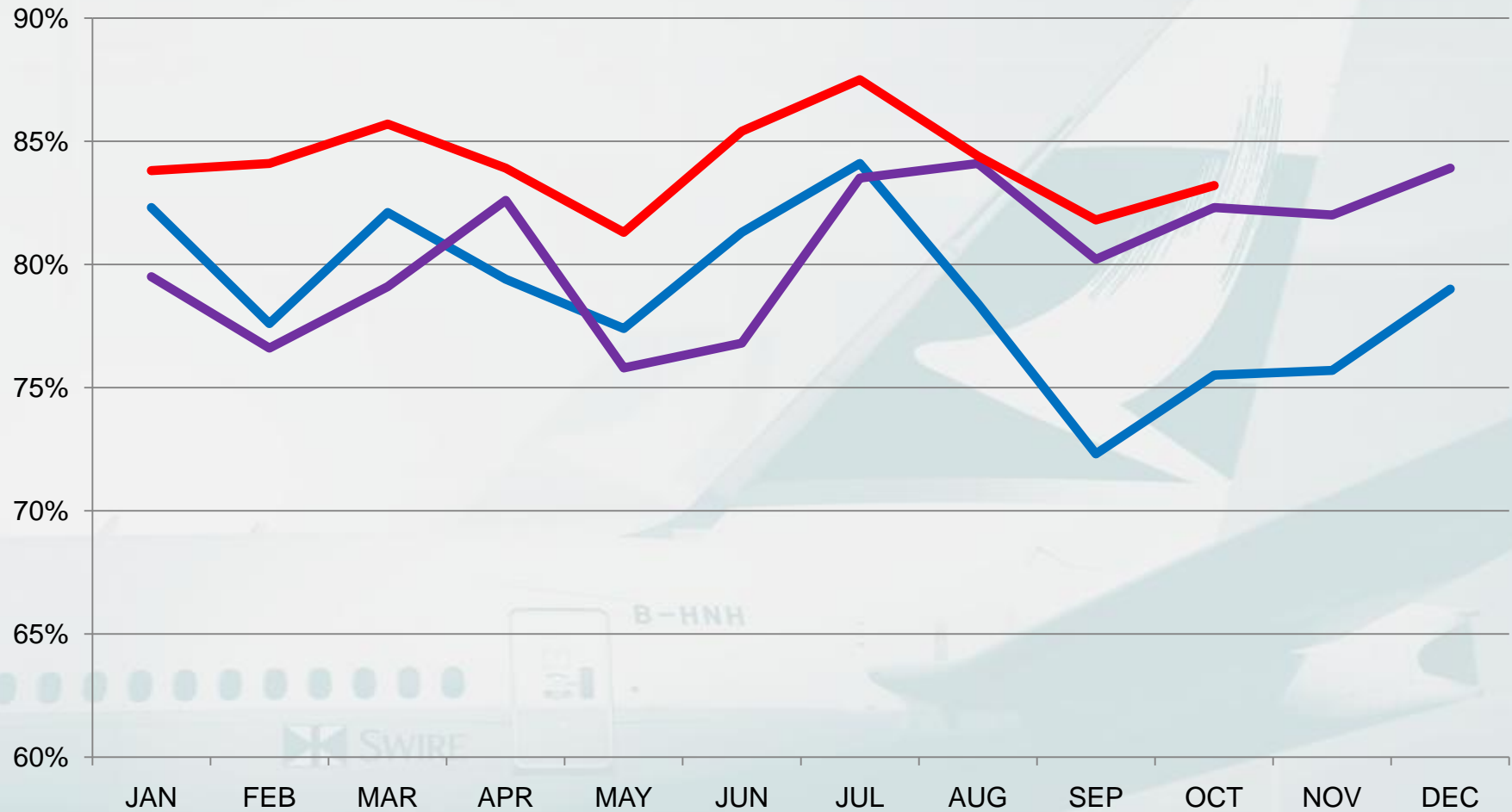
# Operating Performance- Passenger

- On-line new destinations
  - Haneda (Tokyo) – twice-daily service from Oct 2010
  - Hongqiao (Shanghai) - daily service from Sep 2010
  - Okinawa- twice weekly scheduled service from Nov
- Increased frequencies in 2010 winter schedule
  - Auckland, Brisbane, Cairns, Perth and Sydney
  - Toronto, Osaka and Paris
- Various new destinations through code-share including
  - Honolulu and Seattle
  - Edmonton, Ottawa and Montreal
  - Hiroshima and Kagoshima





# PASSENGER LOAD FACTOR (08 - OCT 10)



— 2008 — 2009 — 2010



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# Product and Services - Passenger

- Four departure lounges for our customers at our home, HKIA
  - The Wing, the Pier, G16 and The Cabin (officially opened in October)
  - The Cabin features an ultra-modern design
- New travel kits with exclusively designed amenity bags
- Inflight entertainment upgrade to StudioCX
- Inflight connectivity project under study
- New Asia Miles co-branded card with American Express



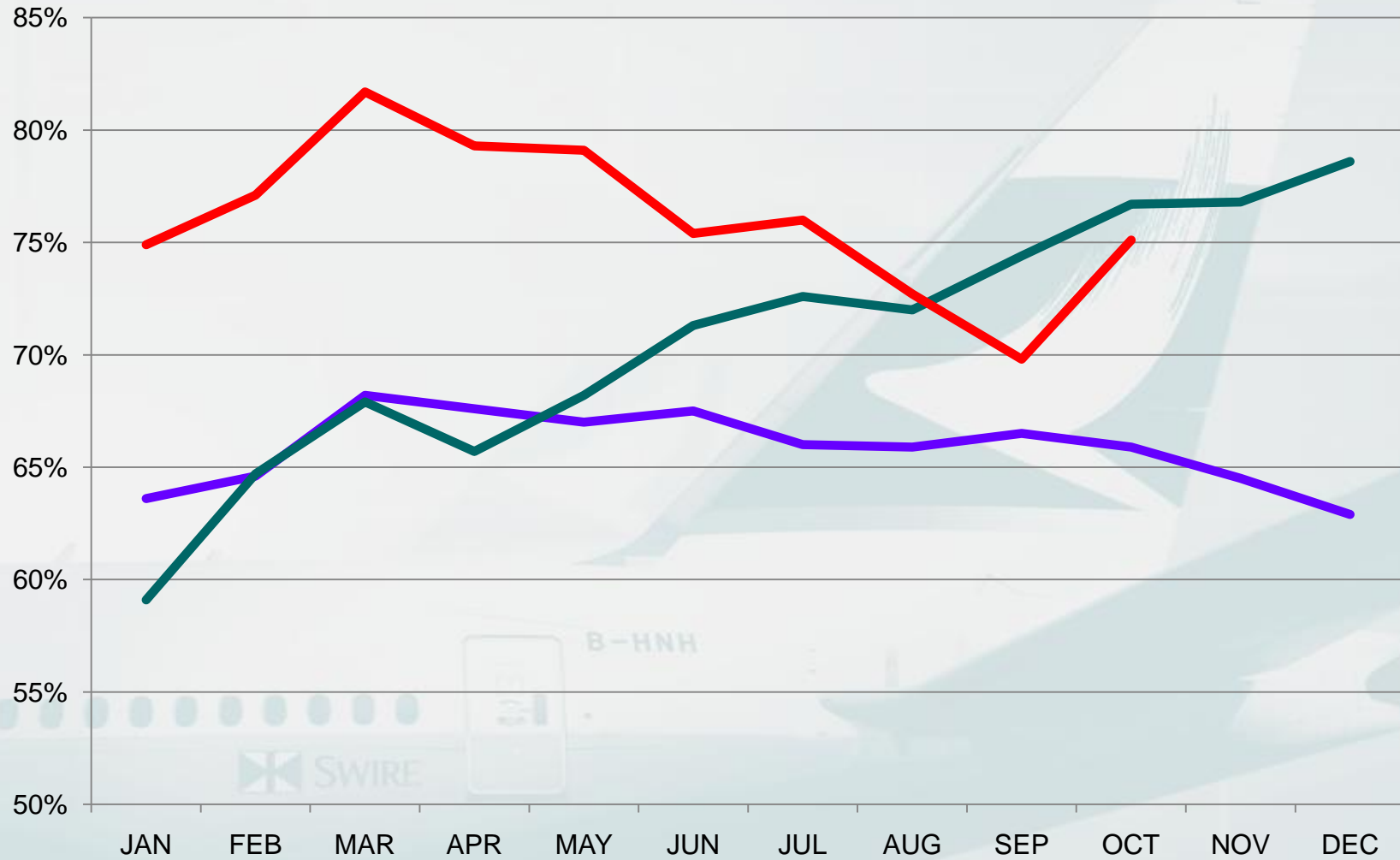


# Operating Performance

- Cargo
  - All six previously parked freighters have been reactivated to restore capacity
  - Strengthened some of our scheduled freighter frequencies on Transpacific and European routes
  - Mount extra sectors and charter flights in response to market needs
  - Strong demand also leads to healthy yield improvements
  - But, there has been a significant increase in competitor capacity on North America and European routes



# CARGO AND MAIL LOAD FACTOR (08 - OCT10)



— 2008 — 2009 — 2010



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# Cargo Development

- Cargo Terminal
  - HK\$5.5 billion investment
  - operated by our subsidiary, Cathay Pacific Services Limited
  - Good progress in construction and operations preparation
    - Total 7 levels - now building up to level 3
    - Installation of the Material Handling System will start in Jan 2011
    - On schedule for opening early 2013
  - Enhanced operations procedures will enable CPSL to provide better services to customer airlines and the air cargo industry



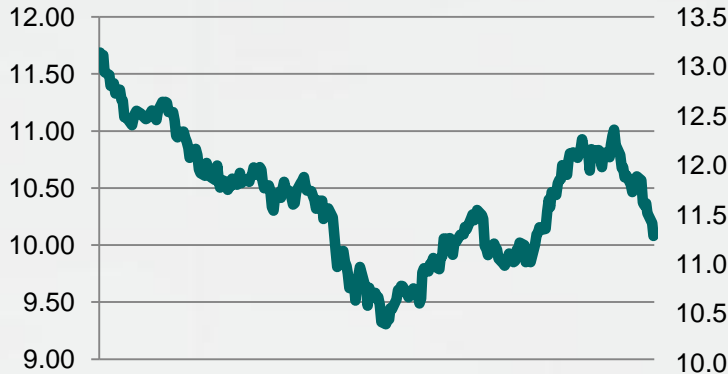
# Financial Risk Management

- Currency
  - Currencies appreciated against USD
  - All major currencies are hedged in compliance with our policy
- Liquidity
  - Strong operating performance lifts cash
  - Unpledged liquid funds and undrawn committed lines exceed HK\$20bn
- Interest rates
  - Overall cost of debt remains below 3%
  - Margins have narrowed, but yield curve has steepened
  - Strategic management of fixed/floating ratio

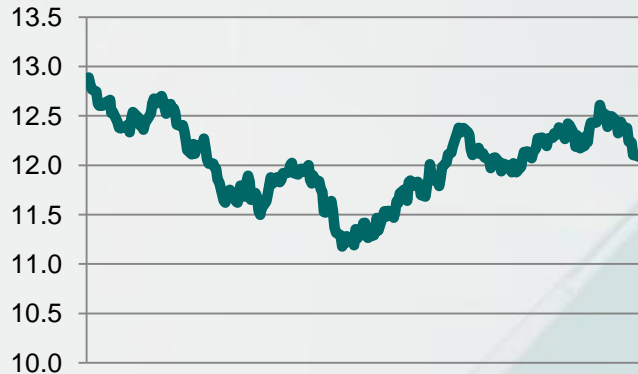


# Spot rates of 6 top currencies (Dec09-Nov10)

HKD/EUR



HKD/GBP



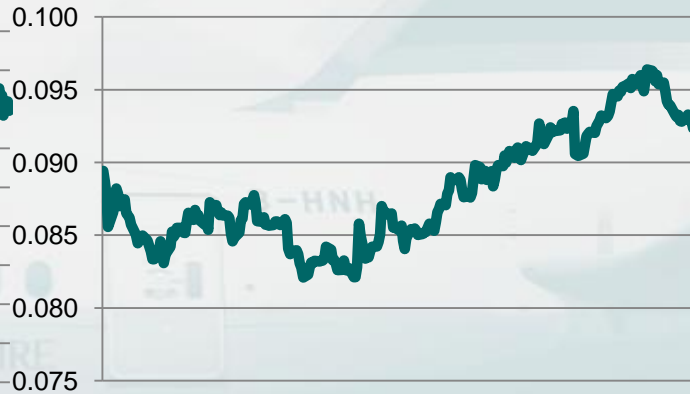
HKD/AUD



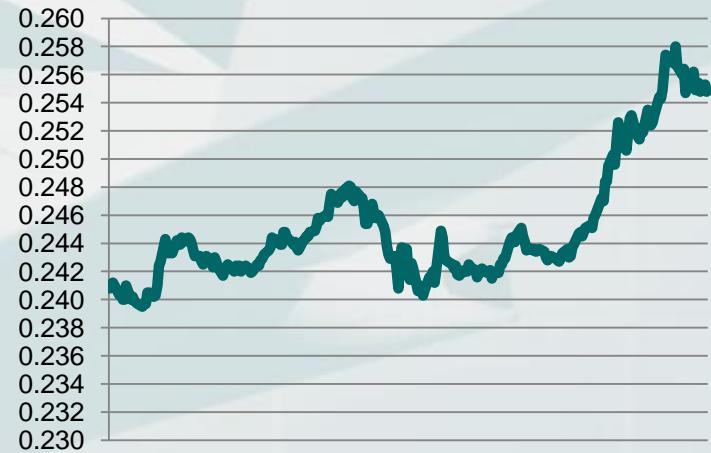
HKD/RMB



HKD/JPY



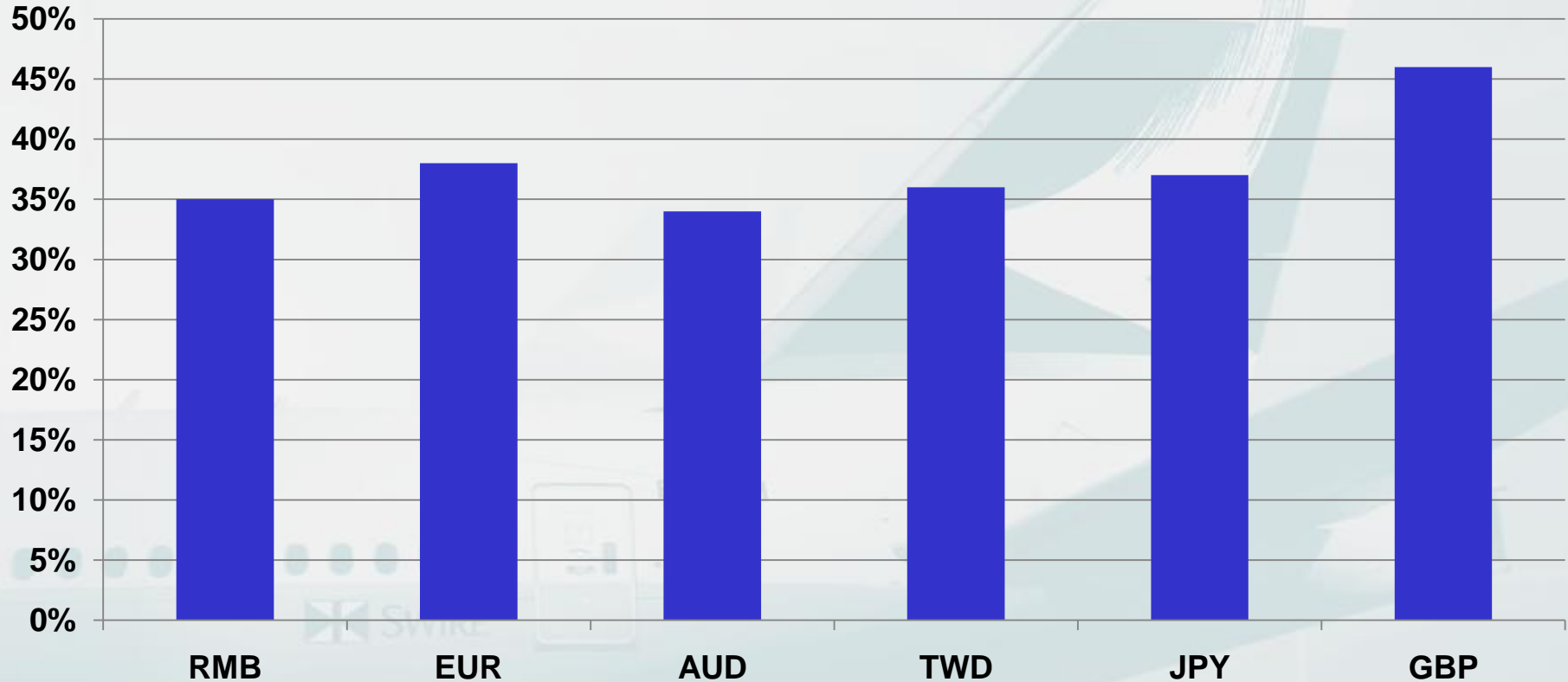
HKD/TWD



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# Financial Risk Management

Net exposure (after hedging) of major currencies – next 12 months

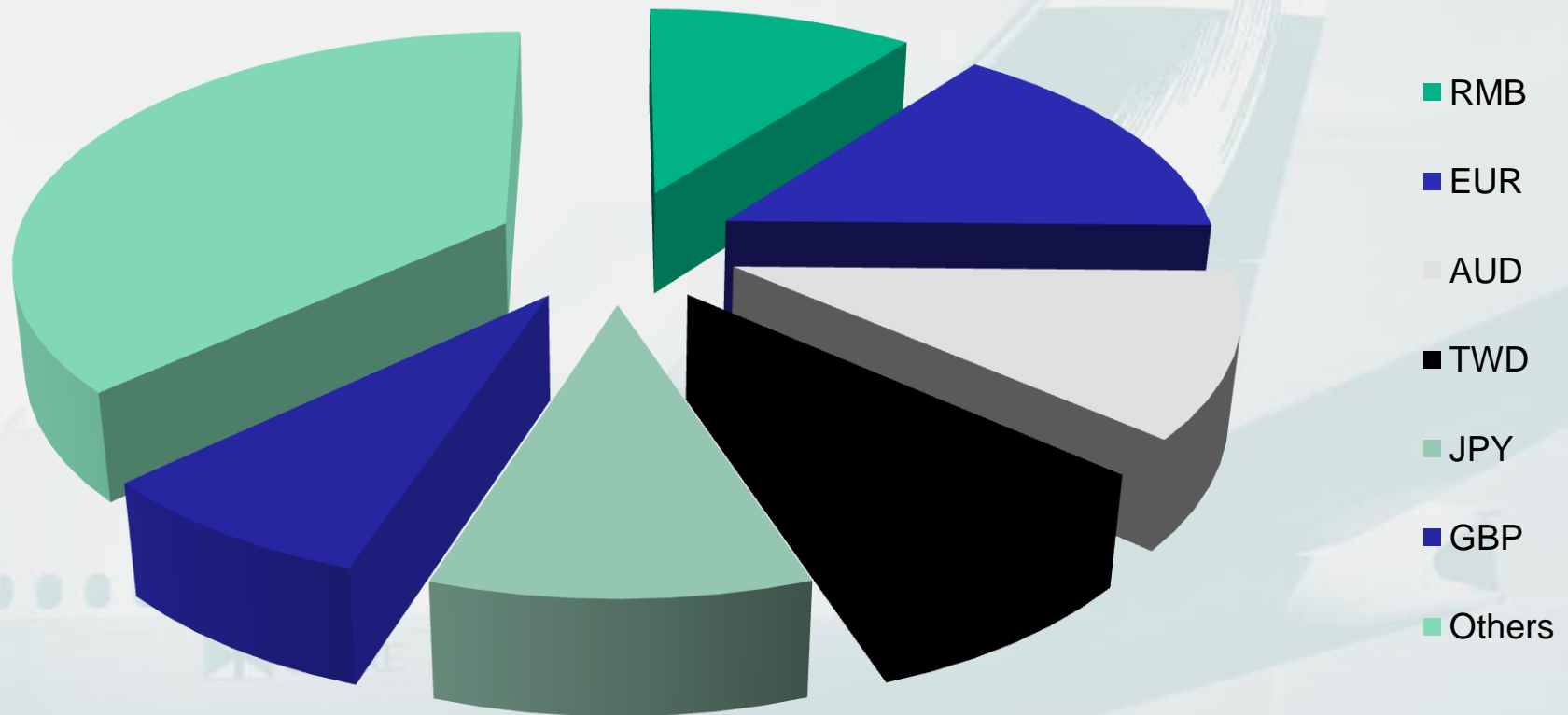


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# Financial Risk Management

Composition of forex exposure (after hedging) – next 12 months



# CX/KA Fleet Plan : 2010

|                            | In operation |           |       | Parked    |           |       |
|----------------------------|--------------|-----------|-------|-----------|-----------|-------|
|                            | Passenger    | Freighter | Total | Passenger | Freighter | Total |
| 30 Jun 2010                | 127          | 25        | 152   | 6         | -         | 6     |
| New deliveries             | 2            | -         | 2     | -         | -         | -     |
| Re-activation              | 1            | -         | 1     | (1)       | -         | (1)   |
| Air China Cargo JV         | -            | (1)       | (1)   | -         | -         | -     |
| 31 Dec 2010<br>(projected) | 130          | 24        | 154   | 5         | -         | 5     |

Recent order : 30 A350-900s and 6 B777-300ERs



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# Fleet Plan (cont'd)

- Passenger
  - Seven aircraft delivery in 2010; nine in 2011; eight in 2012
  - Projected ASK growth in 2011, approx. 11%
- Freighter
  - Nil in 2010; six in 2011 and four in 2012 (all B747-8F)
  - Revised B747-8F delivery schedule agreed with Boeing in Oct
    - First B747-8F delivery in Aug 2011
  - One BCF sold to Air China Cargo in 2010, three in 2011
  - Projected ATK growth in 2011, approx. 12%



# Net debt to equity ratio

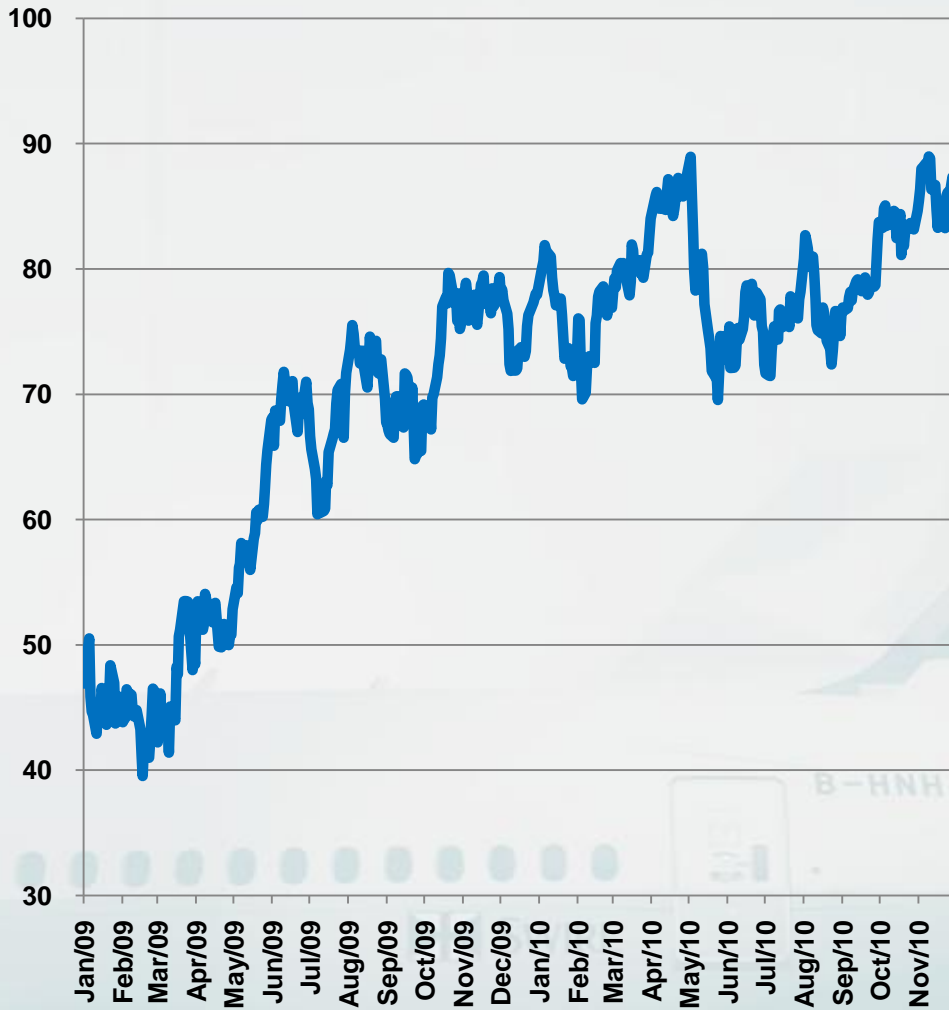
| <b>Oct 10</b> | <b>Jun 2010</b> | <b>Dec 2009</b> | <b>Dec 2008</b> | <b>Dec 2007</b> | <b>Dec 2006</b> | <b>Dec 2005</b> |
|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Below 0.40    | 0.40            | 0.62            | 0.69            | 0.30            | 0.36            | 0.26            |

- Gearing ratio is improving and below our target level
- Continue to adopt prudent financial strategy, build up adequate cash reserves
- CAPEX on new aircraft and cargo terminal will be over HK\$39B in the next 3 years

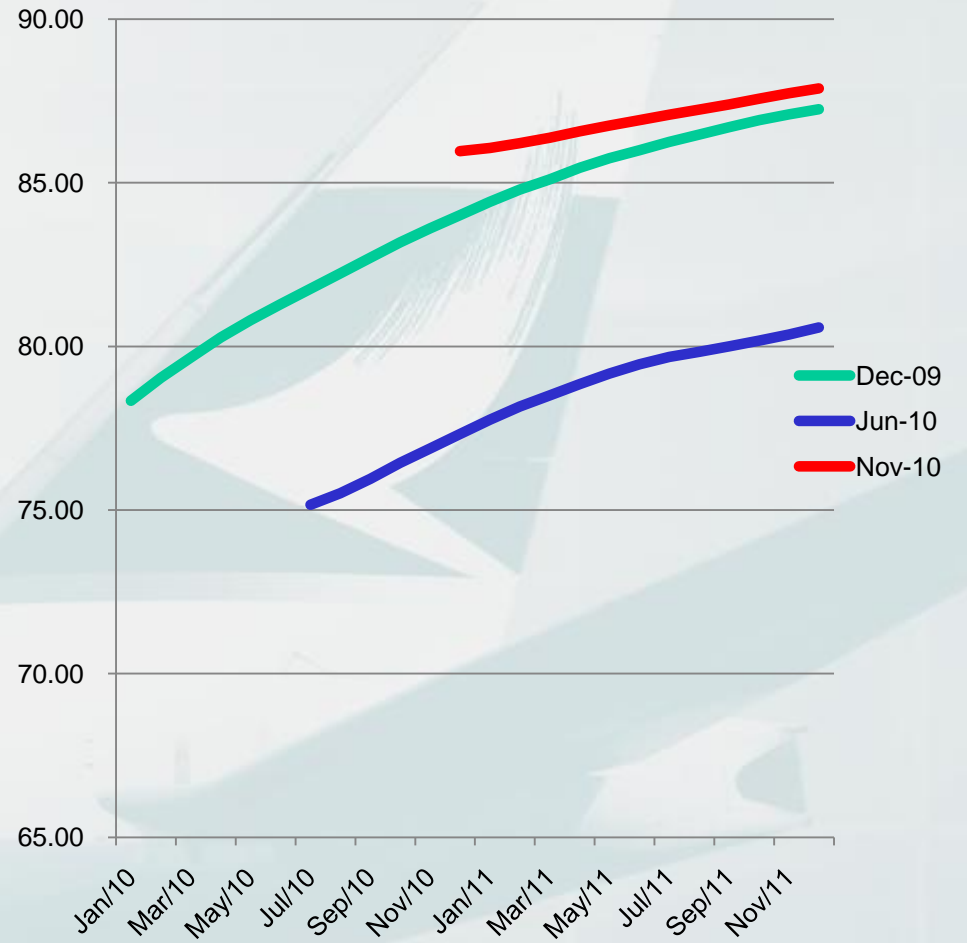


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# Daily IPE Brent Price

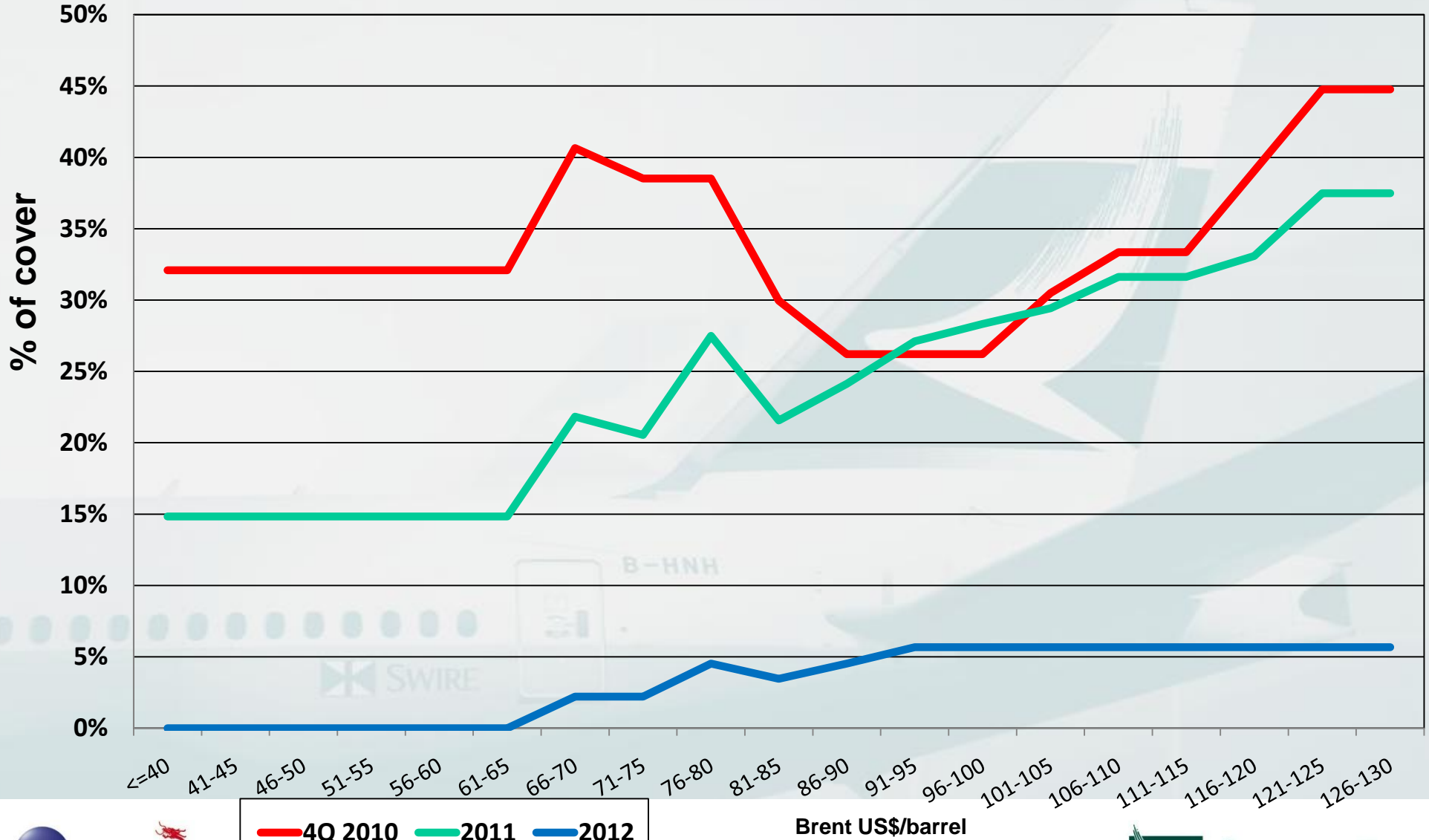


# IPE Brent Forward Price



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# % Fuel consumption subject to Hedging Contracts



— 4Q 2010  
 — 2011  
 — 2012

Brent US\$/barrel



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# Air China

- CA recorded a significant increase in earnings as reported in Sep YTD results, positive impact to CX results in 2nd half 2010
- Completed new share issue on 24th Nov and diluted CX's holding to 18.3%

# Air China Cargo

- Target to be the biggest freighter operator in Mainland
- A preparation team has started to work with counterparts in Air China Cargo
- Target to commence operation in 1H 2011 once all regulatory approvals have been received
- CX will send secondees to participate in the commercial, planning and services areas



# CX's share of CA's results (for illustrative purpose)

|                           |                   |                           |                   |
|---------------------------|-------------------|---------------------------|-------------------|
| CX's profit without CA    | A                 | CA's profit without CX    | B                 |
| CX's share of CA's profit | $\frac{X}{A + X}$ | CA's share of CX's profit | $\frac{Y}{B + Y}$ |

$$\begin{aligned}
 X &= 19.27\% (B + Y) \\
 &= 19.27\% B + 19.27\% (29.99\% A + 29.99\% X) \\
 &= 19.27\% B + 5.78\% A + 5.78\% X \\
 &= \mathbf{20.45\% B + 6.13\% A}
 \end{aligned}$$



# CX's share of CA's results (for illustrative purpose)

- CA's Quarterly Announcements including share of CX's results
- CX takes up CA's result three months in arrear
- CA takes up CX's result (no timing difference, ie. not in arrear)
- CX takes up CA's quarterly result excluding CX (IFRS) while CA announces results quarterly (PRC GAAP)
- Assuming:-
  - CX's result without CA is: 100
  - CA's result without CX is: 100
  - CX's share of CA's consolidated result will be: 26.58



# Full year results

- Profit forecast in 2010 of not less than HK\$12.5 billion
  - Includes
    - One-off items: gains on disposal of HACTL and HAECO (HK\$ 2,165M)
    - Strong Air China results (2010 Sep YTD under PRC GAAP: RMB 9,861M)
    - European Commission's imposition of a fine related to cargo investigations (HK\$ 618M)
  - Excludes
    - Gain on deemed disposal of CA shares



# Outlook

- **General Market**
  - Uncertainty arising from global economy
  - European debt crisis
  - Unclear impact of quantitative easing – possible inflation, increase in commodity prices and asset bubbles
  - Volatile exchange rates
  - Fuel price remains a concern



# Outlook

- **Our situation**

- Demand and yields continue to remain strong
- Ongoing focus on our core competencies in effective revenue management and strategic cost management
- Continue to optimise our cabin configuration
- Continue to strengthen the balance sheet
- Formal commencement of CA Cargo JV
- Commitment to future expansion





# Q & A

For more information, please visit our website  
[www.cathaypacific.com](http://www.cathaypacific.com)

