

# ***Cathay Pacific Airways***

## ***2012 Analyst Briefing***

### ***28 June 2012***



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# 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
- Continue to develop the strategic relationship with Air China
- Maintain a prudent approach to financial risk management



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# Operating Performance

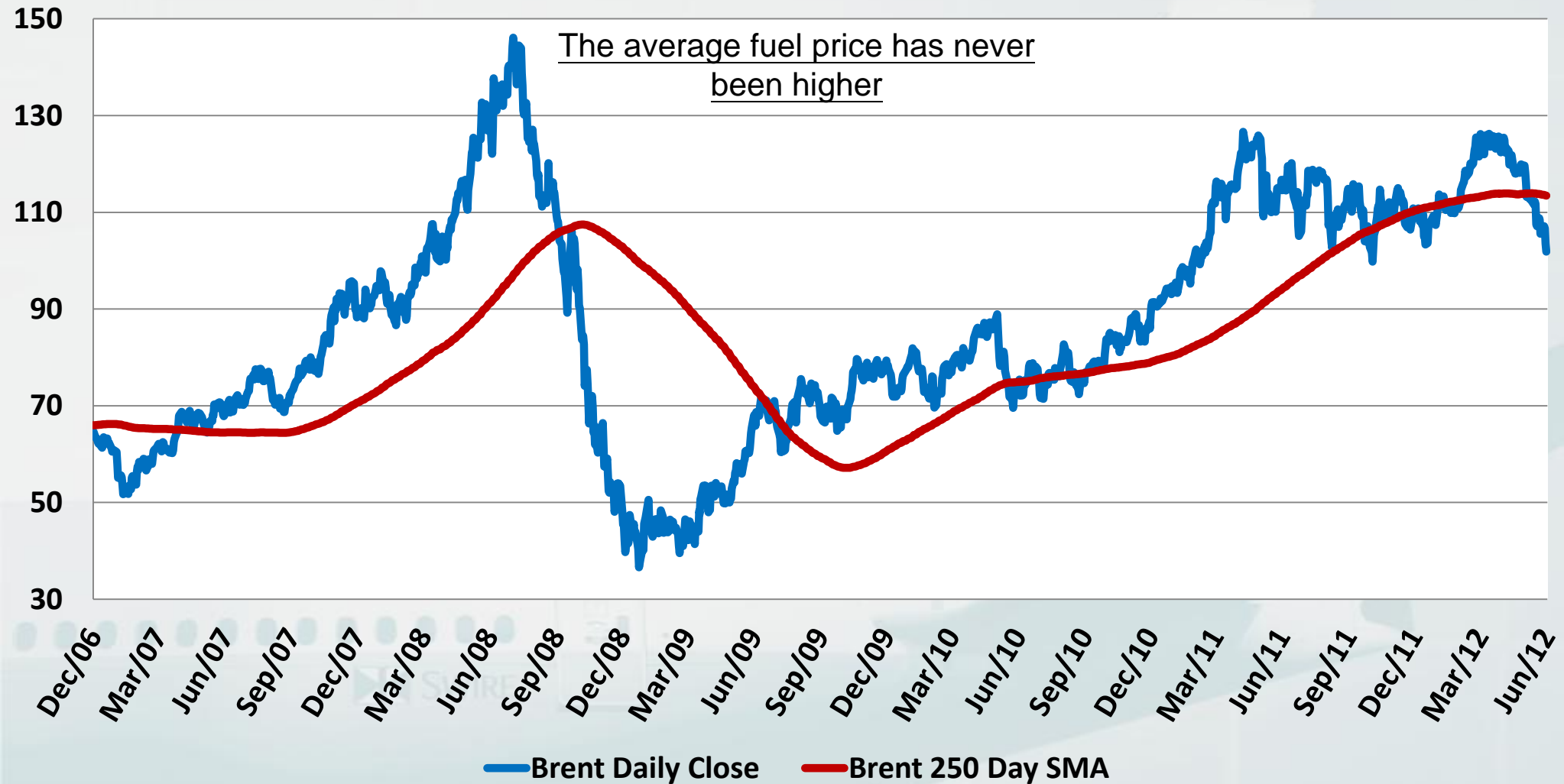
- Issued Trading Statement on 9<sup>th</sup> May 2012
- Stubbornly high price of jet fuel, despite the recent decline
- Softening yield in the passenger cabins
- Persistent weak demand in the air cargo markets
- Introduction of cost saving measures
- Gearing and liquidity remain strong



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# USD/Bbl - Brent-Daily Closing Price and 250 Day Simple Moving Average 2007-2012



# *Operating Performance - Passenger*

- Passenger volume growth exceeds capacity growth
- Premium traffic is under increasing pressure with yield softening
- Demand in economy class met expectations but yield continues to decline



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# Performance to May 12 - Capacity Data

CATHAY PACIFIC/ DRAGONAIR COMBINED CAPACITY	Cumulative May 2012	% change YTD
China	4,440,511	8.1%
North East Asia	6,951,363	8.9%
South East Asia	7,159,918	12.4%
India, Middle East, Pakistan & Sri Lanka	4,717,872	3.2%
Europe	9,019,546	-3.3%
South West Pacific & South Africa	8,053,399	0.8%
North America	14,433,774	18.6%
ASK ('000)	54,776,383	7.6%
Passenger load factor	79.6%	0.8%pt
Available cargo and mail tonne km ('000)	5,611,488	-4.1%
Cargo and mail load factor	64.0%	-4.7%
ATK ('000)	10,820,620	1.2%



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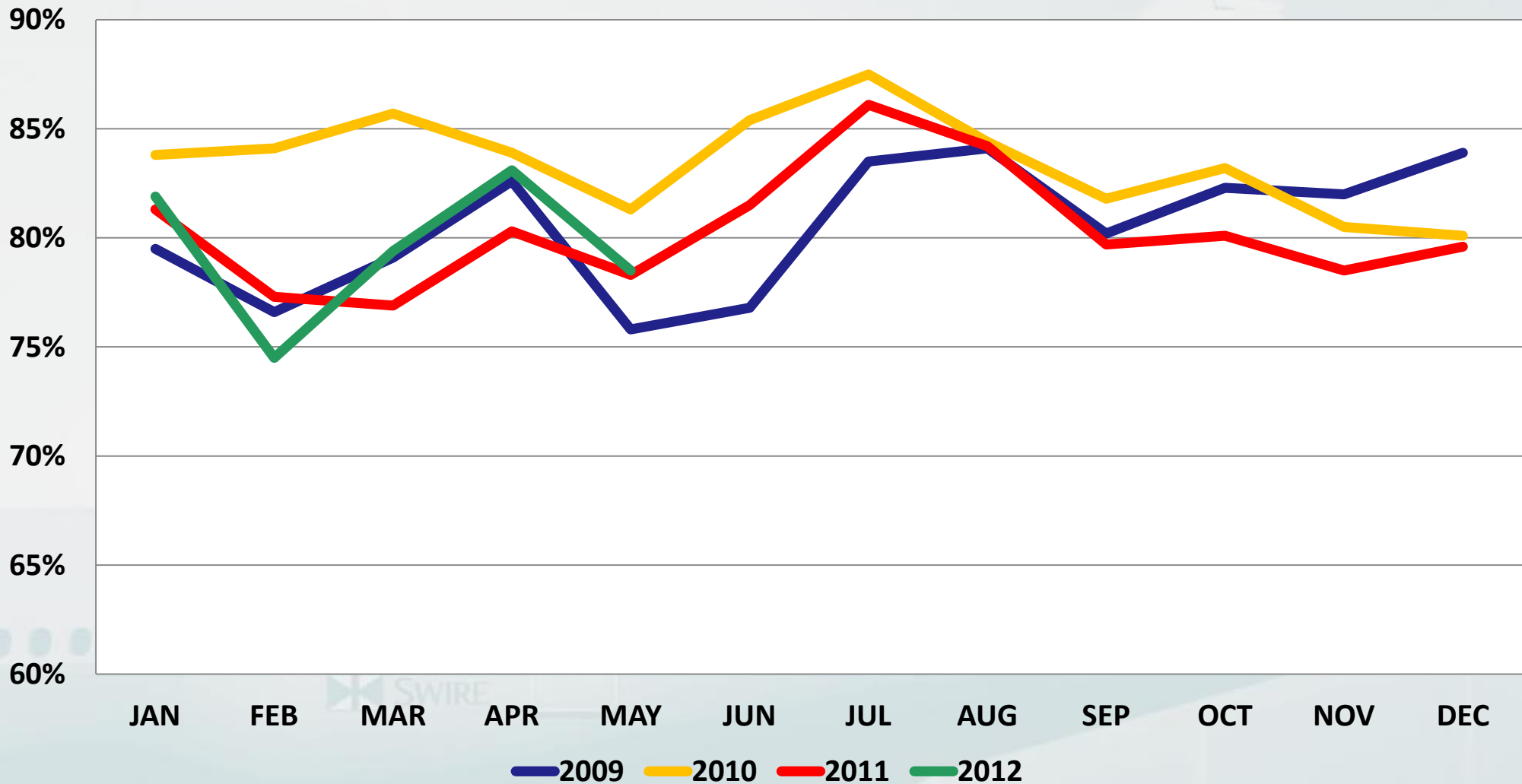
# Performance to May 12 - Traffic Data

CATHAY PACIFIC AND DRAGONAIR COMBINED TRAFFIC	Cumulative May 2012	% change YTD
China	3,216,435	11.6%
North East Asia	4,990,937	15.2%
South East Asia	5,730,209	9.4%
India, Middle East, Pakistan & Sri Lanka	3,596,970	3.7%
Europe	7,478,346	-0.2%
South West Pacific & South Africa	6,077,755	3.5%
North America	12,486,487	15.0%
RPK ('000)	43,577,139	8.5%
Passengers carried	11,898,012	9.1%
Cargo and mail revenue tonne-km ('000) (RTK)	3,590,261	-10.7%
Cargo and mail carried kg ('000)	626,203	-10.7%
Number of flights	27,756	6.9%



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# PASSENGER LOAD FACTOR (JAN 2009 - MAY 2012)



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# ***Operating Performance - Cargo***

- Weak demand in most major markets throughout the first half of 2012
- Significant drop in demand out of our key markets, Hong Kong and Mainland China, with temporary boost in March
- General air cargo market remains weak, especially to Europe
- Profitability on our freighter flights materially affected by high fuel prices, particularly on long-haul routes
- Zhengzhou added to our freighter network in March
- Expands cargo presence in India with new service to Hyderabad and increased frequency to Bengaluru



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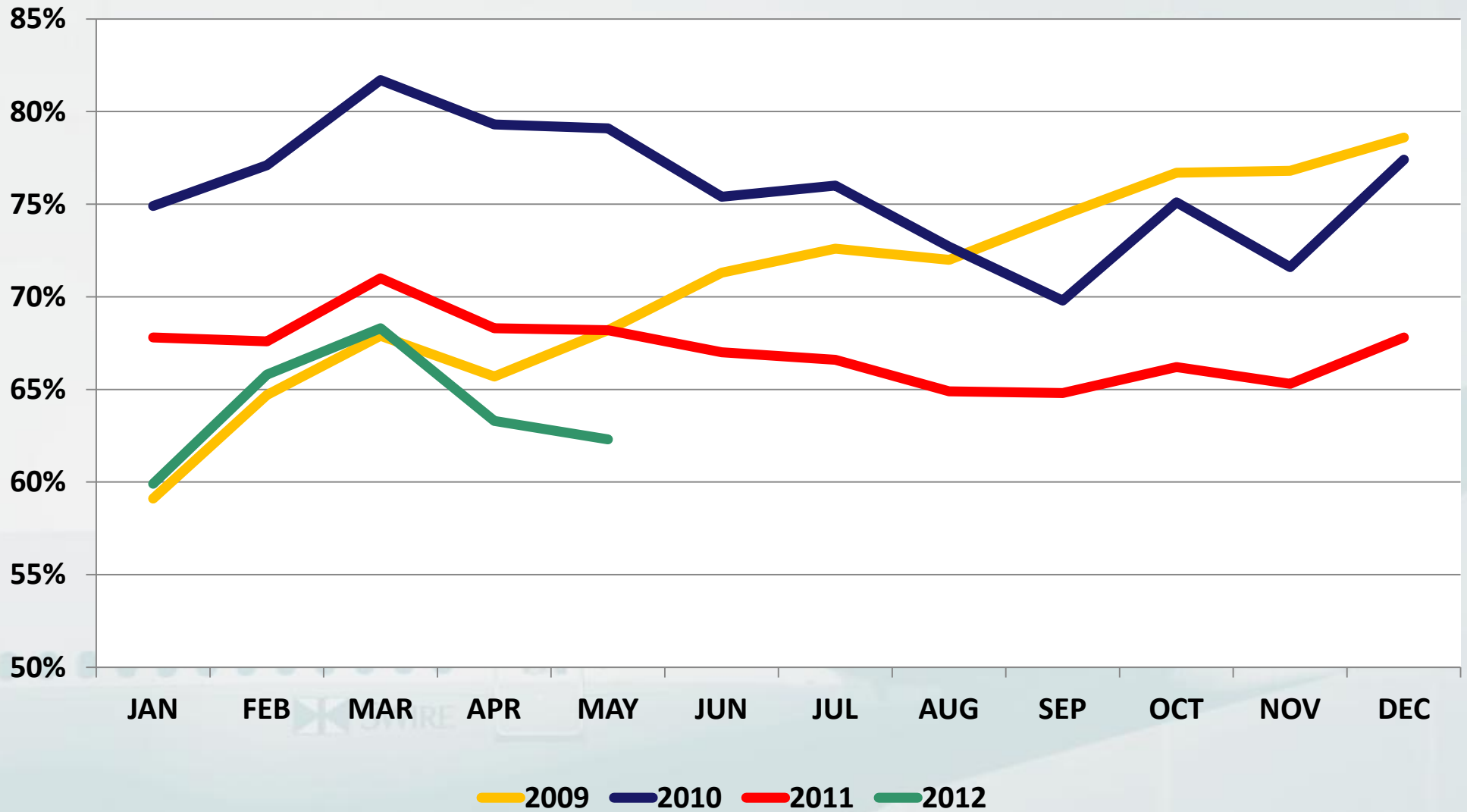
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# CARGO AND MAIL LOAD FACTOR (JAN 2009 - MAY 2012)



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# Cost-Saving Measures

- Reduce passenger and cargo capacity
- Deploy more fuel-efficient aircraft on long-haul flights
- Accelerate the retirement of the old Boeing 747-400
- Hiring freeze on new or replacement ground staff except those who are critical to operations
- Offer voluntary unpaid leave for cabin crew
- Cancel all non-essential business travel
- Reduce marketing and IT spend



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# ***Fleet & Scheduling - CX***

- Reduce frequencies on long-haul routes to North America and Europe
- Added regional flights to Taipei, Kuala Lumpur, Penang, Bangkok, Nagoya and Singapore in March
- Increase services between Seoul and Hong Kong from five to six flights daily effective from 15 July
- Increase frequencies between Chennai and Hong Kong from four flights a week to daily effective from 1 September



# ***Fleet & Scheduling – KA***

- Added flights to Ningbo, Qingdao and Okinawa
- Used larger aircraft for some flights on the Xiamen, Guangzhou and Kunming routes
- Resumed services to Xi'an in April and to Guilin and Taichung in May
- New services to Jeju and Clark were introduced in May
- New service to Chiang Mai will run from 1 July to end of September
- Intends to introduce service to Kolkata later in the year



# Cargo Scheduling

- New freighter service to Zhengzhou in Henan Province, Central China in March
- Introduced new service to Hyderabad, India in May
- Added flights to Bengaluru, India, from two to three flights a week
- Reduce freighter frequencies to Europe and North America



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# CX and KA Fleet Plan 2012

	In operation			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
31 Dec 2011	138	27	165	2	-	2
New deliveries	8	1	9	-	-	-
Return to lessors	-	-	-	(2)	-	(2)
Dry leased to Air Hong Kong	-	(3)	(3)	-	-	-
Parked aircraft	-	(2)	(2)	-	2	2
Deregistered	-	-	-	-	(1)	(1)
30 Jun 2012 (projected)	146	23	169	-	1	1



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# ***Fleet & Scheduling - 744 Retirement Plan***

**As of 28 June 2012**

<b>Exit date</b>	<b>Number</b>	<b>Remaining</b>
Sep 12	-3	18
Mar 13	-2	16
Jun 13	-1	15
Sep 13	-1	14
Nov 13	-1	13
Jan 14	-1	12



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# Cargo Fleet Plan

## 2012

- Forecast fleet composition as at 30 Jun 2012
  - 24 x 747 Freighters :  
6 x 747-400F, 6 x 747-400ERF , 7 x 747-400BCF and 5 x 747-8F

## Latest development

- Sale – 2 x 747-400BCF to Air China Cargo in second half of 2012
- New delivery
  - 747-8F – 4 in 2012 and 2 in 2013
  - 777-200F – 4 in 2014, 2 in 2015 and 2 in 2016



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# ***New Aircraft as at June 2012***

<b>Orders brought forward at 1 Jan 2012</b>	<b>93</b>
Delivered	(9)
New Orders in January 2012	8
<b>Total as at 28 Jun 2012</b>	<b>92</b>



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# Aircraft Delivery Plan as at June 2012

	2012	2013	2014	2015	2016	2017	2018	2019	
B747-8F	3	2							5
B777-200F			4	2	2				8
A320-200	2								2
A330-300	4	5	5	3					17
A350-900				2	10	10	12	4	38
B777-300ER	1	9	7	5					22
Total	10	16	16	12	12	10	12	4	92



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# Key Cost Savings

- Aircraft maintenance
- Navigation and overflying charges
- Staff costs
- Potential fuel costs savings derived from the replacement of the old and less fuel-efficient Boeing 747-400



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# Product and Services

- Introduction of the new Premium Economy Class



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# Product and Services (Continued)

## New long-haul Economy Class seats



## New Business Class seats



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# ***Product and Services (Continued)***

- Reopened Business Class Lounge of The Wing in January



# ***Product and Services (Continued)***

- Launch of Mobile Boarding Pass service



- Upgrade of new passenger reservation system



# Cargo Development

## Cargo Terminal

- HK\$5.9 billion investment, spend to May 2012 HK\$4.9 billion
- Good progress in construction and operation preparation, topping-out ceremony on 17 Nov 2011
- On schedule for opening early 2013
- It will greatly enhance the competitiveness and efficiency of Hong Kong as an airfreight hub



## ***Air China***

- Air China publishes its results on a quarterly basis and the loss for the 6 months period from 1 Oct 2011 to 31 March 2012 amounted to RMB 0.6bn, compared to profit RMB 3.8bn for the same period last year

## ***Air China Cargo***

- Performance of Air China Cargo has been weak but remains strategically important



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# ***Shanghai Airport Ground Handling Joint Venture***

- Strategic Objective – to leverage on the resources & management expertise of each of the shareholders to enhance the hub operations and efficiency of ground handling services at the two Shanghai airports
- Shanghai International Airport Services Co., Limited is jointly owned and managed by Shanghai Airport Authority, Shanghai International Airport Co., Ltd., Air China Limited and Cathay Pacific Airways
- CX Group injected RMB90 million for 25% shareholding
- Expected to commence operations in the fourth quarter of 2012 subject to approval by the relevant Chinese government authorities



# ***Financial Risk Management***

- Currency
  - All major currencies are hedged in compliance with our policy
- Liquidity
  - A total of HK\$2.7billion with tenors of 5 or 7 years raised through MTN programme since first issue in Oct 2011
  - Unpledged liquid funds and undrawn committed lines HK\$21bn as at 31 May 2012
- Interest rates
  - Overall cost of debt remains low.
  - Margins have widened, but yield curve at historically attractive levels
  - Strategic management of fixed / floating ratio – taking advantage of low fixed rates to lock in aircraft financing



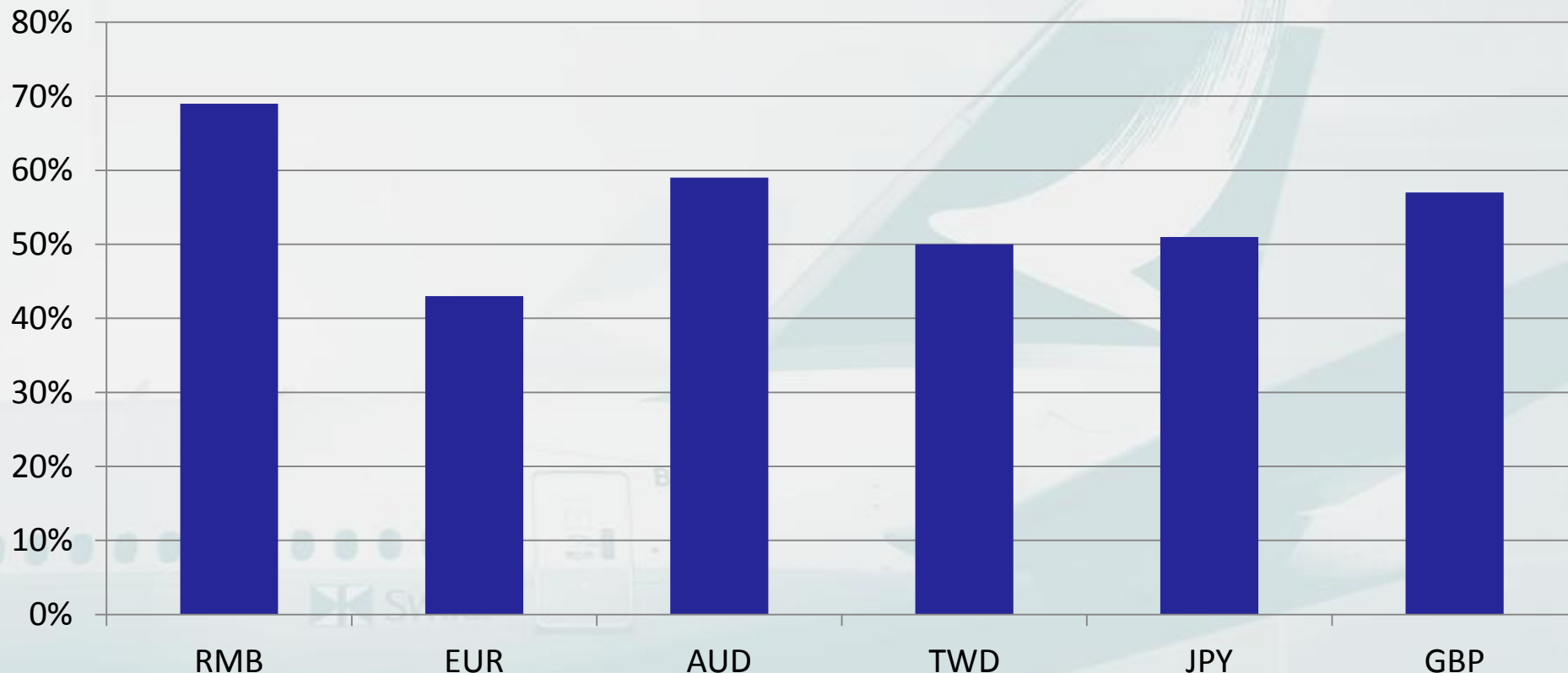
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# ***Financial Risk Management (Continued)***

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



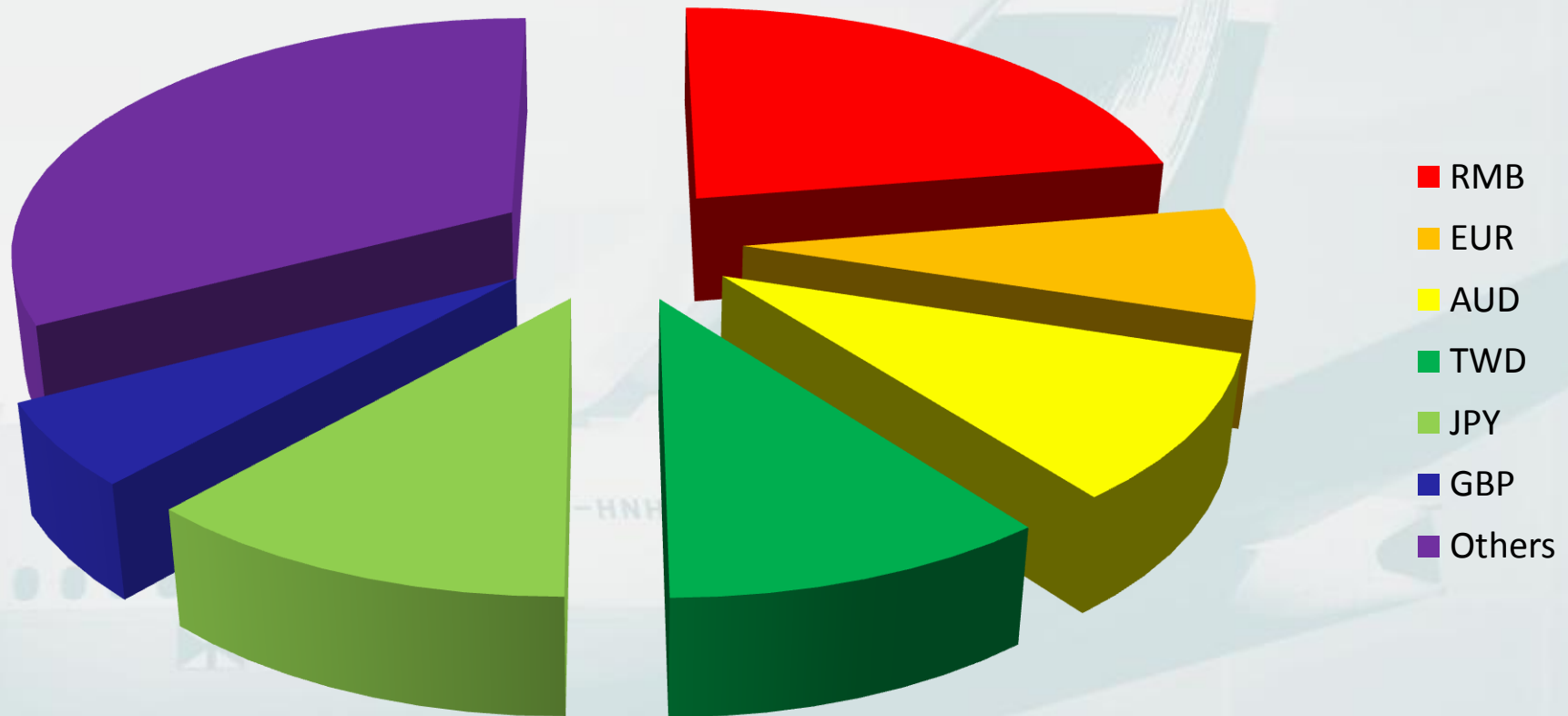
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# ***Financial Risk Management (Continued)***

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



# Net debt to equity ratio

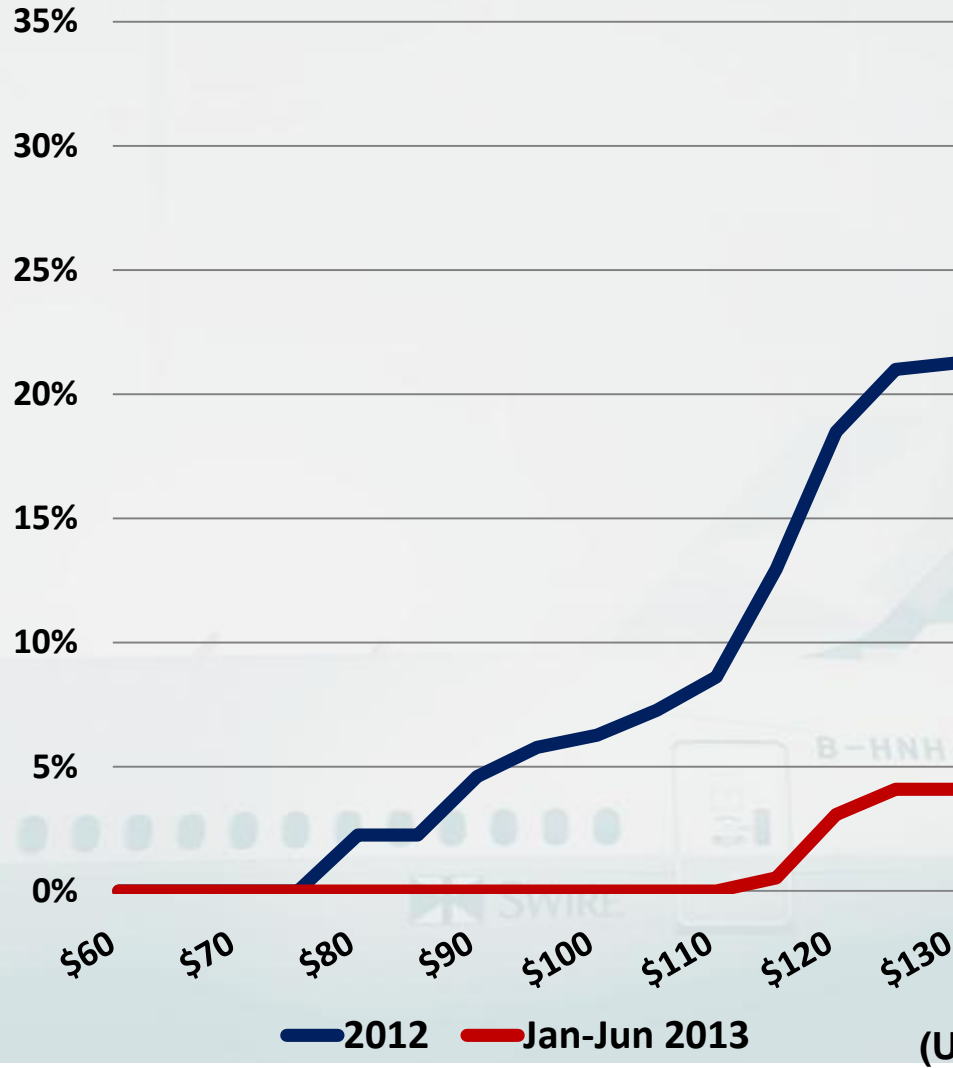
<b>May 2012</b>	<b>Dec 2011</b>	<b>Dec 2010</b>	<b>Dec 2009</b>	<b>Dec 2008</b>	<b>Dec 2007</b>	<b>Dec 2006</b>	<b>Dec 2005</b>
0.57	0.43	0.28	0.62	0.69	0.30	0.36	0.26

- Continue to adopt prudent financial strategy, maintain adequate cash reserves
- CAPEX on new aircraft , product enhancement and cargo terminal will be over HK\$46B in the next 3 years

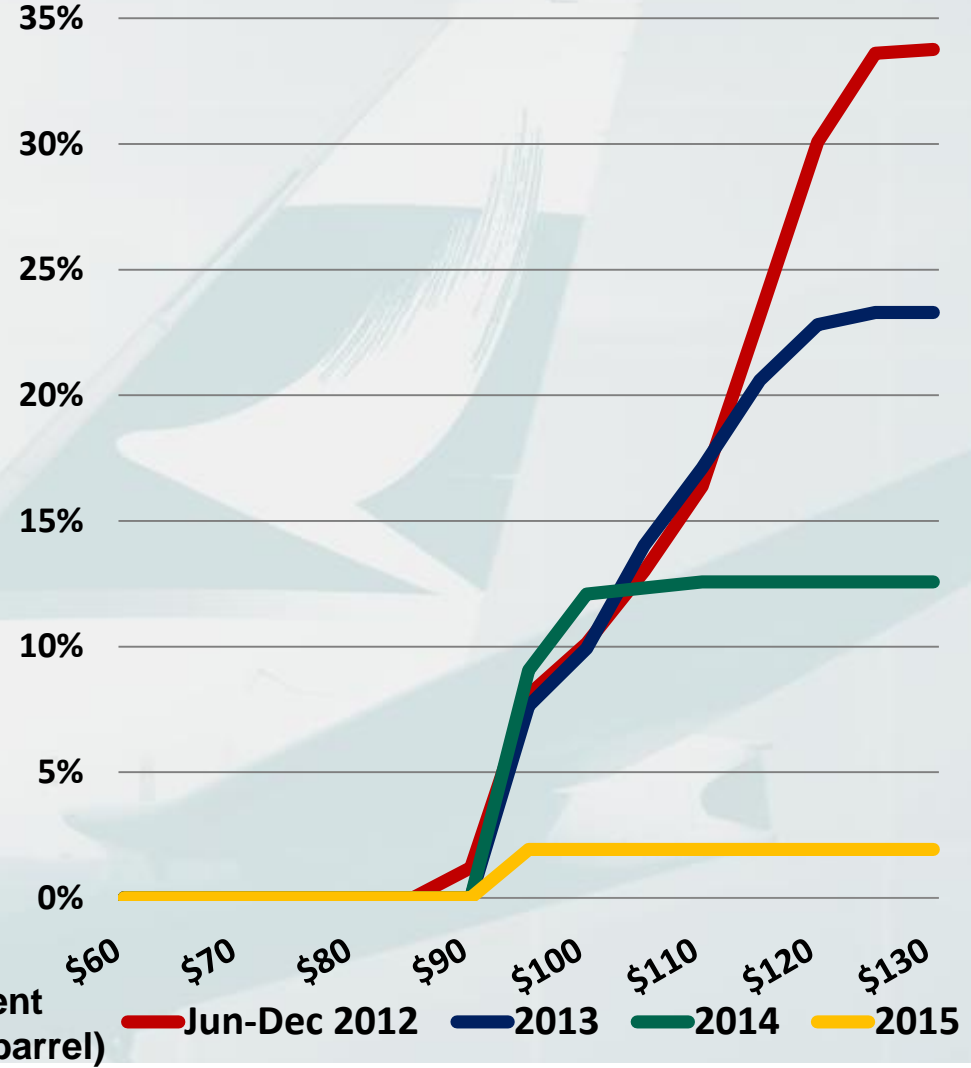
# Fuel Hedging

Fuel hedging  
coverage

As at 14 March 2012



As at 26 June 2012



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# Outlook

- Global economic uncertainties continue into the second half, impacting passenger demand
- Cargo demand remains weak
- Fuel price remains high, but we benefit from the recent decline
- Cost cutting measures will be realised in the second half
- Continued enhancement of products and services to strengthen our competitive edge



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# Q & A

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



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