

Cathay Pacific Airways

Annual Results 2012



13 March 2013



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Annual Result

		<u>2012</u>	<u>2011</u>	<u>Change</u>
Group attributable profit	<i>HK\$ million</i>	916	5,501	-83.3%
Group Turnover	<i>HK\$ million</i>	99,376	98,406	+1.0%
Profit Margin	%	0.9	5.6	-4.7%pt
Earnings per share	<i>HK¢</i>	23.3	139.8	-83.3%
Dividends per share	<i>HK¢</i>	8.0	52.0	-84.6%
Available tonne kilometres (ATK)	<i>million</i>	26,250	26,383	-0.5%
Available seat kilometres (ASK)	<i>million</i>	129,595	126,340	+2.6%
Cost per ATK (with fuel)	<i>HK\$</i>	3.64	3.45	+5.5%
Cost per ATK (without fuel)	<i>HK\$</i>	2.13	2.01	+6.0%



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Airlines operating results

	<u>2012</u> HK\$M	<u>2011</u> HK\$M
Airlines' profit before tax	158	4,025
Tax charge	(268)	(609)
Airlines' (loss) / profit after tax	(110)	3,416
Share of profits from subsidiaries & associates	1,026	2,085
Profit attributable to owners of Cathay Pacific	916	5,501



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Passenger Service – Key Numbers

		2012	vs 2011
Turnover	<i>HK\$ million</i>	70,133	+3.5%
Seat capacity (ASK)	<i>Million</i>	129,595	+2.6%
Passenger number	<i>'000</i>	28,961	+5.0%
Passenger yield	<i>HK cents</i>	67.3	+1.2%
Load factor	<i>%</i>	80.1	-0.3%pt



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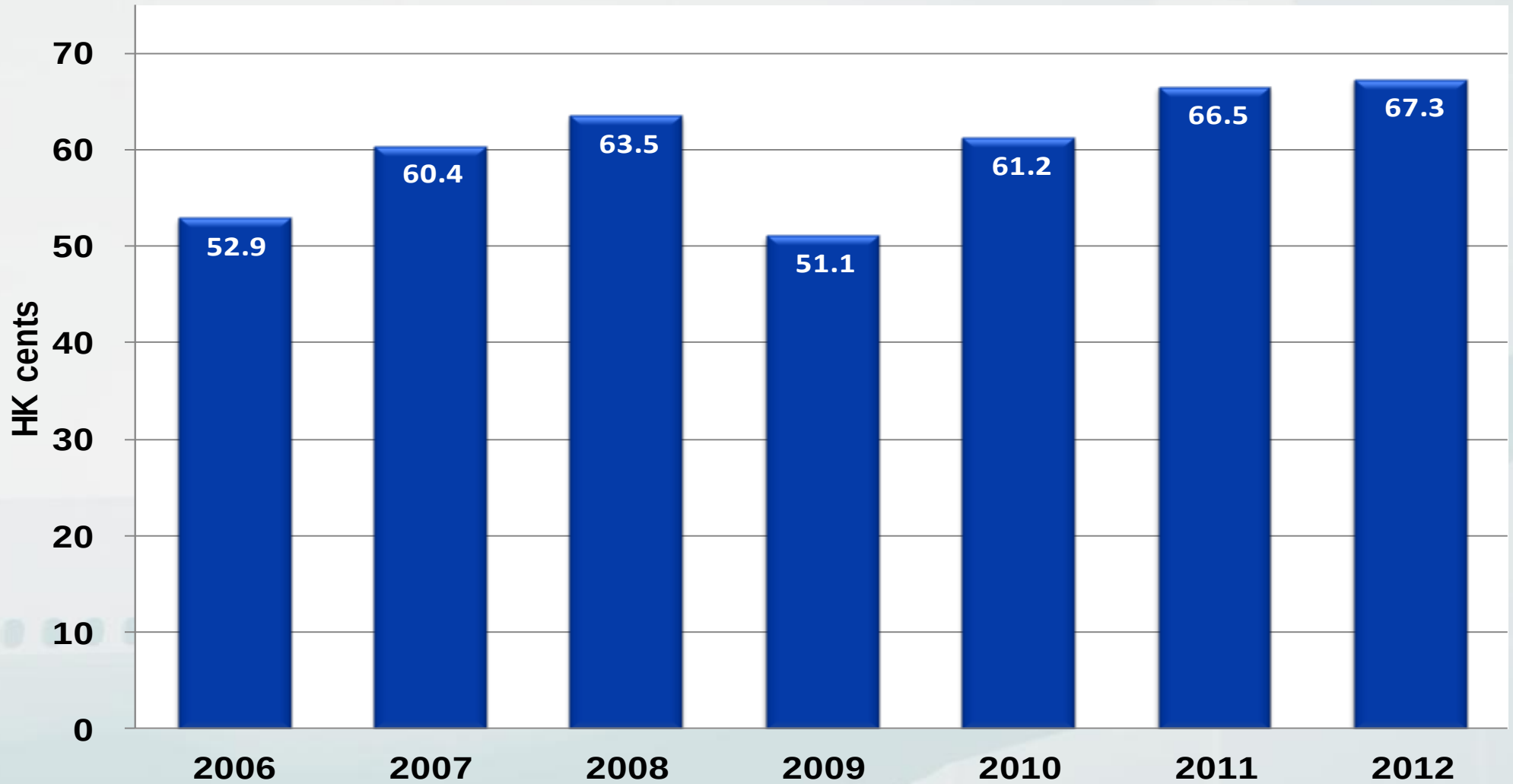
Passenger Service - by Region

	ASK (m)	vs 2011	Load Factor	vs 2011	Yield Change
India, Middle East, Pakistan and Sri Lanka	11,049	-3.6%	75.5%	+1.3%pt	+2.4%
Southeast Asia	18,031	+12.6%	79.3%	-3.3%pt	+0.9%
Southwest Pacific and South Africa	18,304	-4.1%	77.3%	+1.0%pt	+1.7%
Europe	21,509	-4.6%	85.0%	+1.3%pt	+1.9%
North Asia	27,980	+10.3%	71.9%	-1.6%pt	-3.4%
North America	32,722	+2.8%	87.6%	+0.5%pt	+3.1%
Overall	129,595	+2.6%	80.1%	-0.3%pt	+1.2%



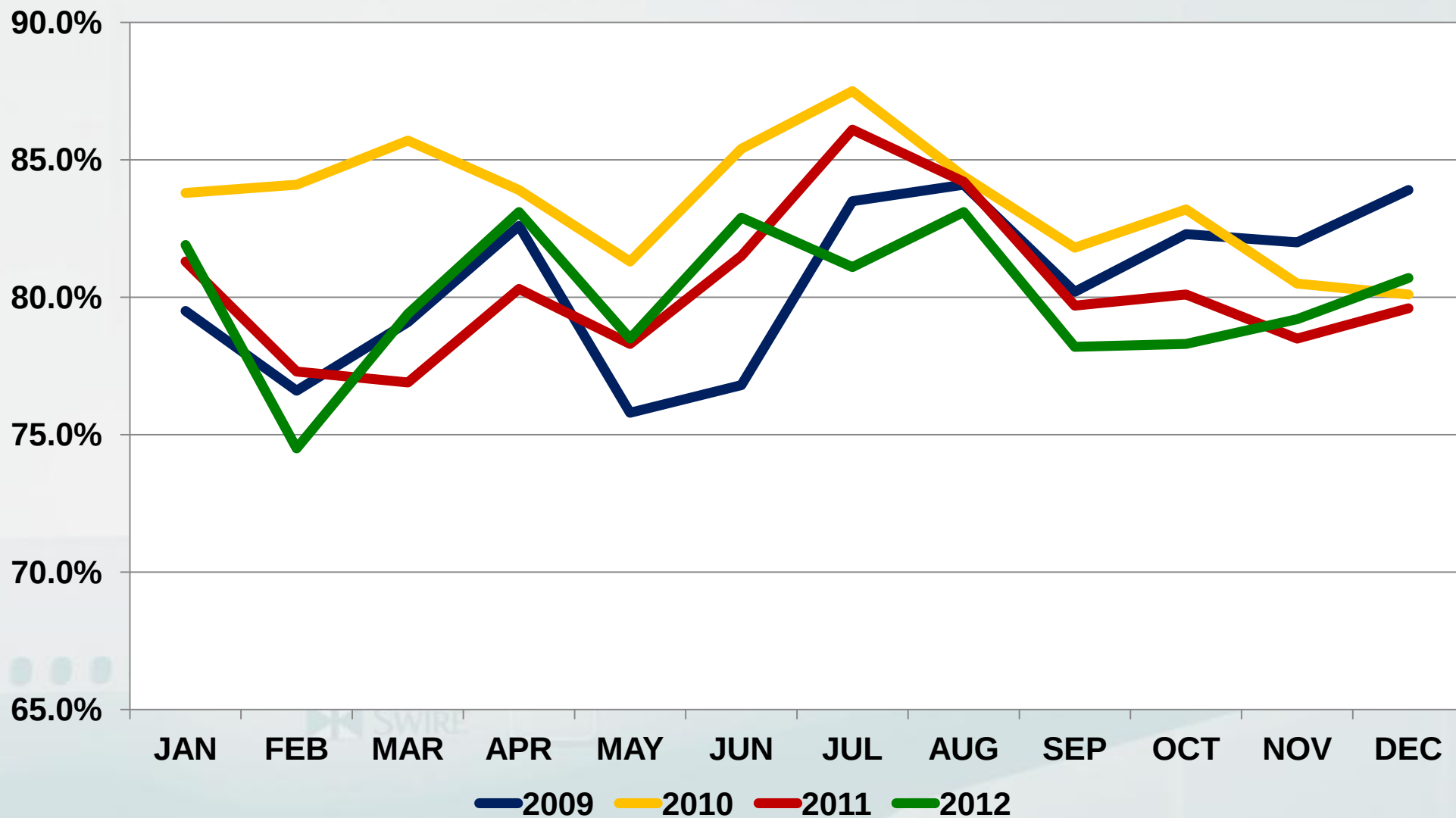
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Passenger Yield 2006 - 2012



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PASSENGER LOAD FACTOR (JAN 2009 – DEC 2012)



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Passenger Services Development in 2012

Cathay Pacific

- Reduced the frequencies on long-haul routes to North America and Europe
- Added regional flights to Taipei, Kuala Lumpur, Penang, Bangkok, Nagoya and Singapore in March
- Increased the frequencies between Chennai and Hong Kong from four flights a week to daily in September, and between Ho Chi Minh City and Hong Kong from 14 to 16 flights per week in October
- New four-times-weekly service to Hyderabad, India in December
- Additional daily flight to London starting from June 2013



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Passenger Services Development in 2012

Dragonair

- 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 and new services to Jeju and Clark in May; and to Chiang Mai in July
- New service to Haikou and Kolkata were introduced in October and November, respectively
- Increased frequencies to Phnom Penh and Kota Kinabalu in October
- New services to Zhengzhou, Yangon and Wenzhou starting from January 2013
- New service to Da Nang starting from March 2013



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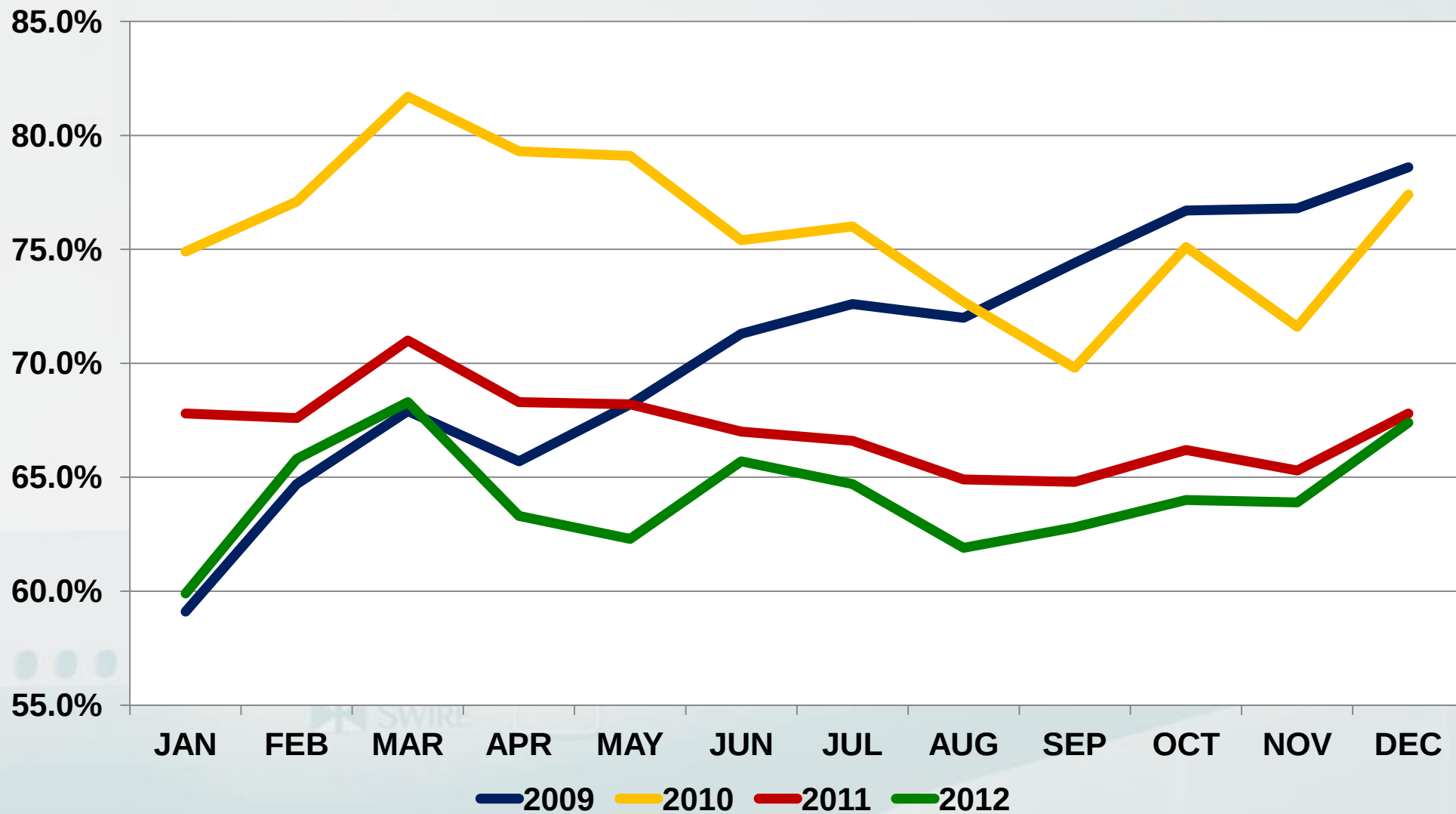
Cargo Service – Key Numbers

		2012	vs 2011
Group turnover	HK\$ million	24,555	-5.5%
<u>Cathay Pacific and Dragonair</u>			
Turnover	HK\$ million	21,601	-7.4%
Cargo capacity (ATK)	Million	13,926	-3.1%
Cargo and mail carried	'000 tonnes	1,563	-5.2%
Cargo and mail yield	HK\$	2.42	-
Load factor	%	64.2	-3.0%pt



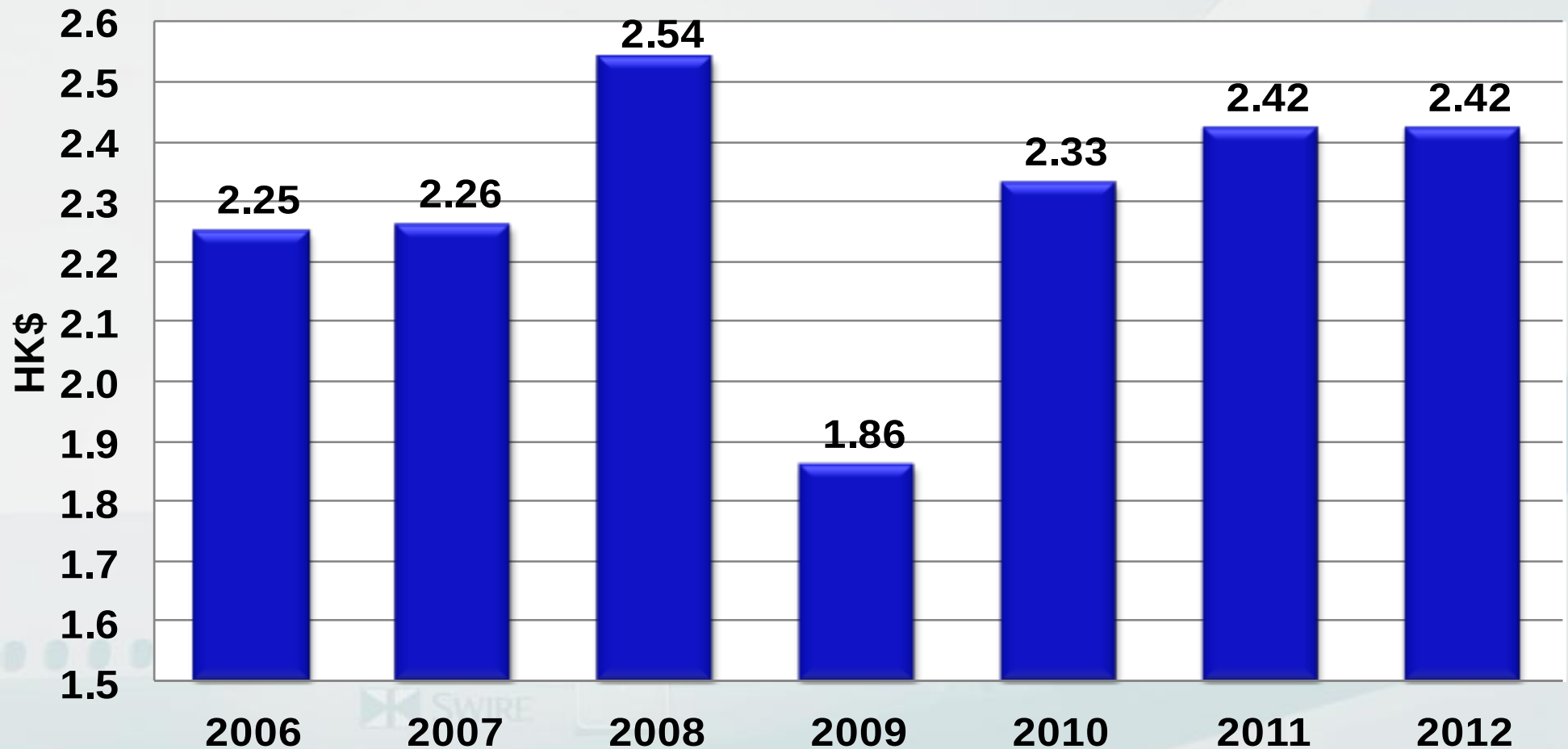
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CARGO AND MAIL LOAD FACTOR (JAN 2009 – OCT 2012)



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Cargo & Mail Yield 2006 - 2012



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Cargo Services Development

- Reduced freighter frequencies to Europe and North America
- Introduced 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
- Suspended freighter service to Zaragoza in Spain in November
- New weekly freighter service to Colombo in Sri Lanka starting from December 2012



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Group Operating Cost

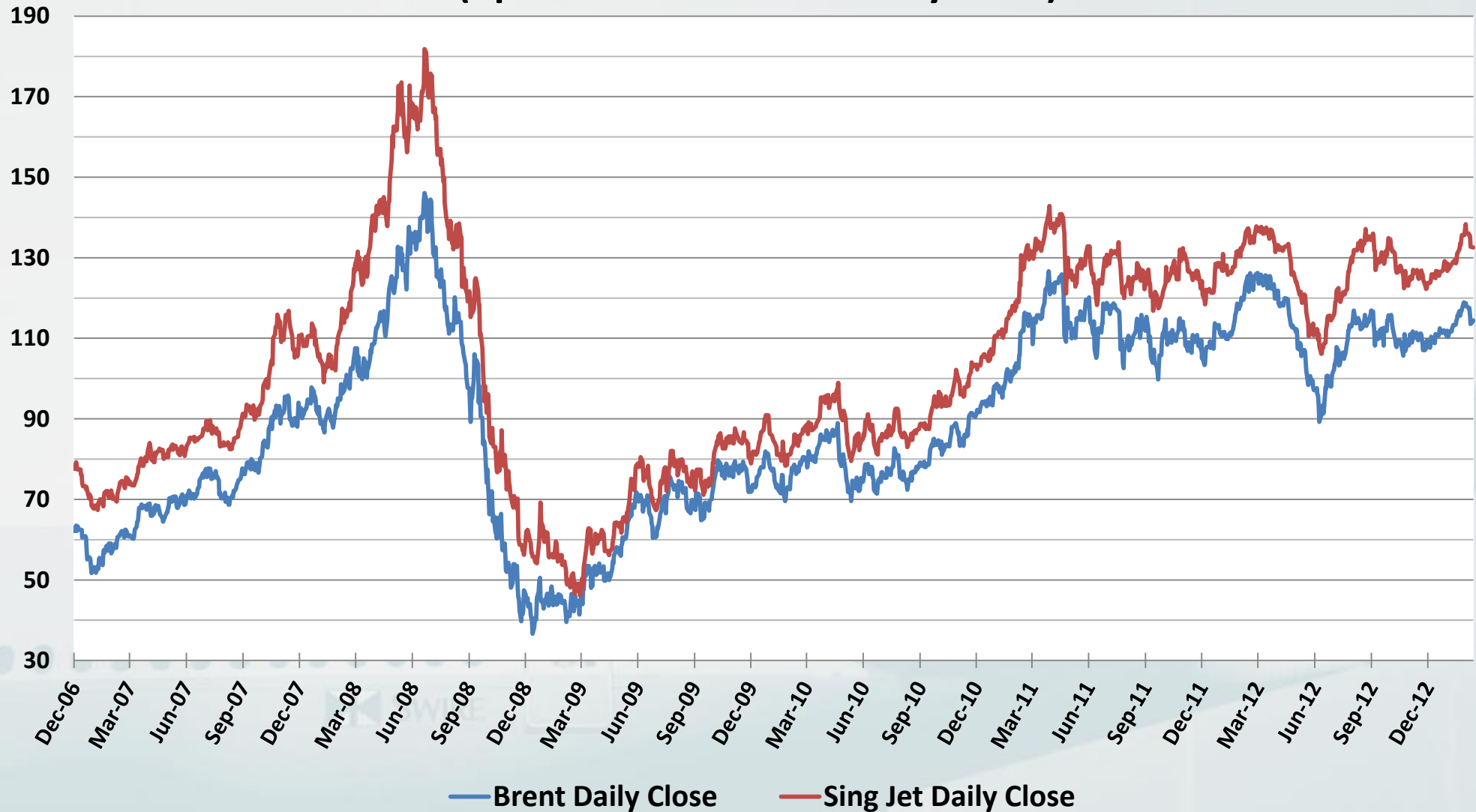
	2012	vs 2011
	HK\$m	%
Staff	16,073	+8.8
Inflight service and passenger expenses	4,017	+5.9
Landing, parking and route expenses	13,603	+3.8
Fuel	40,470	+4.1
Aircraft maintenance	8,197	-3.2
Depreciation, amortisation and operating leases	10,311	+9.7
Net finance charges	884	+18.8
Others	4,917	+9.6
Total operating cost	98,472	+5.1



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USD/Bbl - Brent and Sing Jet Daily Closing Price 2007 – 2013

(updated as of 26 February 2013)

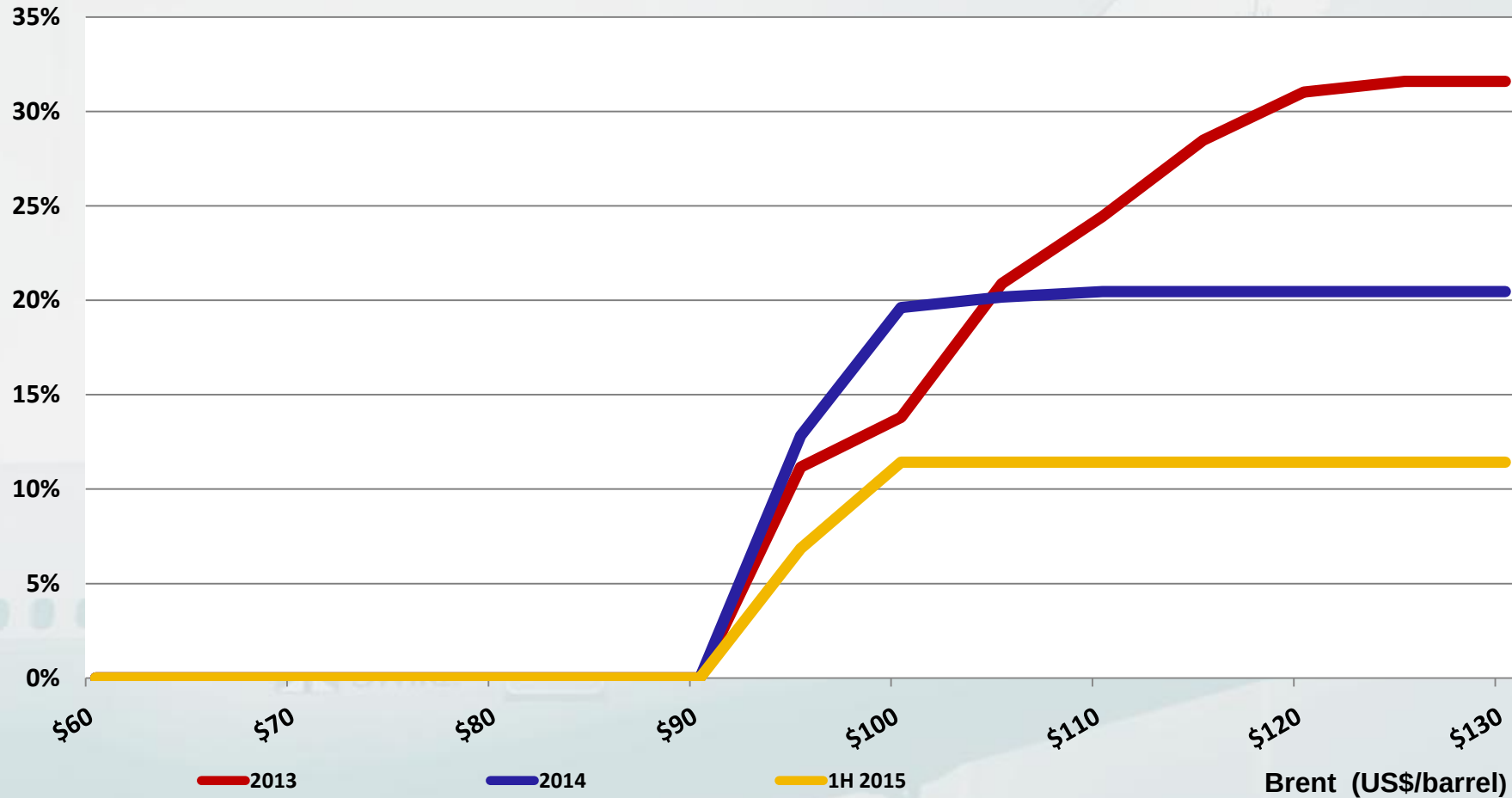


Fuel Hedging

As at 31 December 2012

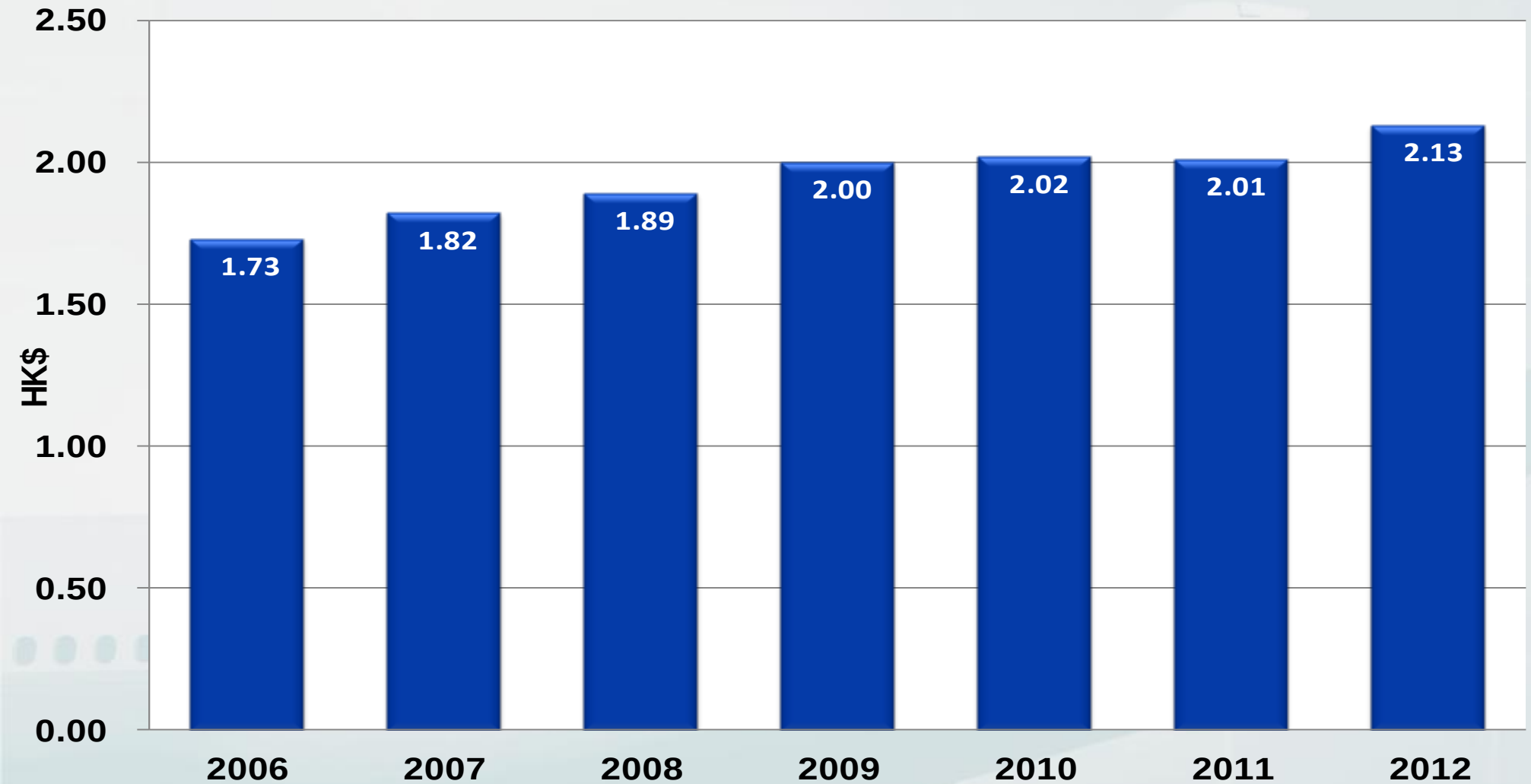
Fuel hedging coverage

Percentage consumption subject to hedging contracts



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Airline Cost per ATK (without fuel)



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Cost-Saving Measures

- Introduced in 2012, continued into 2013
- 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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CX and KA Fleet Plan as at 31 December 2012

	In operation			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
31 Dec 2011	138	24	162	2	-	2
New deliveries	15	4	19	-	-	-
Return to lessors	-	-	-	(2)	-	(2)
Parked aircraft	-	(3)	(3)	-	3	3
Sold to ACCJV	-	(1)	(1)	-	-	-
Retired	-	-	-	-	-	-
Deregistered	(3)	(1)	(4)	-	-	-
31 Dec 2012	150	23	173	-	3	3



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Trade-in deal with Boeing

- On 1 March 2013, Cathay Pacific Group (“CX”) and The Boeing Company (“Boeing”) entered into a trade-in deal, pursuant to which CX agreed to purchase three Boeing 747-8F freighter from Boeing

Related Transactions to the trade-in deal:

- Cancellation of an existing order for eight Boeing 777-200F freighters;
- Acquisition of options to purchase five Boeing 777-200F freighters; and
- Sale of four Boeing 747-400 converted freighters.

The above Transaction and Related Transactions are part of a package transactions between Boeing and:

- Air China Cargo (“ACC”) – under which ACC will purchase eight Boeing 777-200F freighters and will sell seven Boeing 747-400 converted freighters; and
- Air China (“CA”) – under which CA will purchase 2 Boeing 747-8I, 1 Boeing 777-300ER and 20 Boeing 737-800



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New Aircraft as at 13th March 2013

Orders brought forward at 1 Jan 2012	93
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Delivered in 1H 2012	(9)
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New Orders in January 2012	8
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Outstanding orders as at 30 Jun 2012	92
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Delivered in 2H 2012	(10)
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New orders in August 2012 – A350-1000	10
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Outstanding orders as at 31 Dec 2012	92
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Delivered in February – A330-300 and B777-300ER	(2)
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Orders amendment in March 2013 (note 1)	(5)
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Total as at 13th March 2013	85
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Note 1: In March 2013, the Group entered into agreements with The Boeing Company under which we agreed to buy three Boeing 747-8F freighter aircraft and the agreement to purchase eight Boeing 777-200F freighters entered into in August 2011 was cancelled. Pre-delivery payments already made in respect of the eight Boeing 777-200F freighters (which were scheduled to be delivered from 2014 to 2016), will be credited to the consideration for the purchase of the three Boeing 747-8F freighters (which are scheduled to be delivered in 2013).



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Aircraft Delivery Plan as at 13th March 2013

	2013	2014	2015	2016	2017	2018	2019	2020	
B747-8F	5								5
A330-300	4	5	3						12
A350-900				12	10				22
A350-1000						6	10	10	26
B777-300ER	8	7	5						20
Total	17	12	8	12	10	6	10	10	85

Cargo Fleet Plan

- Fleet composition as at 31 Dec 2012
 - 26 x 747 Freighters:
6 x 747-400F, 6 x 747-400ERF , 6 x 747-400BCF and 8 x 747-8F
- Sold one 747-400BCF to Air China Cargo in July 2012, and the final one is sold in March 2013
- New delivery of five 747-8F in 2013



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Development in 2013

Passenger

- 14 aircraft deliveries in 2013 and 12 in 2014
- Projected ASK contraction in 2013 is approximately 1.5%

Cargo

- 5 aircraft (B747-8F) deliveries in 2013

Projected overall ATK growth in 2013 is approximately 2.6%



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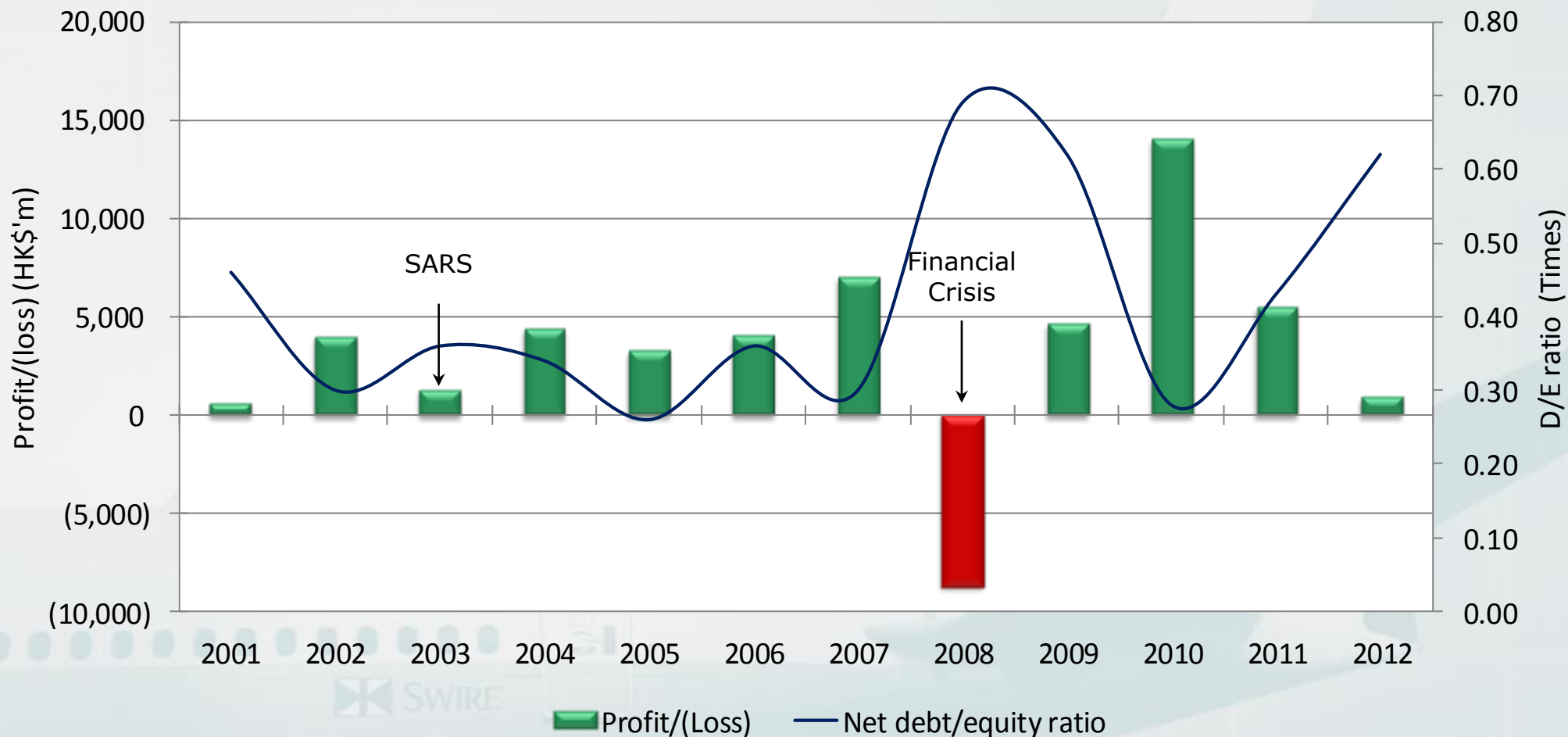
Balance Sheet

	<u>31 Dec 12</u>	<u>31 Dec 11</u>	<u>vs Dec 11</u>
Shareholders' Funds	HK\$57,186m	HK\$55,809m	2.5% up
Gross Borrowings	HK\$59,546m	HK\$43,335m	37.4% up
Less:			
Liquid Funds (less OD)	HK\$(24,182m)	HK\$(19,597m)	23.4% up
Net Borrowings	HK\$35,364m	HK\$23,738m	49.0% up
Capital Employed (incl. non-controlling interests)	HK\$92,670m	HK\$79,682m	16.3% up
Net Debt/Equity Ratio	0.62	0.43	+0.19 times
Investment in Air China	HK\$16,829m	HK\$15,777m	6.7% up



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Profit & Net Debt/Equity Ratio



Liquid Fund Flow

Inflow

New financing
Operating activities
Sale of fixed assets and others

Outflow

Capital expenditure
Loan repayment
Dividend paid

Net inflow / (outflow)

Liquid funds @ 31 Dec

	<u>2012</u>	<u>2011</u>
	<u>HK\$'M</u>	<u>HK\$'M</u>
New financing	25,218	12,187
Operating activities	7,440	13,563
Sale of fixed assets and others	1,745	2,649
Capital expenditure	(20,975)	(17,610)
Loan repayment	(9,025)	(8,874)
Dividend paid	(1,565)	(3,966)
Net inflow / (outflow)	2,838	(2,051)
Liquid funds @ 31 Dec	24,182	19,597

Financial Risk Management

- Currency
 - All major currencies are hedged in compliance with our policy.
- Liquidity
 - A total of HK\$3.2 billion with tenors of 5 or 10 years raised through MTN programme since first issue in Oct 2011
 - Unpledged liquid funds and committed undrawn lines HK\$25.0 billion as at 31 Dec 2012.
- Interest rates
 - Overall cost of borrowing remains low.
 - During the year, margins have compressed.
 - Strategic management of fixed / floating ratio – taking advantage of low fixed rates to lock in aircraft financing.



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Major subsidiaries

- **AHK Air Hong Kong**

- Operates a fleet of eight owned Airbus A300-600F, three Boeing 747-400BCF dry-leased from Cathay Pacific and one wet-leased Boeing 727.
- Load factor dropped by 4%pts but yield improved by 7%.
- Higher profit in 2012 compared to 2011.

- **Cathay Pacific Catering Services**

- Growth in the number of meals produced.
- Higher profit in 2012 compared to 2011.

- **Asia Miles**

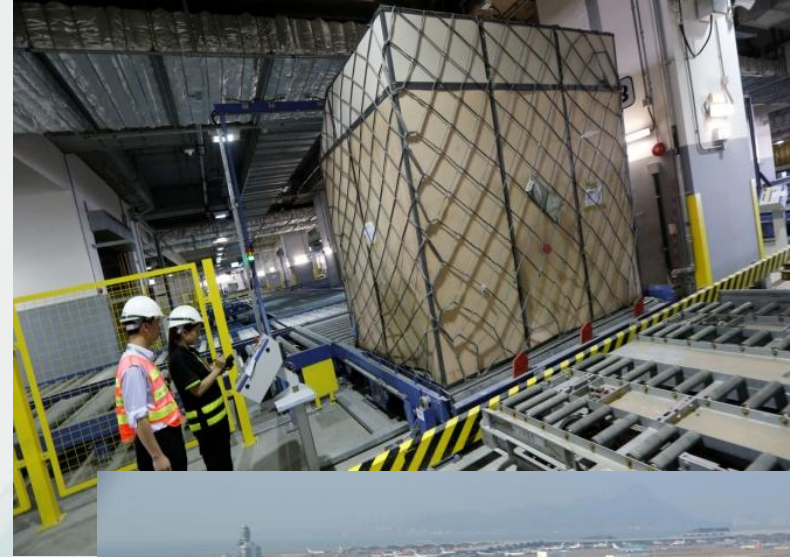
- Membership exceeds 4 million worldwide.
- 2% increase in redemptions by Asia Miles members in 2012. More than 90% of Cathay Pacific flights carry passengers who have redeemed frequent flyer miles through the Asia miles programme.



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Cargo Terminal

- HK\$5.9bn investment officially started operation in February 2013
- Terminal Control Centre (TCC) – the mastermind of the Terminal supervising human resources, system control and all cargo handling activities – is up and running
- When fully operational, the terminal will have an annual capacity of 2.6 million tonnes and will employ more than 1,800 staff
- It will greatly enhance the competitiveness and efficiency of Hong Kong as an airfreight hub



Air China

- As at 31 December 2012, Cathay Pacific had a 19.57% interest in Air China.
- On 21 January 2013, Air China was approved to place new A shares, diluting CX's interest in Air China to 19.28%
- Cathay Pacific accounts for Air China for the 12 months ended 30th September 2012 and any significant events or transactions during their last quarter.
- Profits from Air China in the first nine months of 2012 were significantly down compared to the same period 2011 due to similar factors as Cathay Pacific – a high oil price, pressure on yield, a weak cargo market and unfavourable exchange movement.



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Air China / Cathay Pacific Cargo Joint Venture

- CX acquired 49% economic interest in Air China Cargo (ACC) and the cargo joint venture was formally approved and established on 28 Feb 2011 and officially launched in May 2011
- CX Group selling assets to ACC
 - 4 x 747-400BCFs (all sold by March 2013)
 - 2 spare engines (all sold by March 2013)
- On 1 March 2013, ACC entered into agreements pursuant to which ACC has agreed to purchase 8 Boeing 777-200F freighters and to sell 7 Boeing 747-400BCF freighters to The Boeing Company



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Air China / Cathay Pacific Cargo Joint Venture (Continued)

Operating performance

- Performance of Air China Cargo has been weak but remains strategically important
- Due to high fuel price, profitability remains challenging
- Overall tonnage has increased, but lower yields
- Seeing recent improvement in Pudong and emerging markets (Chengdu, Chongqing, Zhengzhou)
- Replacing seven B747-400F with eight B777-200F freighters



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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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Product and Services

Introduction of the new Premium Economy Class



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Product and Services (Continued)

New long-haul Economy Class seats



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Product and Services (Continued)

New Regional Business Class



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Product and Services (Continued)

Reopened the First Class Lounge in February 2013



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Product and Services (Continued)

Reopened The Wing Business Class Lounge in January 2012



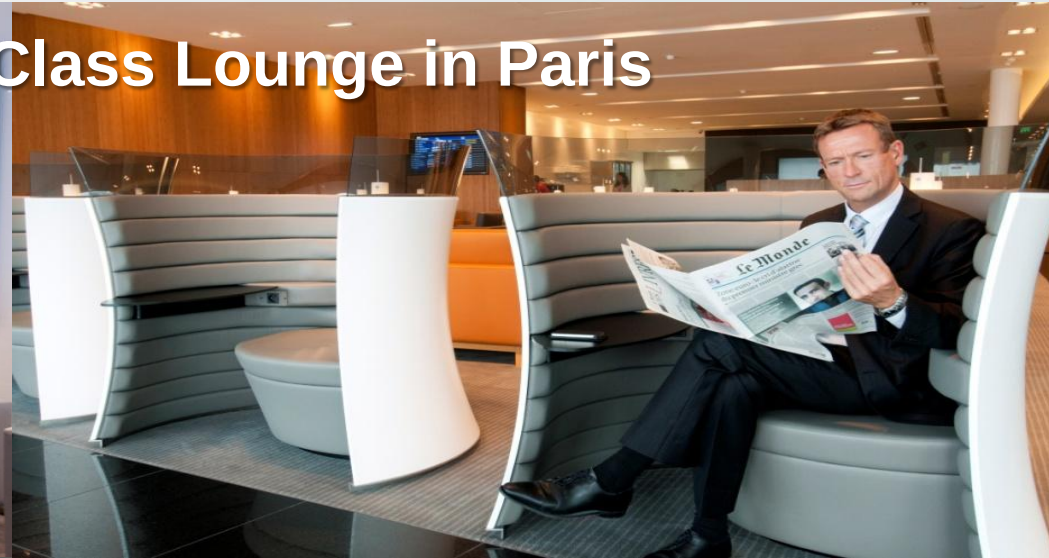
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Product and Services (Continued)

Opened new First and Business Class Lounge in Paris



Opened in August 2012



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Product and Services (Continued)

- **Mobile Boarding Pass**

- has rolled out in AKL, AMS, BAH, FCO, FRA, HKG, JED, KHH, KUL, MXP, TPE, YVR, YYZ, CDG and Japan ports



- **Upgrade of new passenger reservation system**



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Skytrax – Best Business Class 2012



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Business Traveller China Awards 2012

Best Airline in the world

Best Airline First Class



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Australian Business Traveller Award 2012

Best International Business Class

Best International Lounges



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Q & A

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



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Audit Qualification

HKSA 600

- Audits of Group Financial Statements.
- Effective from 2010 for December year ends.
- Applies to the CX Group including components (i.e. subsidiaries and associated companies).
- A full audit is required to be performed on each component of individual financial significance to the Group.

Audit Qualification

Accounting for Air China

- Air China's audited financial statements are not available at the time CX publishes its annual results for the year ended 31st December 2012.
- CX Group 2012 results include Air China's results for the 12 months ended 30th September 2012 and any significant events or transactions for the period from 1st October 2012 to 31st December 2012.
- Air China's quarterly results are prepared in accordance with PRC GAAP. These results are adjusted to comply with IFRS.

Audit Qualification

Accounting for Air China

- Same as prior year, CX Group has taken advantage of the provision contained in HKAS 28 *“Investments in Associates”* whereby it is permitted to include the attributable share of associates’ results based on accounts drawn up to a non-coterminous period end where the difference must be no greater than three months.
- Q3 2012 unaudited results announced on 30th October 2012 were in full compliance with PRC regulatory requirements. It was not practical to perform a full audit on the results for the 12 months ended 30th September 2012 prior to release of Q3 2012 results.
- Air China is considered as a significant component of CX Group’s results for the years ended 31st December 2011 and 2012.



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Audit Qualification

Accounting for Air China Cargo

- CX Group 2012 results include Air China Cargo's results for the 12 months ended 31st December 2012.
- Similar case to Air China, Air China Cargo's audited financial statements are not available at the time CX publishes its annual results for the year ended 31st December 2012.
- As Air China Cargo was considered to be significant component to the Group for the year ended 31st December 2012, qualified opinion was made in accordance with the same basis as for Air China.
- Air China Cargo was not considered a component that was significant to the Group for the year ended 31st December 2011.

Audit Qualification

- Air China was not deemed to be a significant component for the year ended 31st December 2010.
- Whilst the accounts are produced on a consistent basis with prior years, this is a technical audit qualification.
- Air China and Air China Cargo's results to 31 December are audited by their independent auditor, Ernst & Young. They have always had unqualified audit opinions.
- The working relationship and co-operation between CX and Air China remains healthy and positive.