Analysts Briefing

17 August 2016

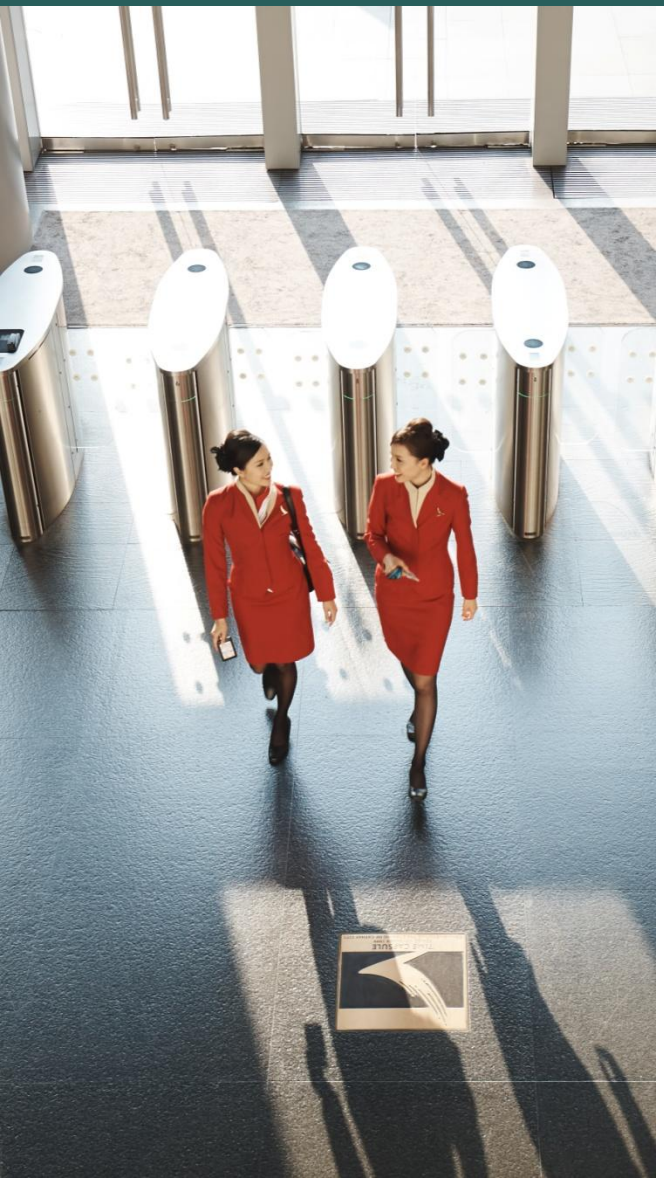
CATHAY PACIFIC

Interim results

Group Financial Statistics		1H2016	1H2015	Change
Group attributable profit	HK$m	**353**	1,972	-82.1%
Revenue	HK$m	**45,683**	50,388	-9.3%
Profit margin	%	**0.8**	3.9	-3.1%pt
Earnings per share	HK¢	**9.0**	50.1	-82.0%
Dividend per share	HK$	**0.05**	0.26	-80.8%

Operating Statistics – Cathay Pacific & Dragonair		1H2016	1H2015	Change
Available tonne kilometres (ATK)	million	**14,929**	14,598	+2.3%
Available seat kilometres (ASK)	million	**72,646**	69,689	+4.2%
Revenue passengers carried	'000	**17,249**	16,800	+2.7%
Cost per ATK (with fuel)	HK$	**2.98**	3.24	-8.0%
Cost per ATK (without fuel)	HK$	**2.11**	2.12	-0.5%

Interim results - overview



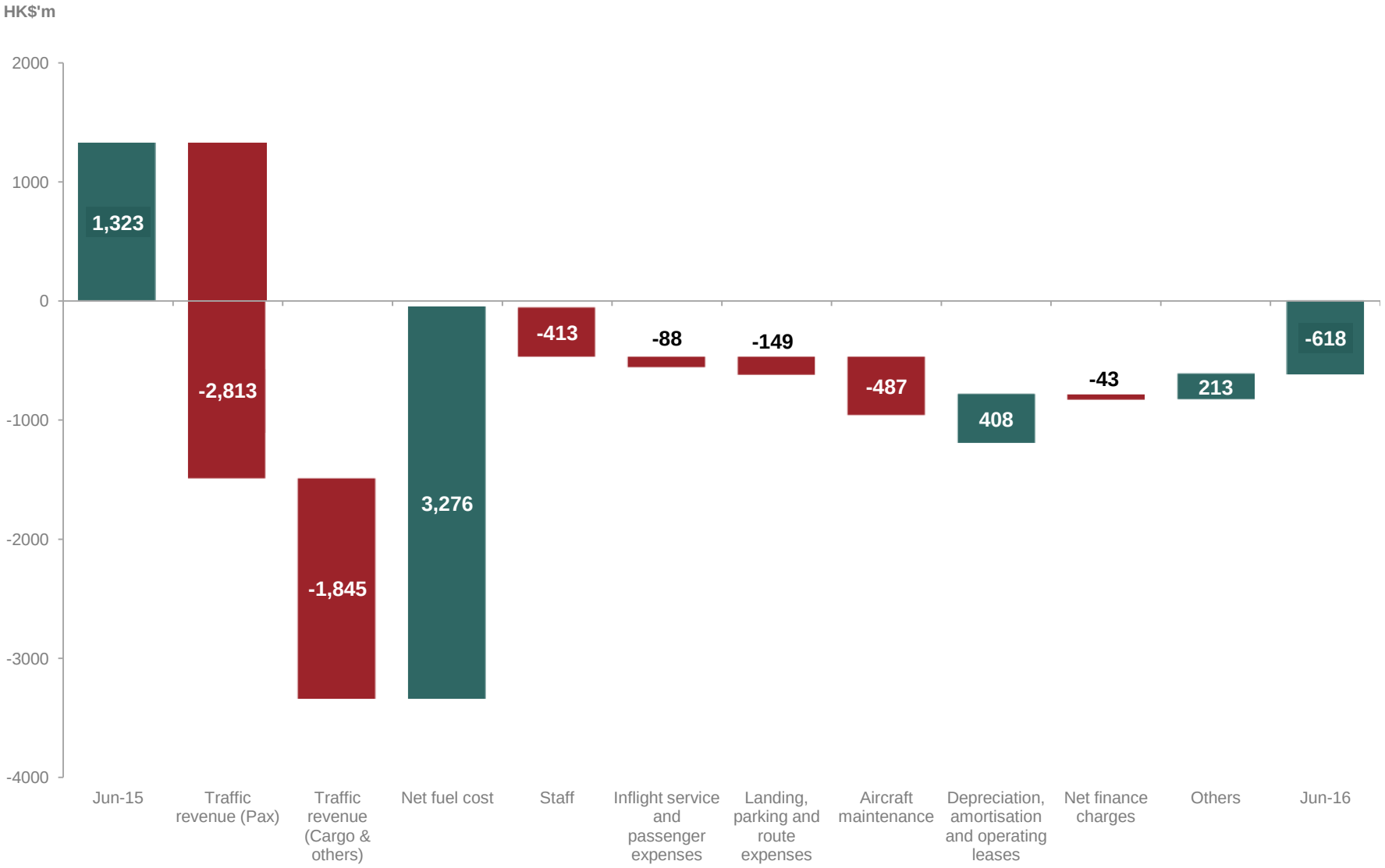
- Challenging business environment.
- Intense pressure on yields.
  - Suspension of fuel surcharge.
  - Adverse currency movements.
  - Intense competition and increased market capacity.
  - Increased proportion of connecting traffic.
  - Weak corporate travel.
- Load factor lower than expectations.
- Weak passenger demand, particularly in premium class.
- Lower net fuel costs, but benefit partially offset by hedging.
- Solid performance from our share in associate companies, but impacted by RMB volatility.
- Productivity improvements kept the increase of non-fuel costs below the increase in capacity.

Airlines' result

- The Group reported an attributable profit of **HK$353 million** for the first six months of 2016. This compares to a profit of HK$1,972 million in the first half of 2015.

HK$'m	1H2016	1H2015
Airlines' (loss)/profit before taxation	**(618)**	1,323
Taxation	**(165)**	(368)
Airlines' (loss)/profit after taxation	**(783)**	955
Share of profits/(losses) from subsidiaries & associates	**1,136**	1,017
Group attributable profit	**353**	1,972

Reconciliation of airlines‘ profit before tax



CATHAY PACIFIC

Passenger Services

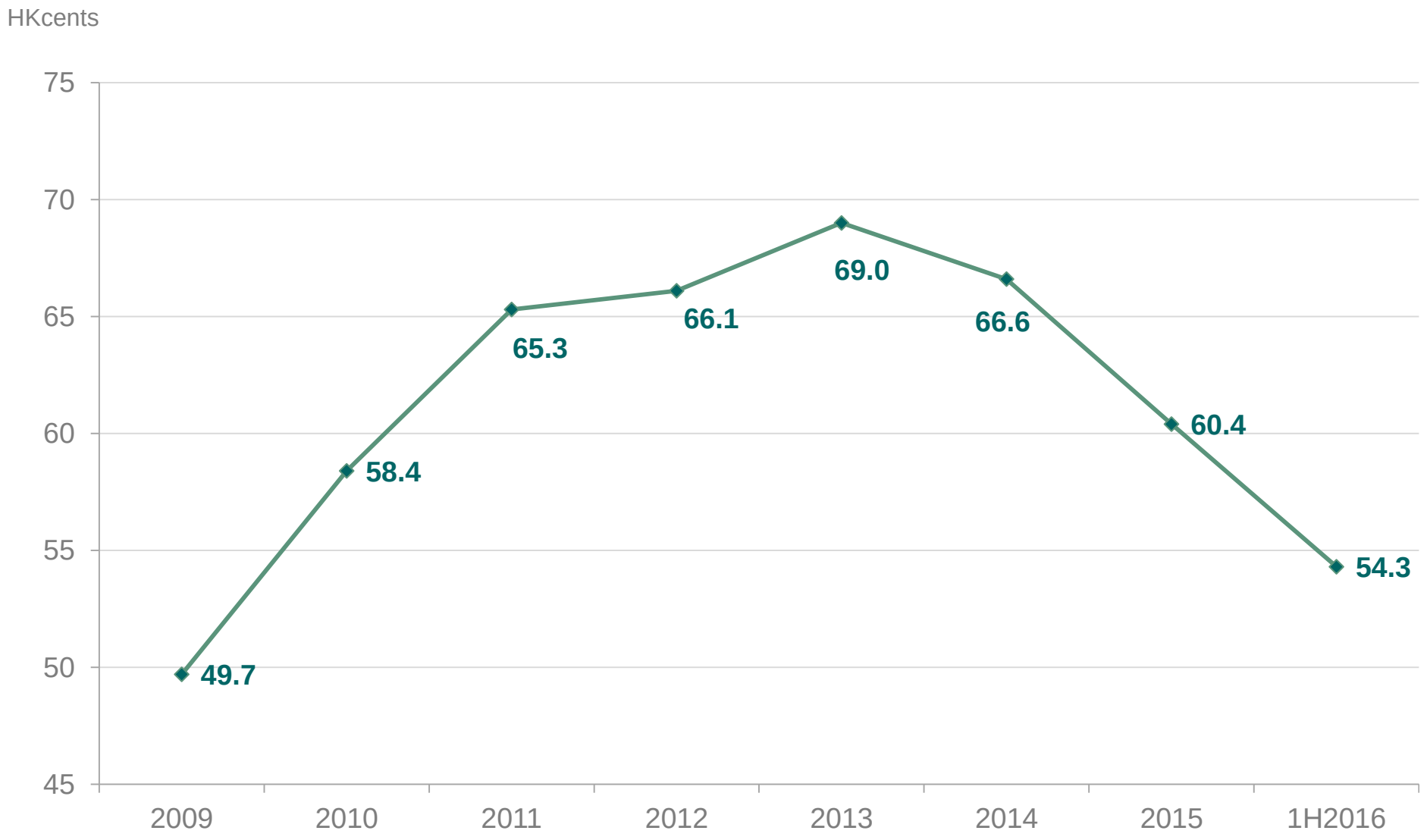
Operating performance - Passenger

- Increased capacity (ASK)
- Yield under pressure
  - Suspension of passenger fuel surcharge collection from February 2016.
  - Adverse currency movements.
  - Intense competition and increased market capacity.
  - Increased proportion of connecting traffic.
  - Weak corporate travel.
- Softening passenger load factor
  - Weakening back-end demand.
  - Front-end particularly weak.

		1H2016	vs 1H 2015
Passenger revenue	HK$m	**33,413**	-7.8%
ASK	Million	**72,646**	+4.2%
Passengers carried	'000	**17,248**	+2.7%
Passenger yield	HK¢	**54.3**	-10.1%
Passenger load factor	%	**84.5**	-1.4%pt

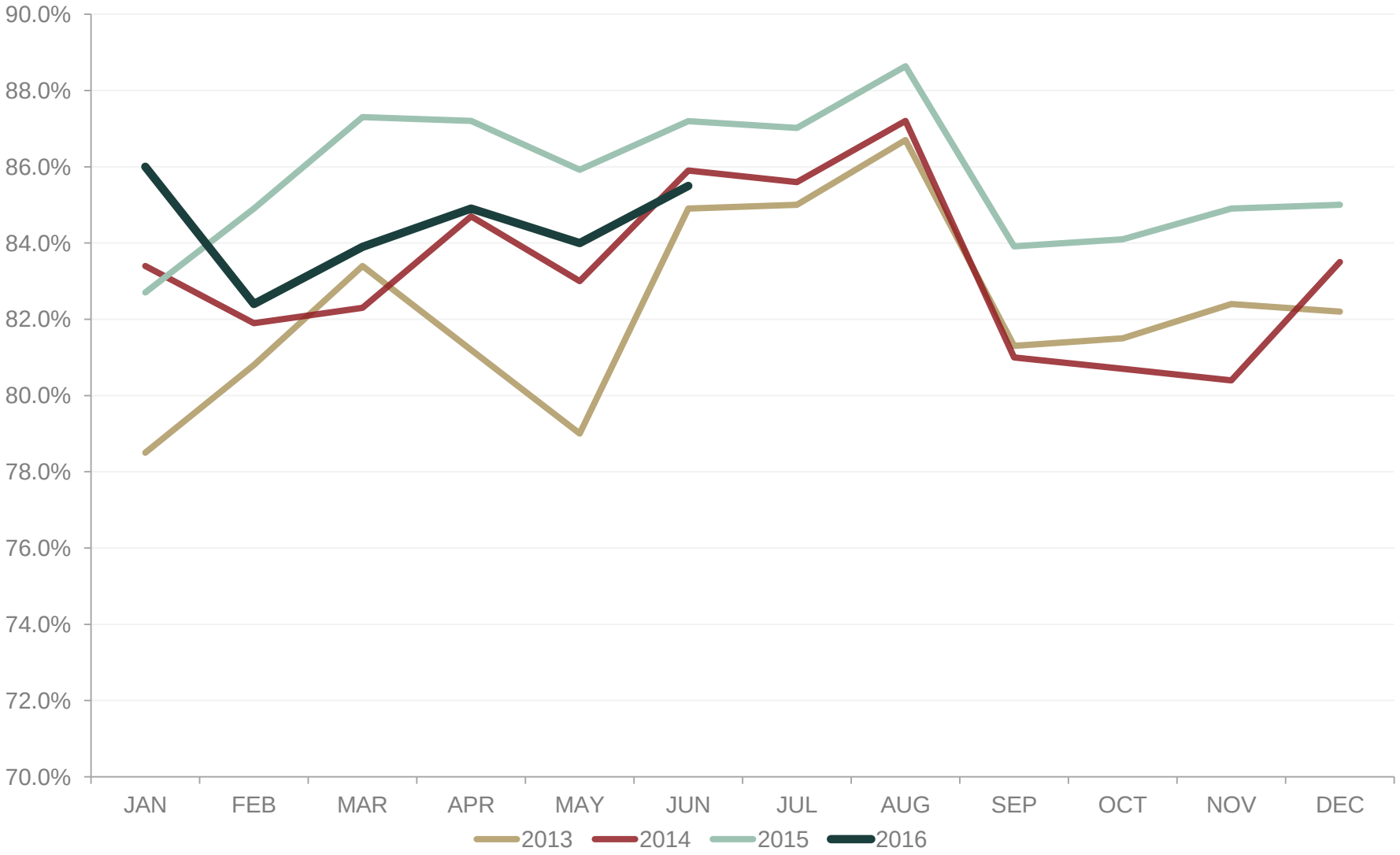
CATHAY PACIFIC

Passenger yield



CATHAY PACIFIC

Passenger Load Factors



CATHAY PACIFIC

Operating performance – Regions

Europe
ASK: +8.4%
LF: -1.4%pt

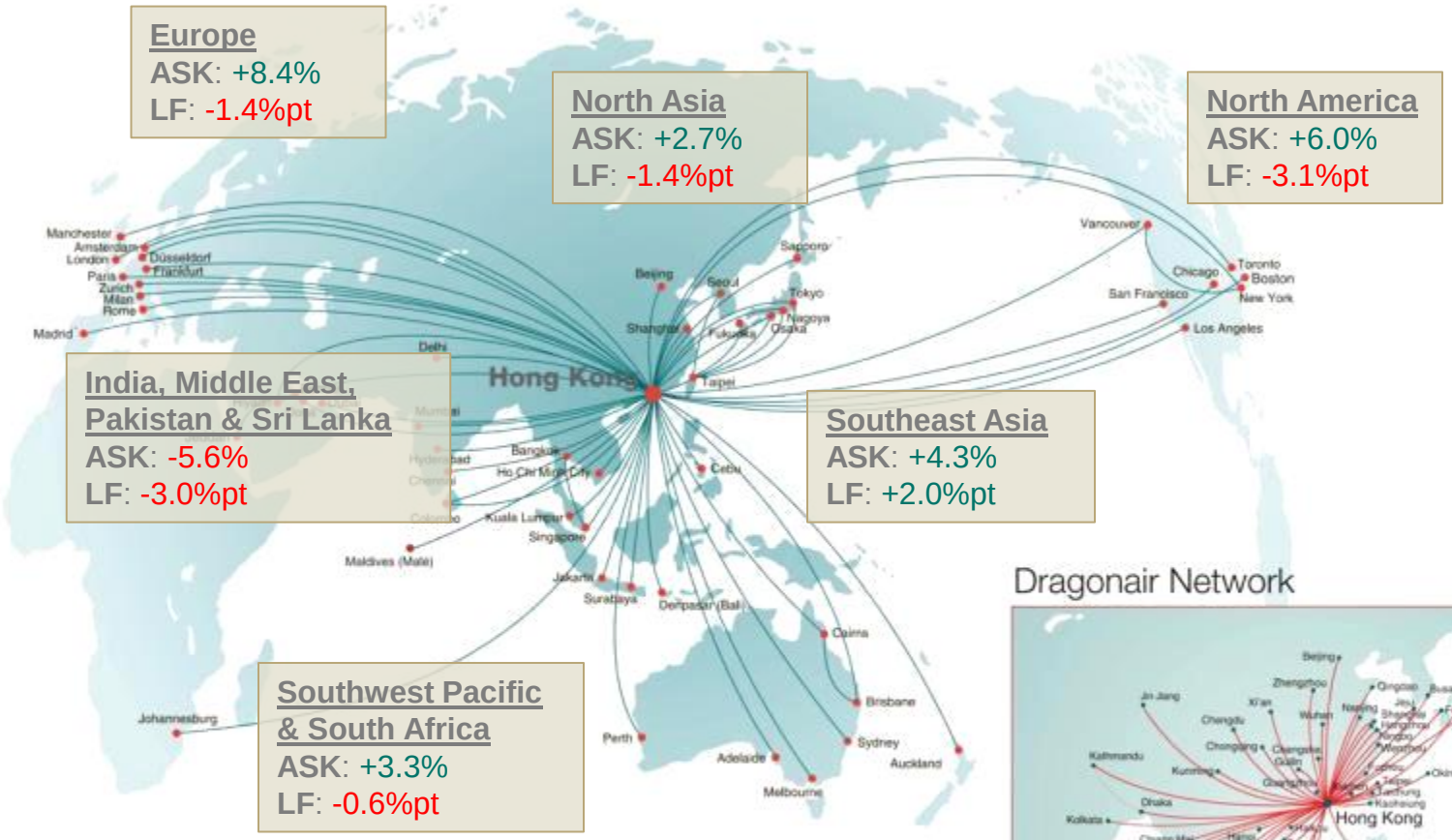
North Asia
ASK: +2.7%
LF: -1.4%pt

North America
ASK: +6.0%
LF: -3.1%pt

India, Middle East, Pakistan & Sri Lanka
ASK: -5.6%
LF: -3.0%pt

Southeast Asia
ASK: +4.3%
LF: +2.0%pt

Southwest Pacific & South Africa
ASK: +3.3%
LF: -0.6%pt



Dragonair Network

Joint-operating and codeshare services are not shown.
—— Cathay Pacific Service —— Dragonair Service

*Cathay Pacific service to Madrid commences on 2 June 2016, subject to government approval.

CATHAY PACIFIC

Network development

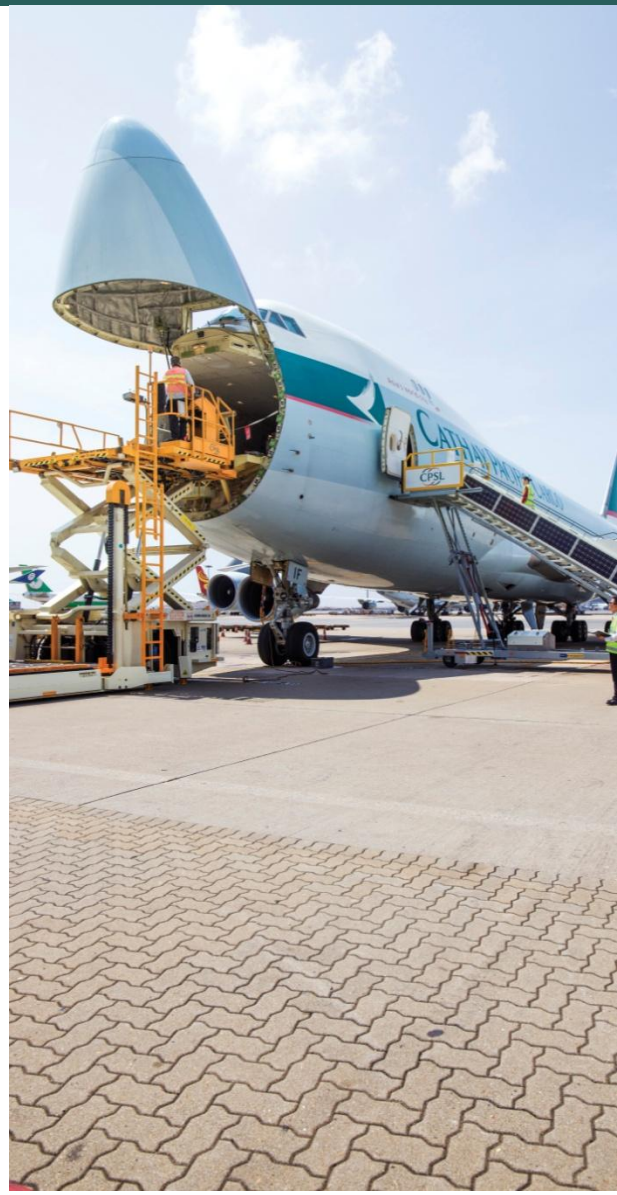
2016	
Mar	▪ Seasonal increase of one additional flight per week on the **Sapporo** route
May	▪ Seasonal increase of frequency on the **Boston** route to a 5-times-weekly service
June	▪ Introduced a 4-times-weekly service to **Madrid**

Cargo Services

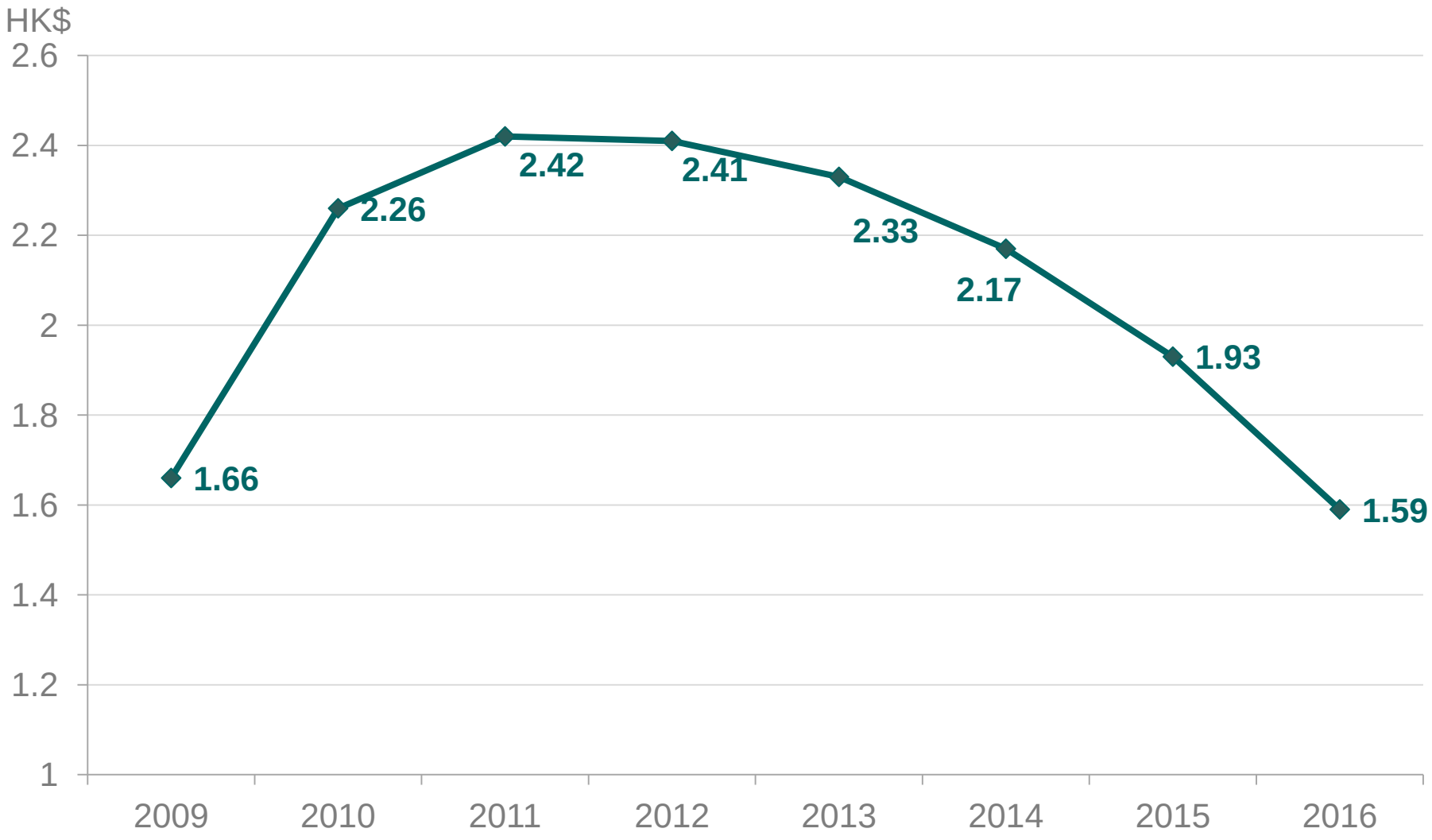
Operating performance – Cargo

- Weak demand
- Modest capacity growth
- Yields under pressure
  - Strong competition.
  - Suspension of cargo fuel surcharge collection from April 2016.
  - Over-capacity in the air cargo market.
  - More 6th Freedom traffic.
- Reduced load factor

		1H2016	1H2015	% Var
Group cargo revenue	HK$m	9,415	11,376	-17.2%
Cathay Pacific and Dragonair				
Cargo revenue	HK$m	7,951	9,865	-19.4%
Cargo capacity (ATK)	Million	8,021	7,971	+0.6%
Cargo and mail carried	'000 tonnes	866	868	+0.2%
Cargo and mail yield	HK$	1.59	1.93	-17.6%
Cargo and mail load factor	%	62.2	64.1	-1.9%pt



Operating performance – Cargo yield



CATHAY PACIFIC CARGO

Operating performance – Cargo Load Factors

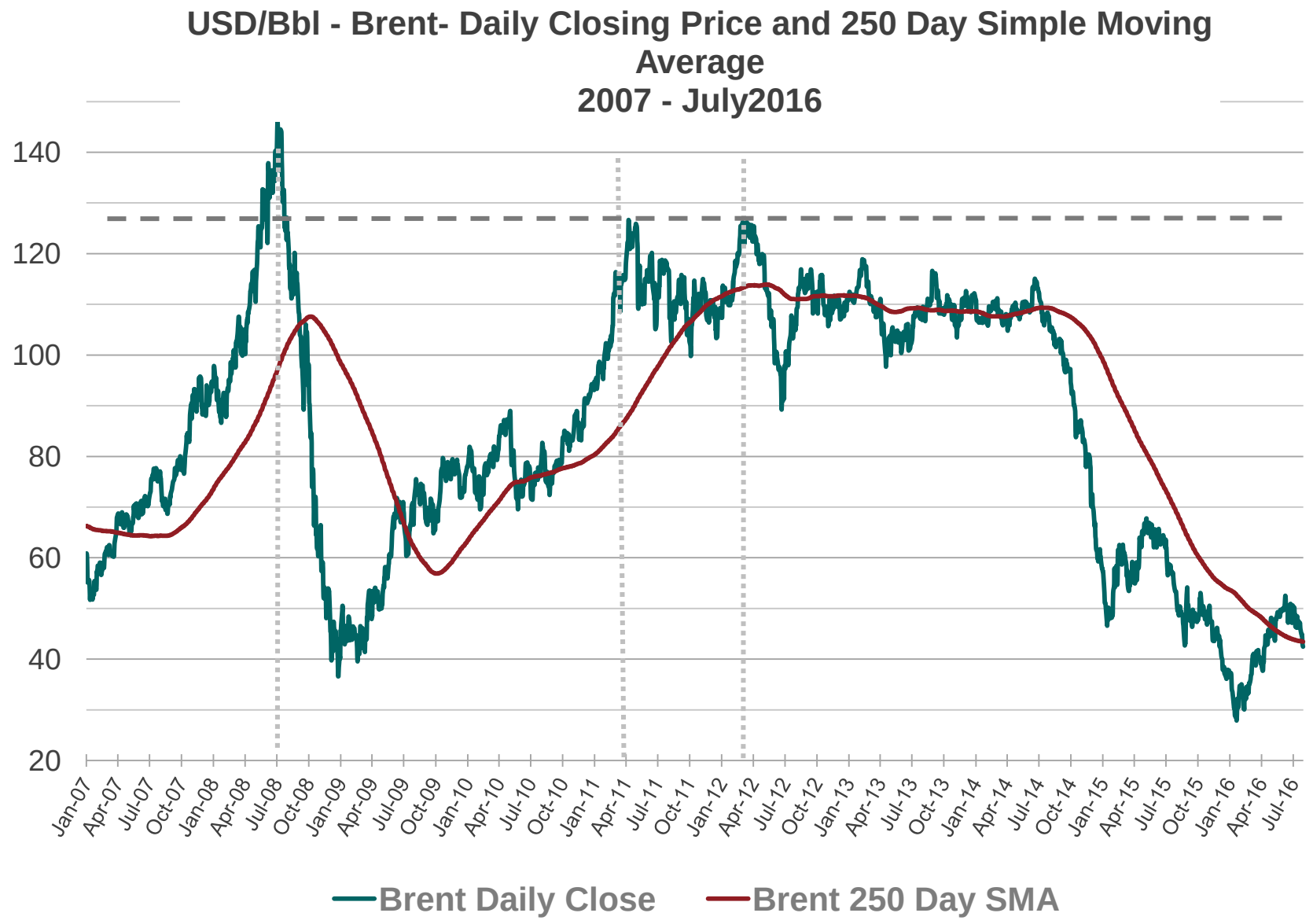
CATHAY PACIFIC CARGO

Operating Costs

Operating Costs - Group

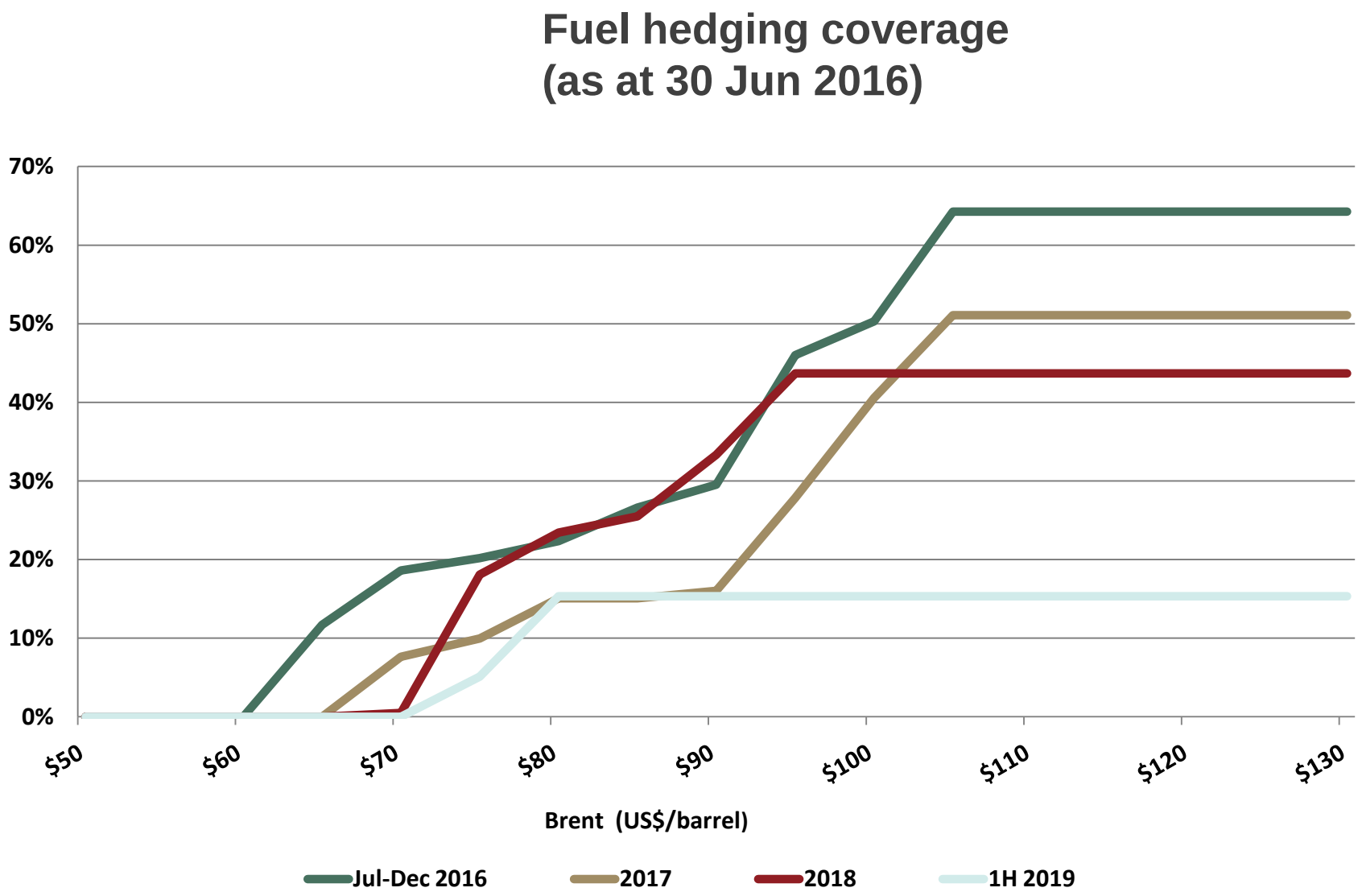
	1H2016	1H2015	% Var
Staff	**9,867**	9,373	+5.3%
Inflight service and passenger expenses	**2,372**	2,284	+3.9%
Landing, parking and route expenses	**7,376**	7,266	+1.5%
Fuel, including hedging losses	**13,259**	16,619	-20.2%
Aircraft maintenance	**4,170**	3,653	+14.2%
Depreciation, amortization and operating leases	**5,065**	5,568	-9.0%
Net finance charges	**1,213**	1,133	+7.1%
Others (including commissions)	**2,304**	2,689	-14.3%
Total operating costs	**45,626**	**48,585**	**-6.1%**

Fuel Hedging - Fuel prices



CATHAY PACIFIC

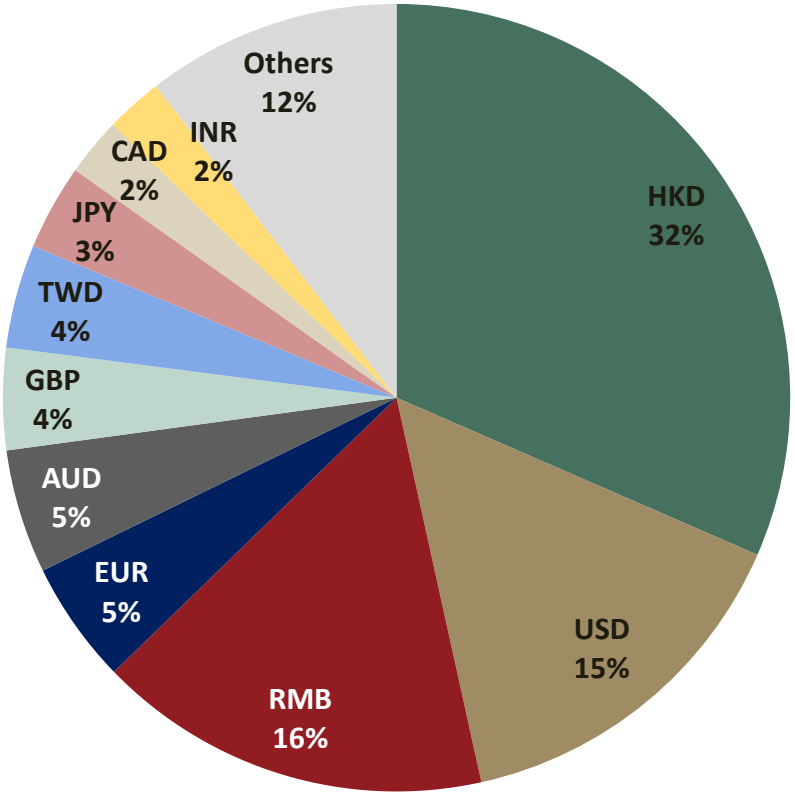
Fuel Hedging



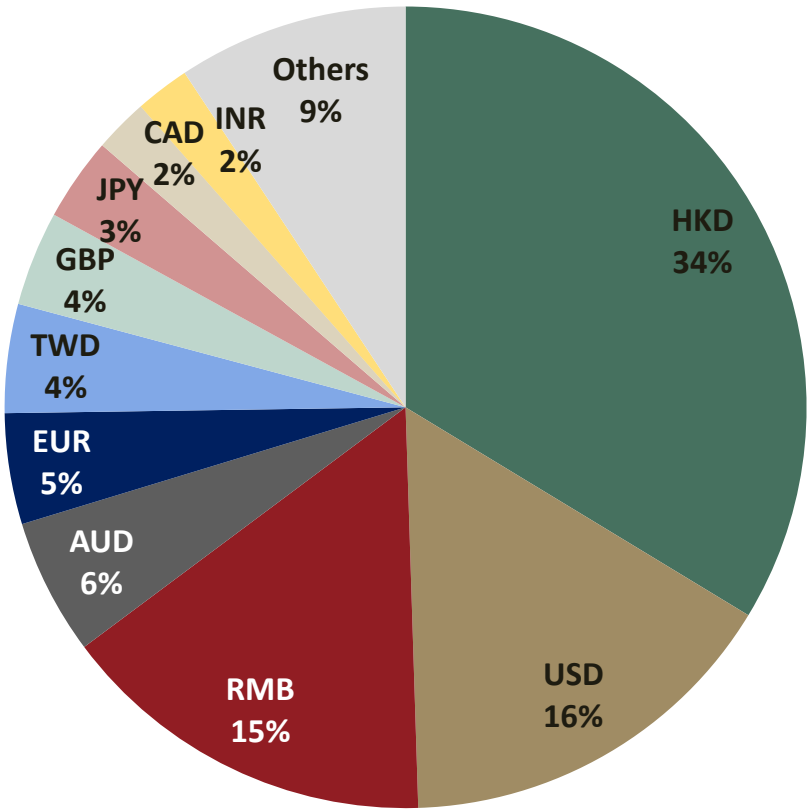
CATHAY PACIFIC

Revenue mix – by currency

YTD June-2016



FY 2015



CATHAY PACIFIC

Foreign Currency Movements – 8 Biggest

	1st Half 2016	FY2015	FY2014
RMB	-1.72%	-4.40%	-2.42%
AUD	2.03%	-10.96%	-8.00%
EUR	2.30%	-10.26%	-12.10%
TWD	1.79%	-3.73%	-5.77%
GBP	-9.73%	-5.45%	-5.97%
JPY	16.81%	-0.40%	-12.13%
INR	-2.05%	-4.23%	-1.81%
CAD	7.20%	-16.10%	-8.41%

Increased Charges

- **Revised Scheme of Airport Charges**
  - Upward adjustment of landing and parking charges.
  - In effect from September 2016.
  - Increase in parking charges once implemented.
  - Phased increase of landing charges, spread over three years.

- **Airport Construction Fee (ACF)**
  - Fee collected on tickets issued on or after 1 August 2016.
  - Tiered charge based on class, distance and type of travel through HKIA.

Origin-Destination passengers	First/Business Class	Economy Class
Long Haul	HK$180 per passenger	HK$160 per passenger
Short Haul	HK$160 per passenger	HK$90 per passenger

Transit/transfer passengers	First/Business Class	Economy Class
Long Haul	HK$180 per passenger	HK$160 per passenger
Short Haul	HK$160 per passenger	HK$70 per passenger

Fleet Profile

CX and KA Fleet Profile

- At 30th June 2016, Cathay Pacific operated **145** aircraft and Dragonair operated **42** aircraft (a total of **187** aircraft for the Group).

	In operations			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
1 Jan 16	164	23	187	-	1	1
New deliveries	1	-	1	-	-	-
Deregistered	(2)	-	(2)	-	-	-
30 Jun 16	163	23	186	-	1	1

CX Fleet Profile – as at 30 June 2016

Aircraft type (includes parked aircraft)	Owned	Finance Leased	Operating Leased	Total
A330-300	23	13	6	42
A340-300	4	1	-	5
A350-900	-	-	1	1
747-400	3	-	-	3
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
Passenger aircraft	**66**	**25**	**30**	**121**
747-400F	4	-	-	4
747-400BCF	-	-	1	1
747-400ERF	-	6	-	6
747-8F	2	11	-	13
Freighter	**6**	**17**	**1**	**24**
Total	**72**	**42**	**31**	**145**

KA Fleet Profile – as at 30 June 2016

Aircraft type	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	10	-	9	19
Total	17	-	25	42

Aircraft Delivery & Retirement Plans

New deliveries – As at 30 June 2016

Aircraft type	2016	2017	2018	2019	2020	2021 & beyond	Total
B747-8F	1						1
A350-900	11	10					21
A350-1000			6	10	10		26
B777-9X						21	21
Total	**12**	**10**	**6**	**10**	**10**	**21**	**69**

* We will be taking delivery of five B777-300 used aircraft from 2018-2019.

Retirements

B744 - As at 30 June 2016		
Exit date	Number	Remaining
2016	-3	0

A340 - As at 30 June 2016		
Exit date	Number	Remaining
2016	-3	4
2017	-4	0

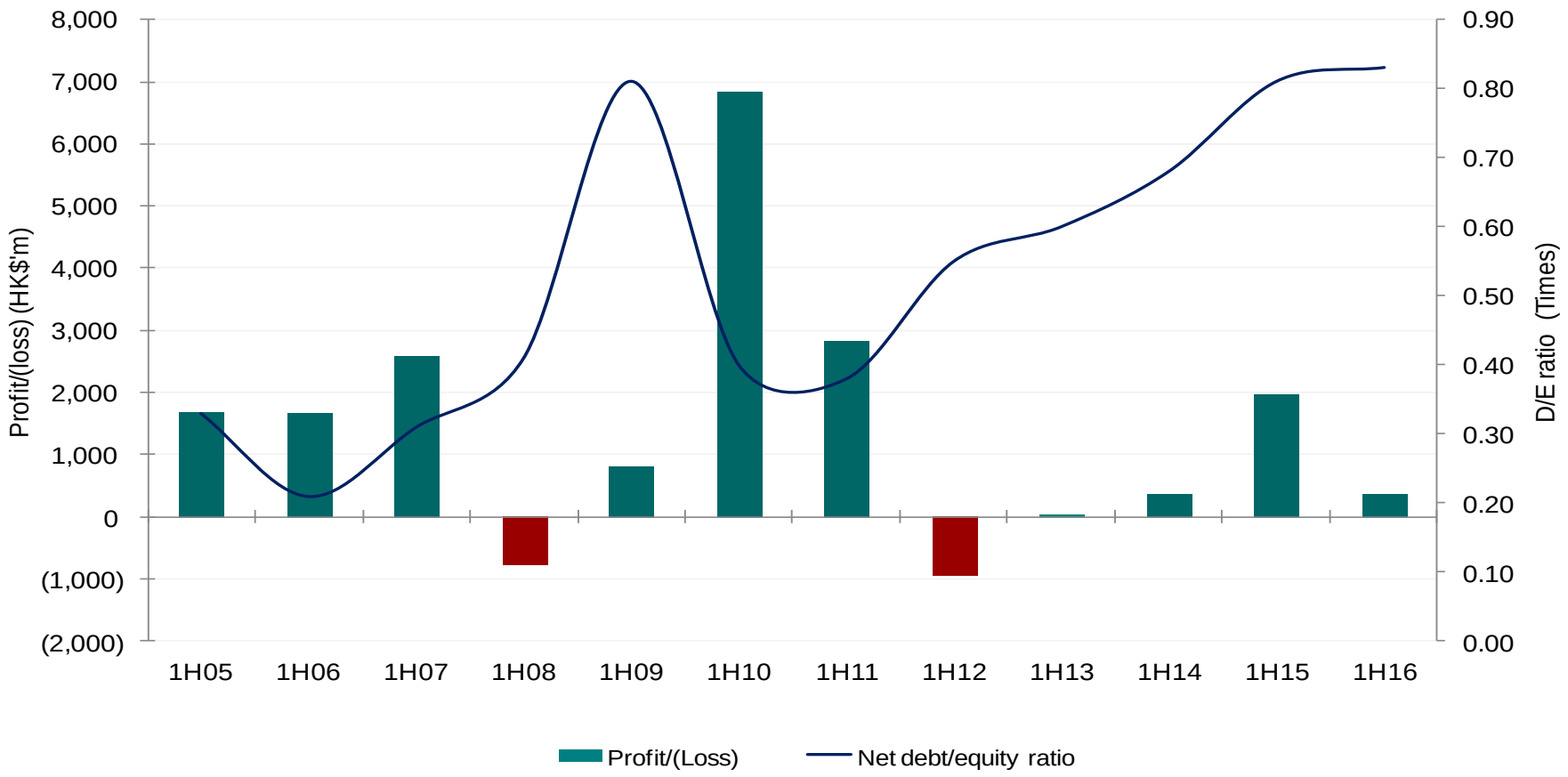
CATHAY PACIFIC

Other Financials

Extract of Consolidated Statement of Financial Position

	30 June 2016 HK$ million	31 December 2015 HK$ million	% Var
Shareholders' Funds	**50,664**	47,927	+5.7%
Gross Borrowings	**63,034**	63,105	-0.1%
Less: Liquid Funds	**(21,096)**	(20,647)	+2.2%
Net Borrowings	**41,938**	42,458	-1.2%
Capital Employed (including non-controlling interests)	**92,760**	90,525	+2.5%
Net Debt/Equity Ratio	**0.83**	0.89	-0.06 times
Investment in Air China	**18,989**	19,164	-0.9%

Profit and Net Debt/Equity Ratio



Group Profit Margin	1H 2004	1H 2005	1H 2006	1H 2007	1H 2008	1H 2009	1H 2010	1H 2011	1H 2012	1H 2013	1H 2014	1H 2015	1H 2016
%	9.7	7.8	7.3	8.9	(1.8)	2.6	16.5	6.0	(1.9)	0.1	0.7	3.9	0.8

CATHAY PACIFIC

Subsidiaries & Associates

Major Subsidiaries

AHK Air Hong Kong

- **Lower profit** in 1H2016 compared to 1H2015.
- Operates a fleet of eight owned Airbus A300-600F freighters, two dry leased Airbus A300-600F freighters and three Boeing 747-400BCF converted freighters dry leased from Cathay Pacific.
- Capacity increased marginally compared with the first half of 2015.
- Load factor decreased and revenue tonne kilometres decreased by **1.6%**.

Cathay Pacific Catering Services

- Increase in the number of meals produced.
- **Higher revenue but lower profit** in 1H2016 compared to 1H2015.

Asia Miles

- Membership exceeds 8 million worldwide.
- **Increase in profit** in 1H2016 compared with 1H2015.

Cargo Terminal

- **Improvement in results** in 1H2016 compared to 1H2015. This reflected the addition of customers and effective management of operating costs.

- Our new cargo terminal became fully operational in October 2013. Capacity to handle 2.6 million tonnes of cargo annually. The terminal handled more than 0.8 million tonnes of cargo during 1H2016.

- Provided cargo handling services to 12 airlines in 1H2016.

Air China

- Cathay Pacific had a **20.13%** interest in Air China as at 30 June 2016.

- Cathay Pacific accounts for Air China for the six months ended 31 March 2016 and any significant events or transactions during their last quarter.

- In July 2015, Air China proposed the issue of A shares. As of 20th July 2016, the Public Offering Review Committee of China Securities Regulatory Commission has reviewed the application for the non-public issue of A shares and gave it a preliminary approval. When the issue happens, Cathay Pacific's shareholding in Air China will be diluted.

- Air China's results **improved significantly** in the six months to 31st March 2016. This reflected lower fuel prices, strong passenger demand and lower exchange losses from depreciation of the Renminbi.

Air China Cargo

- A loss was recorded from Air China Cargo in the first half of 2016 compared to a profit in the first half of 2015.

- This reflected the lower yield in the highly competitive air cargo market and adverse exchange impact due to the depreciation of the Renminbi.

Investment in our Customer Experience

Airbus A350-900

The Pier Business Class Lounge

Reopened June 2016

Vancouver lounges

Opened May 2016

Cabin Crew tablets

Improved capabilities

Travel Retail Platform

Introduced to Japan, Indonesia & Taiwan

Self Service bag drop

Introduced to HKIA & Amsterdam

Kiosk bag tagging

Introduced to multiple outports

2016 Outlook

- The challenging business environment is expected to continue.
- Yields are expected to continue to be under intense pressure.
- Lower Hong Kong traffic with more 6th Freedom travel.
- The cargo business will continue to be adversely affected by overcapacity and economic fragility.
- Performance in the 2nd half of the year is traditionally stronger than the 1st half.
- Air China expected to perform well.
- Congestion and operational issues in our home hub remains a challenge.

Q&A

For more information, please visit our website

www.cathaypacific.com