



## Analysts Briefing

15 March 2017

Cathay Pacific Airways Limited



# Annual Results - 2016

## Group Financial Statistics

		2016	2015	% Var
Group Revenue	HK\$m	92,751	102,342	-9.4%
Group attributable profit/(loss)	Million	(575)	6,000	-109.6%
Earning/(loss) per share	HK¢	(14.6)	152.5	-109.6%
Dividend per share	HK¢	0.05	0.53	-90.6%

## Group Operating Statistics

		2016	2015	% Var
Available tonne kilometres (ATK)	Million	30,462	30,048	+1.4%
Available seat kilometres (ASK)	Million	146,086	142,680	+2.4%
Revenue passengers carried	'000	34,323	34,065	+0.8%
Cost per ATK (with fuel)	HK\$	3.02	3.14	-3.8%
Cost per ATK (without fuel)	HK\$	2.12	2.06	+2.9%

# Operating performance - overview



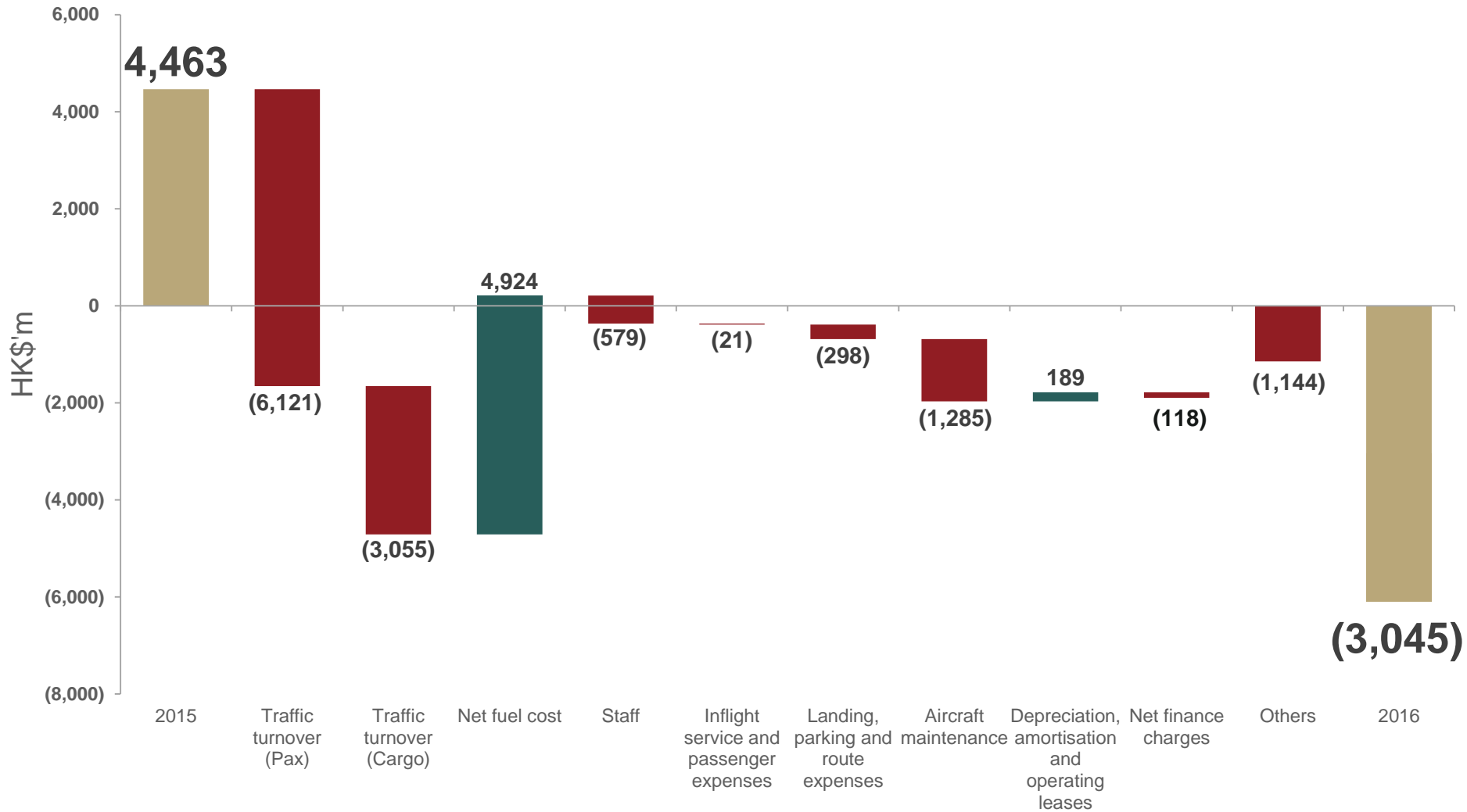
- Difficult business environment.
- Intense competition and significant competing capacity.
- Competitors increased the availability of direct flights from Mainland China to international destinations.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China.
- Reduction in numbers of visitors to Hong Kong.
- Strength on the Hong Kong dollar made our home hub an expensive destination.
- Severe pressure on yields.
- Overcapacity in cargo market.
- Low net fuel costs, but the benefit was reduced by fuel hedging losses.
- Satisfactory performance from our share in associate companies.
- Announcement of a critical review of the business, resulting in a three year transformational programme.

# Annual Results - 2016

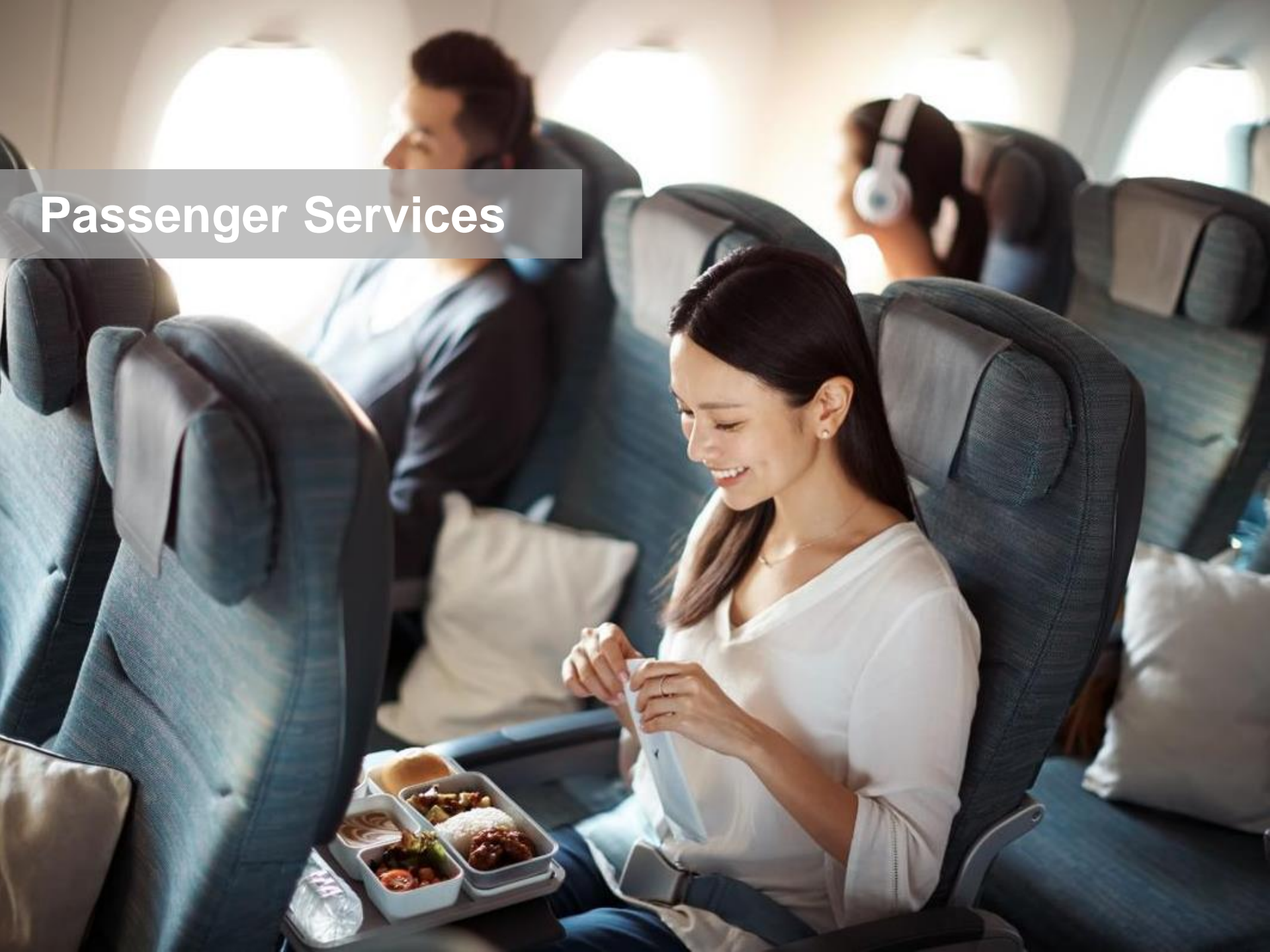


HK\$ million	2016	2015	% change
Airlines' (loss)/profit before tax	<b>(3,045)</b>	4,463	<b>-168.2%</b>
Taxation	<b>(318)</b>	(891)	<b>-64.3%</b>
Airlines' (loss)/profit after tax	<b>(3,363)</b>	3,572	<b>-194.1%</b>
Share of profits from subsidiaries & associates	<b>2,788</b>	2,428	<b>+14.8%</b>
Group attributable (loss)/profit	<b>(575)</b>	6,000	<b>-109.6%</b>

# Reconciliation of profit before tax



# Passenger Services



# Operating performance - Passenger

		2016	2015	% Var
Revenue	HK\$m	<b>66,926</b>	73,047	<b>-8.4%</b>
ASK	Million	<b>146,086</b>	142,680	<b>+2.4%</b>
Passengers carried	'000	<b>34,323</b>	34,065	<b>+0.8%</b>
Passenger yield	HK¢	<b>54.1</b>	59.6	<b>-9.2%</b>
Passenger load factor	%	<b>84.5</b>	85.7	<b>-1.2%pt</b>

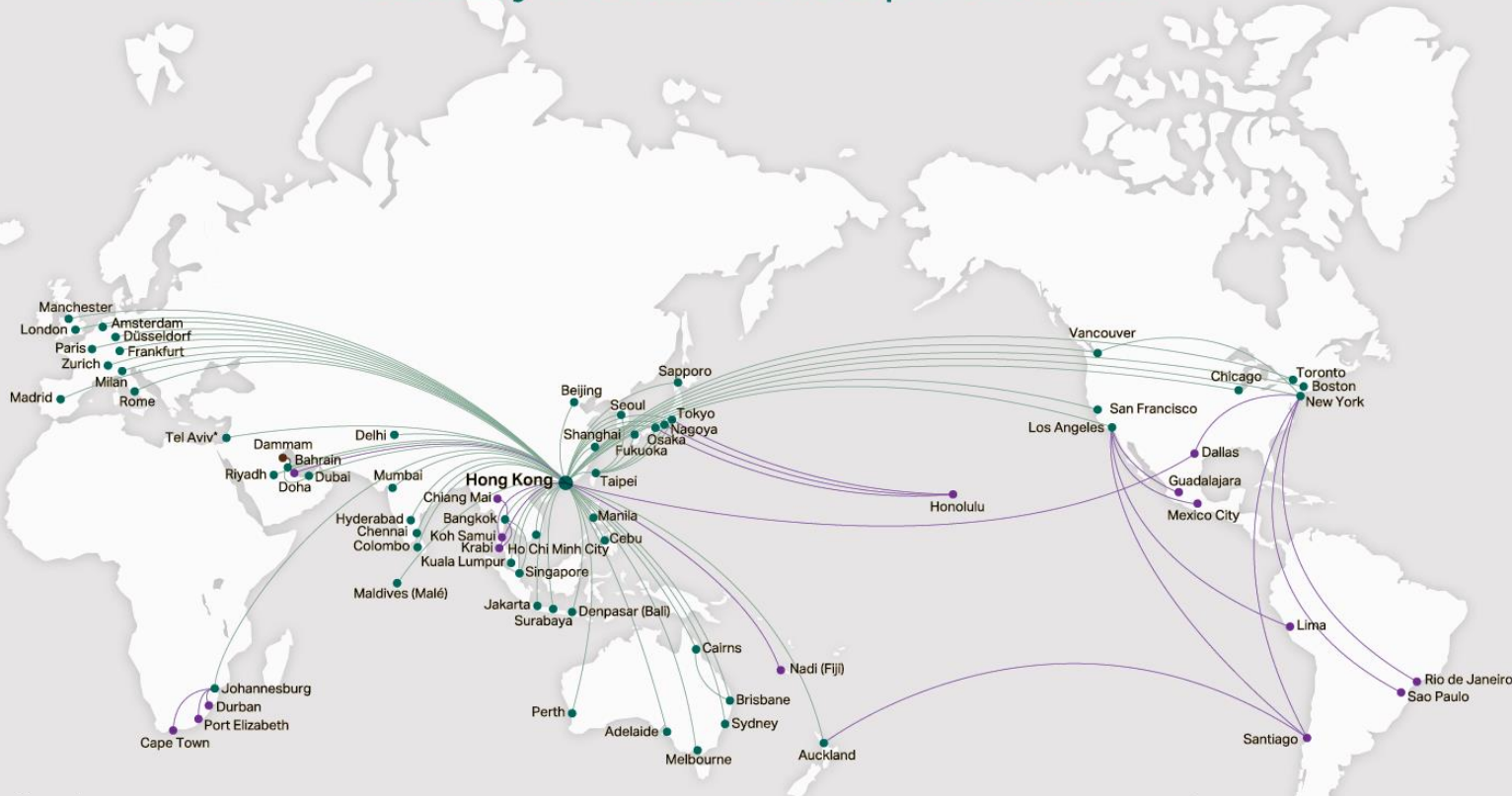
## Yields decline on:

- Intense and increasing competition.
- Increased capacity in the market.
- Increased competition from low cost carriers.
- Reduced rate of economic growth in Mainland China, and reduction in visitors to Hong Kong.
- Strength of Hong Kong dollar made Hong Kong an expensive destination.
- Decline in premium class demand.
- Weak foreign currencies.



# Operating performance – Regions

## Cathay Pacific Group Network



Cathay Dragon Network



### Europe

ASK: +8.3%  
LF: -1.9%

### Southwest Pacific & South Africa

ASK: +1.8%  
LF: -1.5%

### India, Middle East & Sri Lanka

ASK: -9.4%  
LF: -3.6%

### Southeast Asia

ASK: +2.5%  
LF: +1.0%

### North Asia

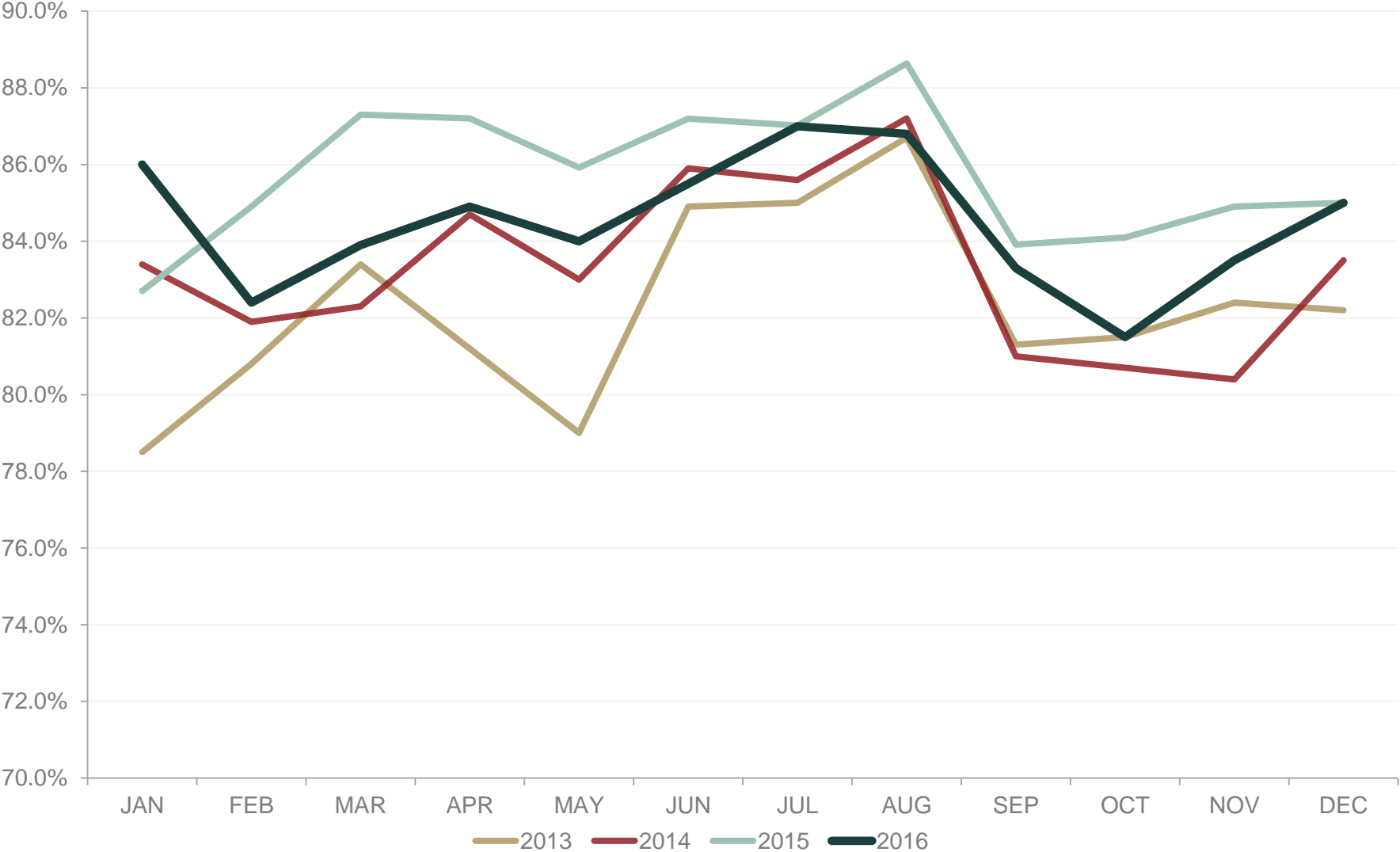
ASK: +1.8%  
LF: -1.1%

### North America

ASK: +2.5%  
LF: -1.6%

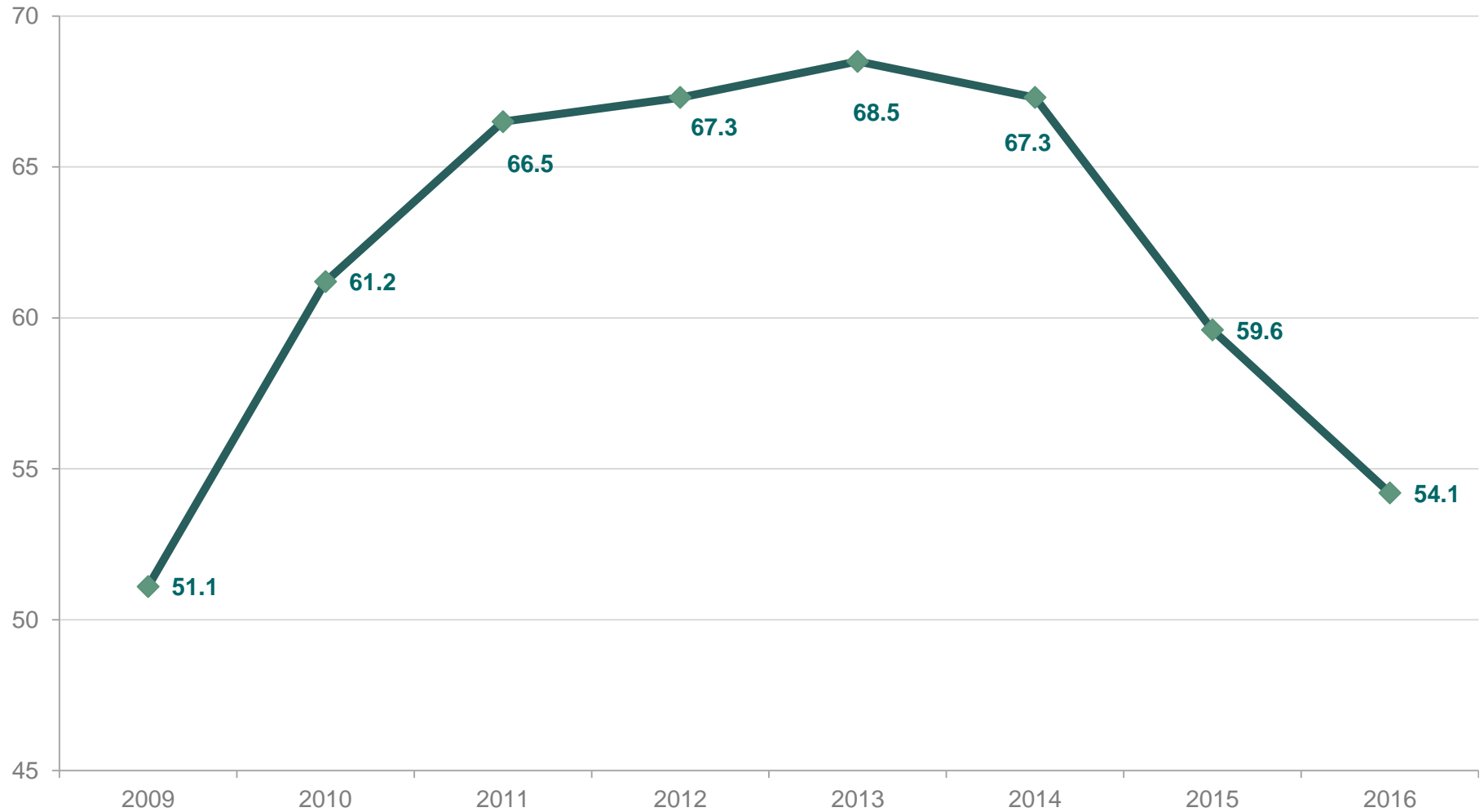


# Passenger Load Factors



# Passenger Yield

HKcents



# Network Development – Cathay Pacific



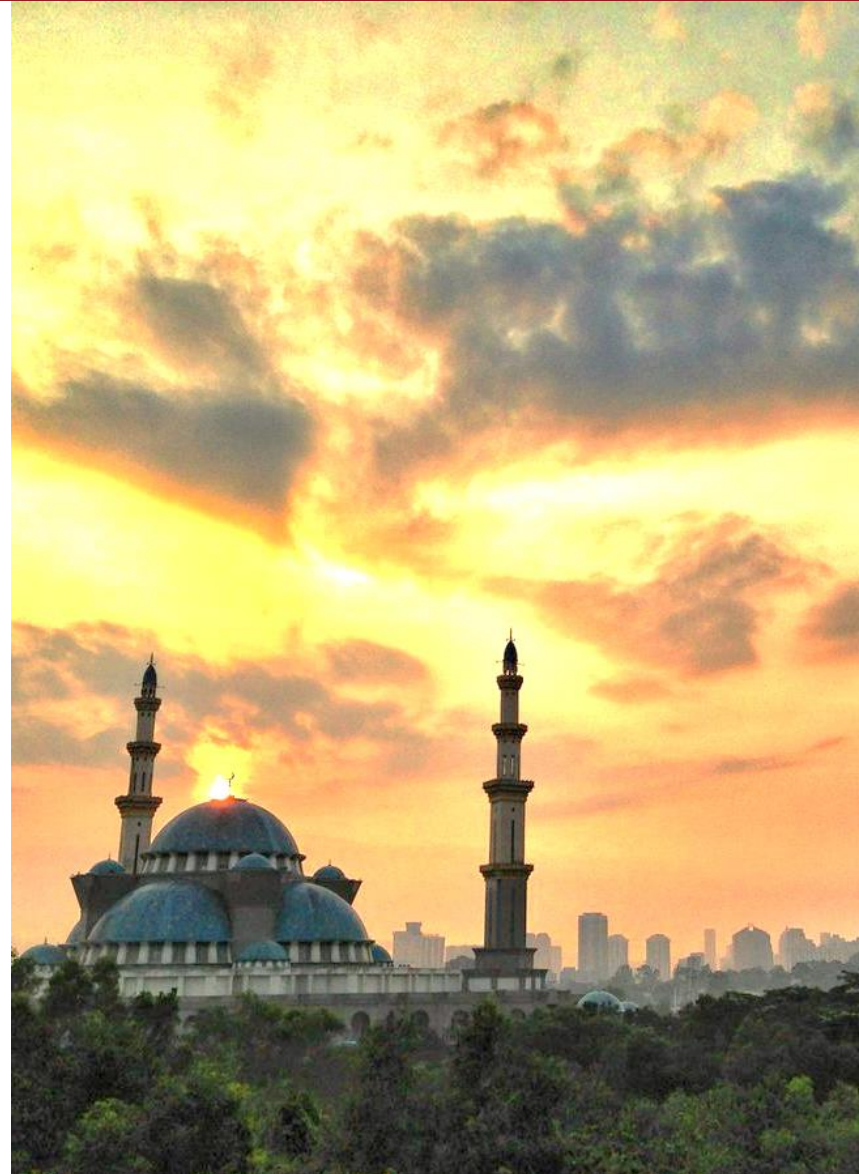
## 2016

<b>Mar</b>	▪ Seasonal increase of one additional flight per week on the <b>Sapporo</b> route
<b>May</b>	▪ Seasonal increase of frequency on the <b>Boston</b> route to a 5-times-weekly service
<b>June</b>	▪ Introduced a 4-times-weekly service to <b>Madrid</b>
<b>Sept</b>	▪ Introduced a 4-times-weekly service to <b>London Gatwick</b>
<b>Oct</b>	▪ Announced a new 4-times-weekly service to <b>Tel Aviv</b> to commence in March 2017

# Network Development – Cathay Dragon

**2016**

- |             |  |
|-------------|--|
| <b>May</b>  | <ul style="list-style-type: none"><li>▪ Increased service to <b>Wenzhou</b> to 10 flights per week.</li></ul>                              |
| <b>Aug</b>  | <ul style="list-style-type: none"><li>▪ Announced that Cathay Dragon will operate flights to <b>Kuala Lumpur</b> from March 2017</li></ul> |
| <b>Sept</b> | <ul style="list-style-type: none"><li>▪ Increased service to <b>Phnom Penh</b> to 14 flights per week.</li></ul>                           |



# Cargo Services



# Operating performance – Cargo

		2016	2015	% Var
Group Revenue	HK\$m	<b>20,063</b>	23,122	<b>-13.2%</b>
<b>Cathay Pacific and Cathay Dragon</b>				
Revenue	HK\$m	<b>17,024</b>	20,079	<b>-15.2%</b>
Cargo capacity	Million	<b>16,572</b>	16,481	<b>+0.6%</b>
Cargo & mail carried	'000 tonnes	<b>1,854</b>	1,798	<b>+3.1%</b>
Cargo & mail yield	HK\$	<b>1.59</b>	1.90	<b>-16.3%</b>
Cargo & mail load factor	%	<b>64.4</b>	64.2	<b>+0.2%pt</b>

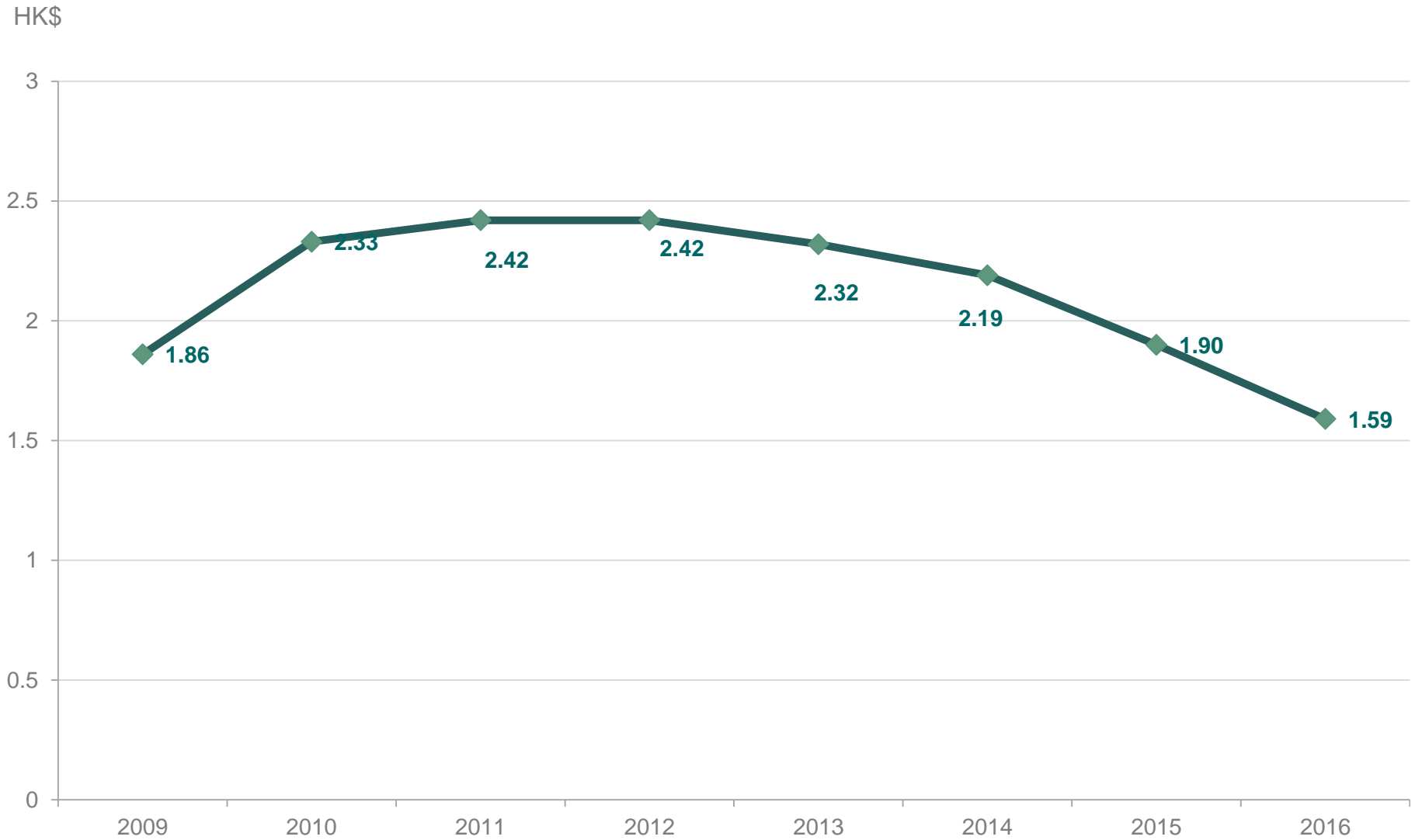
- Increase in capacity.
  - Introduced new freighter services to Portland (2 fpw) and to Brisbane West Wellcamp (1 fpw).
- Yields decline on:
  - Strong competition.
  - Overcapacity in the market.
  - Suspension of Hong Kong fuel surcharge.



# Operating performance – Cargo Load Factors



# Cargo Yield







Operating costs

# Operating Costs - Group

- Lower net fuel costs.
- Cost per ATK (excluding fuel) increased by 2.9%.

	2016	2015	% Var
Staff	19,770	18,990	+4.1%
Inflight service and passenger expenses	4,734	4,713	+0.4%
Landing, parking and route expenses	14,985	14,675	+2.1%
Fuel, including hedging losses	27,953	32,968	-15.2%
Aircraft maintenance	8,856	7,504	+18.0%
Depreciation, amortization and operating leases	13,008	13,193	-1.4%
Net finance charges	1,301	1,164	+11.8%
Others (including commissions)	3,970	3,635	+9.2%
<b>Total operating costs</b>	<b>94,577</b>	<b>96,842</b>	<b>-2.3%</b>

# Financial Risk Management - Fuel

## Fuel expenditure

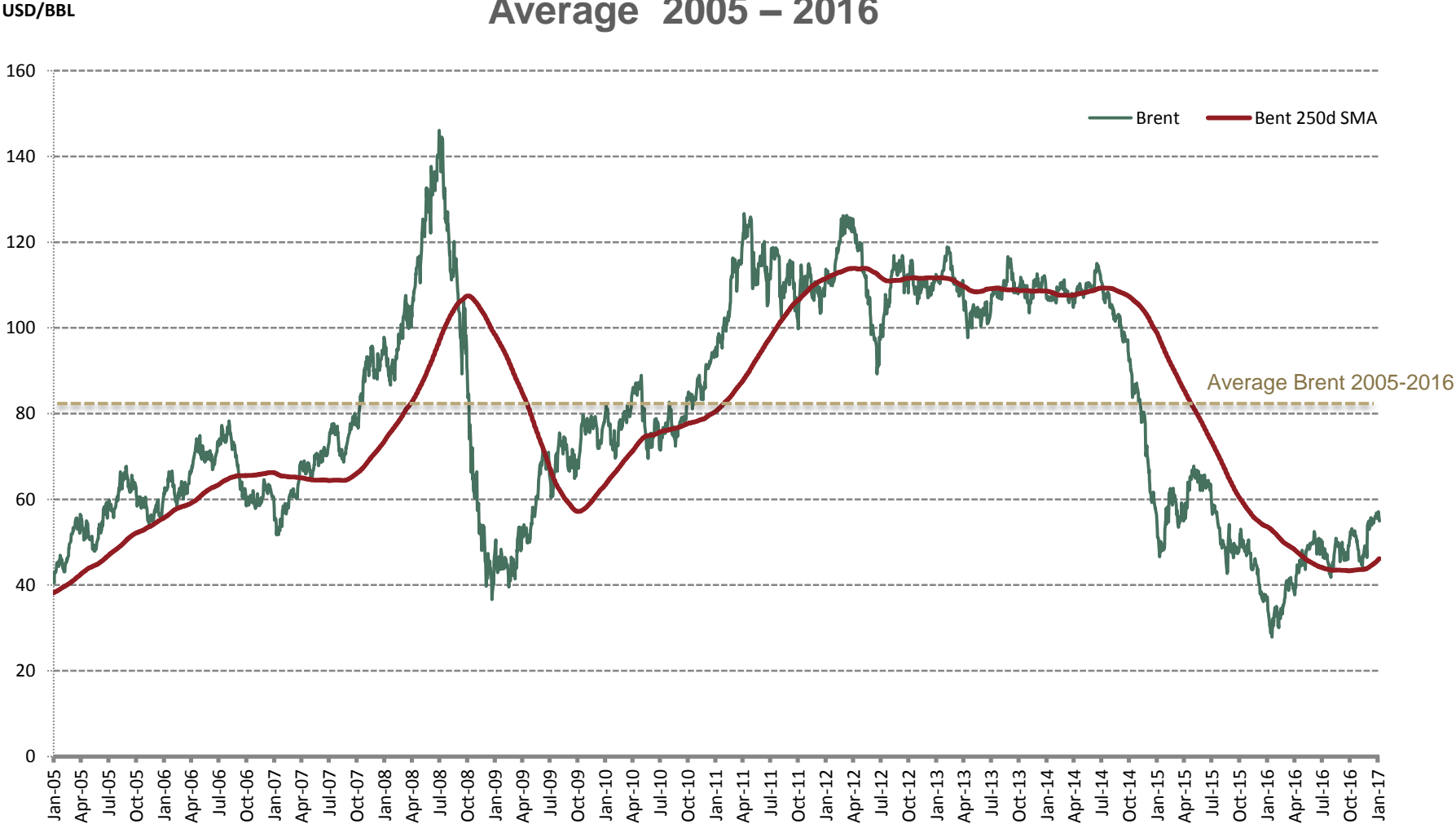
	2016	2015
	HK\$M	HK\$M
Gross fuel cost	19,497	24,494
Fuel hedging losses (gains)	8,456	8,474
Fuel cost	27,953	32,968

## Fuel hedging coverage (as at 31st Dec 2016)

Year	% coverage	Average Brent strike price (US\$)
2017	53.8%	\$89.63
2018	46.0%	\$80.73
2019	8.0%	\$75.40

# Fuel Hedging - Fuel prices

## USD/Bbl - Brent- Daily Closing Price and 250 Day Simple Moving Average 2005 – 2016

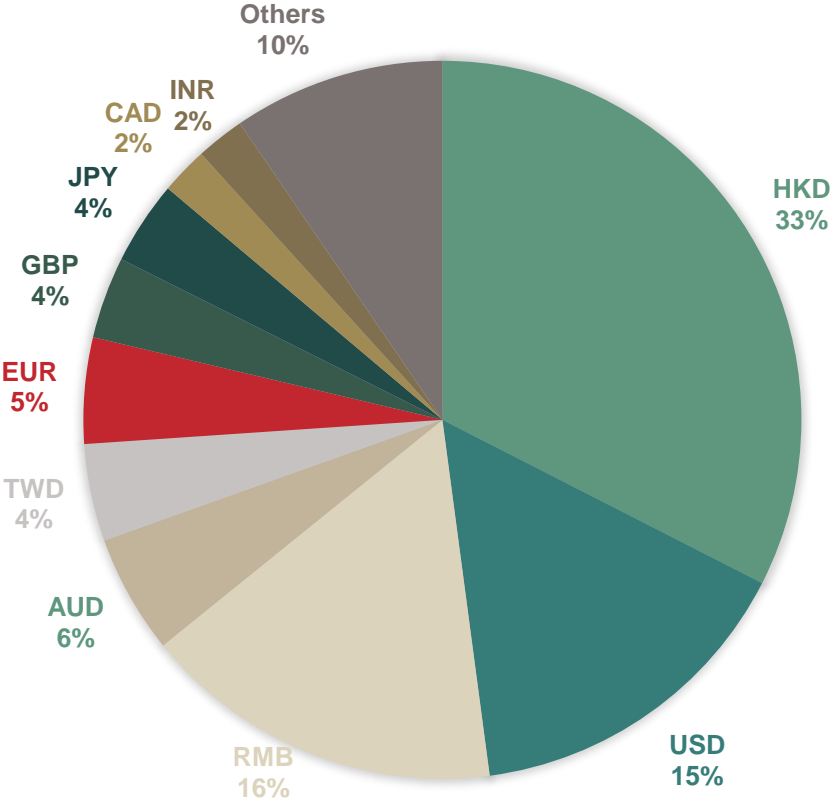


# Financial Risk Management - Currency

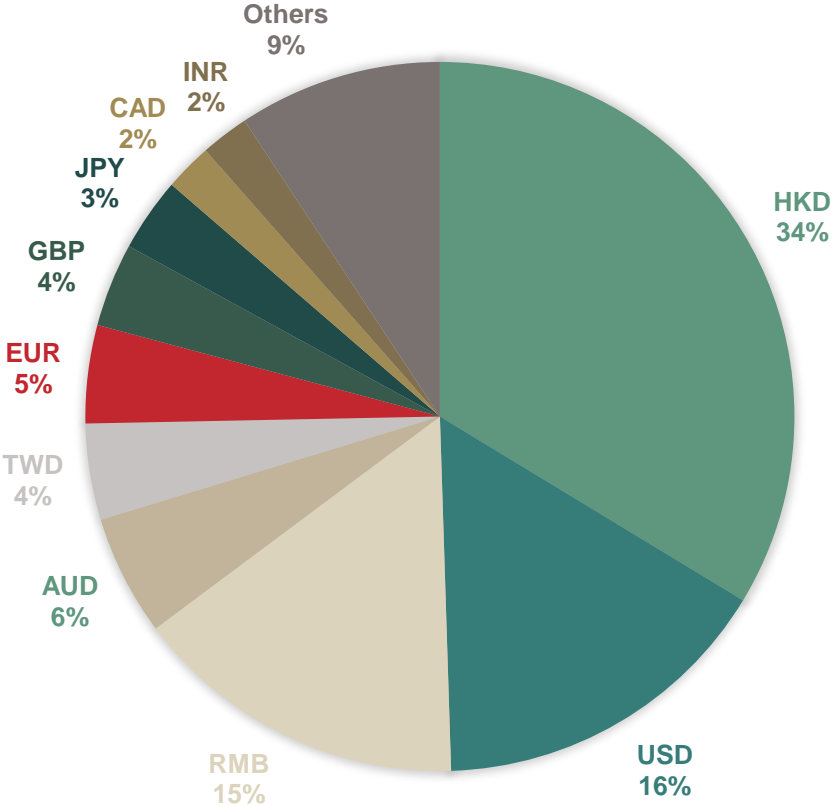
- 52% of the Group's revenue is denominated in currencies other than the USD or HKD.
- Where cost-effective, foreign exchange exposure is managed by matching receipts and payments in each currency.
- In addition, the Group hedges a percentage of its forecast net foreign currency cash flows to reduce its exposure to foreign exchange risk.
- Instruments for hedging are limited to deliverable and non-deliverable currency forwards.
- The Group generates a surplus in most of its revenue currencies, except the USD (on account of fuel and aircraft purchase payments).
- Surplus funds are therefore converted to and managed in USD and HKD.

# Revenue mix – by currency

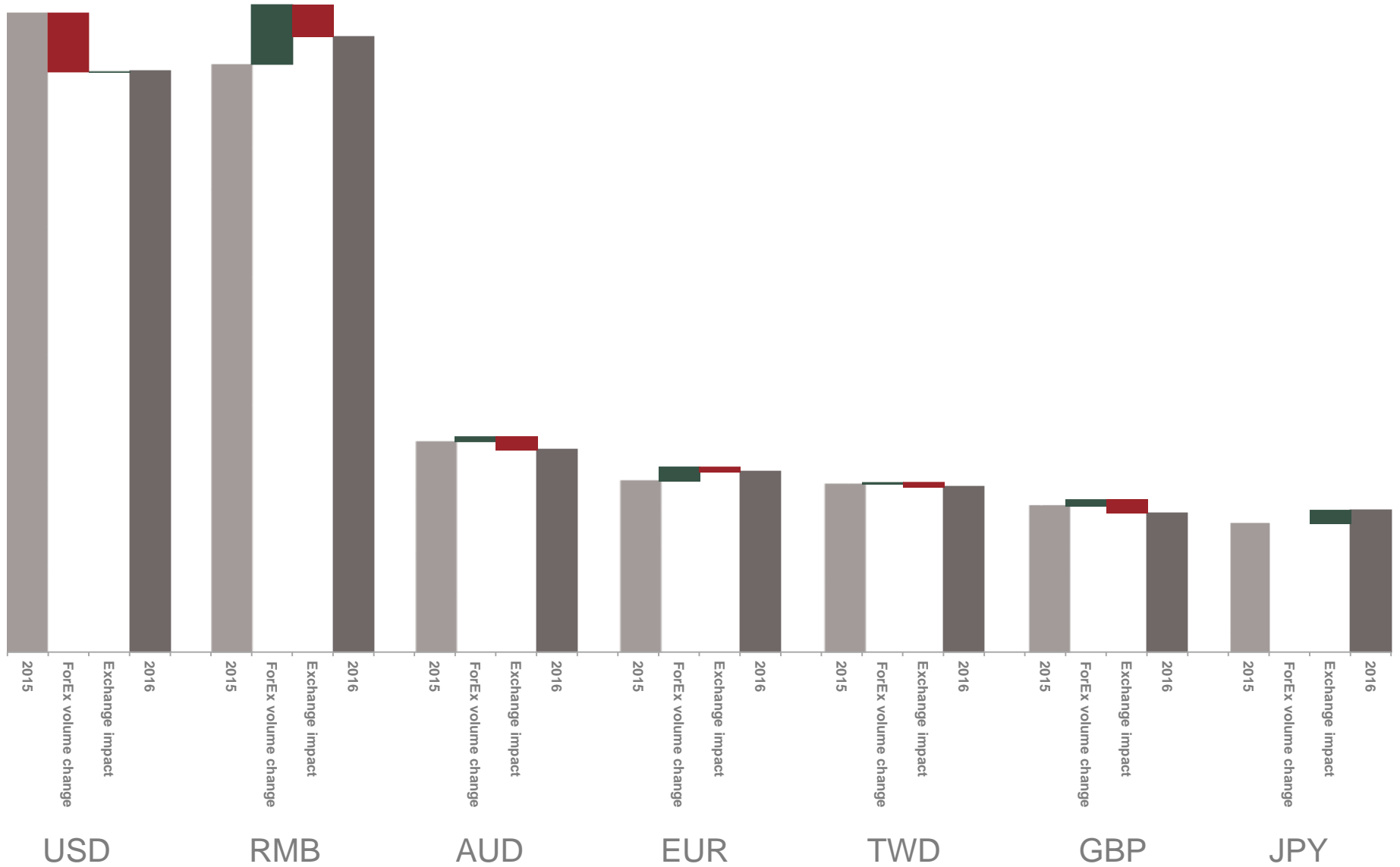
## Full year 2016



## Full year 2015



# Currency movement impacts on sales revenue



# Foreign Currency Movements – 8 Biggest

	From 1 <sup>st</sup> January to 31 <sup>st</sup> December 2016	From 1 <sup>st</sup> January to 31 <sup>st</sup> December 2015
RMB	-5.93%	-4.40%
AUD	-1.30%	-10.96%
TWD	1.57%	-3.73%
EUR	-3.12%	-10.26%
GBP	-16.32%	-5.45%
INR	-2.63%	-4.23%
JPY	3.07%	-0.40%
IDR	2.65%	-9.02%

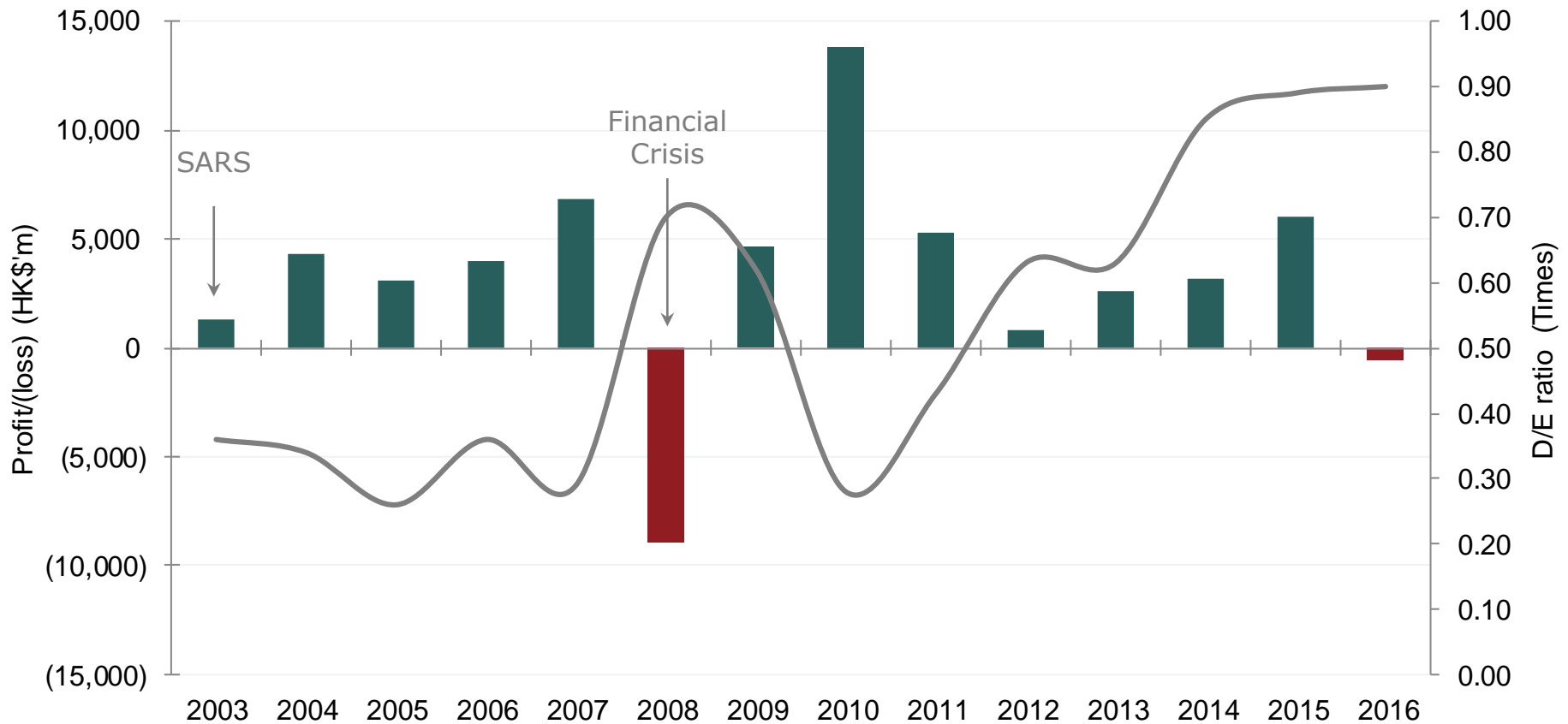
Source: All currencies are market rates against USD obtained from Bloomberg.



# Extract of Consolidated Statement of Financial Position

	2016 HK\$ million	2015 HK\$ million	% Var
Shareholders' Funds	55,365	47,927	+15.5%
Gross Borrowings	70,169	63,105	+11.2%
Less: Liquid Funds	(20,290)	(20,647)	-1.7%
Net Borrowings	49,879	42,458	+17.5%
Capital Employed (including non- controlling interests)	105,405	90,525	+16.4%
Net Debt/Equity Ratio	0.90	0.89	+0.01 times
Investment in Air China	19,770	19,164	+3.2%

# Profit and Net Debt/Equity Ratio



Group Profit Margin	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
%	4.0	10.2	6.2	6.5	9.1	(10.4)	6.9	15.5	5.4	0.9	2.6	3.0	5.9	(0.6)

# Sources and Uses of Cash

	31 Dec 2016 HK\$ million	31 Dec 2015 HK\$ million
<b>Inflow</b>		
Operating activities	6,108	15,995
Proceeds from sales of fixed assets and others	2,148	1,080
New financing	20,146	8,268
Net cash benefit from financing arrangements	894	-
Repayment of loans to associates	19	-
<b>Outflow</b>		
Capital expenditure	(14,886)	(13,179)
Purchase of shares in an associate	-	-
Loans to associates	(12)	(77)
Loan and finance lease repayments	(13,346)	(10,050)
Dividends paid	(1,447)	(2,329)
<b>Net inflow/(outflow)</b>	<b>(376)</b>	<b>(292)</b>
<b>Total Liquid Funds</b>	<b>20,290</b>	<b>20,647</b>



# Fleet Profile

# CX and KA Fleet Profile

	In operations			Parked		
	Passenger	Freighter	Total	Passenger	Freighter	Total
1 Jan 2016	164	23	187	-	1	1
New deliveries	10	1	11	-	-	-
Return to lessors	-	-	-	-	-	-
Parked aircraft	-	-	-	-	-	-
Deregistered	(6)	(3)	(9)	-	(1)	(1)
31 December 2016	168	21	189	-	-	-

# Fleet Profile – as at 31 December 2016

Aircraft type (includes parked aircraft)	Owned	Finance Leased	Operating Leased	Total
A320-200	5	-	10	15
A321-200	2	-	6	8
A330-300	33	12	16	61
A340-300	4	-	-	4
A350-900	5	3	2	10
747-400BCF	-	-	1	1
747-400ERF	-	6	-	6
747-8F	3	11	-	14
777-200	5	-	-	5
777-300	12	-	-	12
777-300ER	19	11	23	53
<b>Total</b>	<b>88</b>	<b>43</b>	<b>58</b>	<b>189</b>

# Aircraft Delivery & Retirement Plans

## Deliveries of new aircraft

Aircraft type	2017	2018	2019	2020	>2021	Total
A350-900	12					12
A350-1000		8	8	10		26
B777-9X					21	21
Total	12	8	8	10	21	59

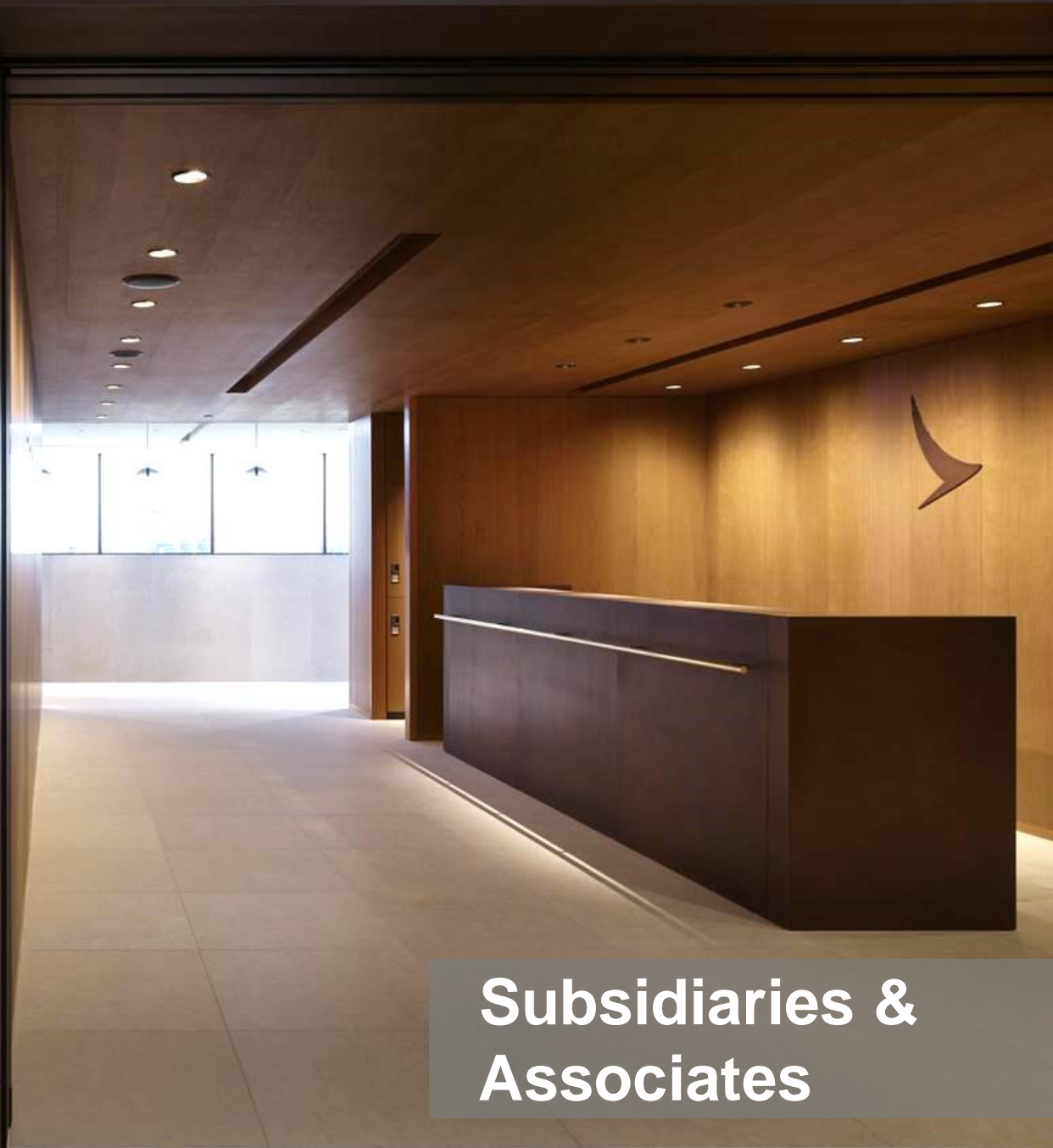
## Retirements

### **A340 - by the end of 2017**

Exit date	Number	Remaining
2017	-3	0



**CATHAY PACIFIC**



**Subsidiaries &  
Associates**



# Associates

## Air China AIR CHINA 中國國際航空公司

- As at 31<sup>st</sup> Dec 2016, Cathay Pacific had a **20.13%** interest in Air China.
- Increased profits from Air China compared with prior year.
- There was a benefit from low fuel prices and strong passenger demand.
- Results impacted by the weakening of the RMB.
- Cathay Pacific accounts for Air China's results three months in arrears.
- On the 10<sup>th</sup> March 2017, Air China completed the issuance of 1,440,064,181 A-shares. As a consequence, Cathay Pacific's shareholding in Air China was diluted from 20.13% to 18.13%.

## Air China Cargo AIR CHINA CARGO 中國國際貨運航空公司

- Improved results from Air China Cargo compared with prior year.
- Savings from low fuel prices, offset partially by exchange losses.
- Strong competition in the air cargo market.

# Major Subsidiaries

## AHK Air Hong Kong



- Capacity increased by 0.1%, load factor decreased by 1.2%pts and RTK decreased by 1.6%.
- Marginal increase in profit compared to 2015.

## Cathay Pacific Catering Services



- Growth of 2.5% in the number of meals produced.
- Higher turnover compared to 2015, but a decrease in profit due to increased costs.

## Asia Miles



- Membership approaching nine million worldwide.
- An increase in profit in 2016 compared with 2015.

## Cathay Pacific Services Limited (Cargo Terminal)



- Provided cargo handling services to 15 airlines in 2016. Seven airlines became new customers in the year.
- Handled 1.8 million tonnes of cargo, out of the maximum capacity of 2.6 million tonnes.
- The 2016 financial results were better than those of 2015. This reflected the addition of new customers and effective management of operating costs.

# Investments in our Customer Experience






Airbus A350-900



Cathay Dragon

A photograph of the Vancouver lounge interior. The space features a long, dark wooden bar with a woman seated at it. The walls are made of light-colored wood, and there are large windows on the right side. The lighting is warm and modern.

Vancouver lounge  
Opened May 2016

A photograph of The Pier – Business Class lounge. A woman in a white and black outfit is serving a plate of food. The lounge has a modern design with a green tiled wall, round tables, and pendant lights.

The Pier – Business Class lounge  
Reopened June 2016

A photograph of the First & Business Class lounges at London Heathrow. The lounge features a long wooden table with a man and a woman seated at it. The background shows a bar area with a woman working behind the counter. The lighting is warm and modern.

First & Business Class lounges – London Heathrow  
Opened December 2016



Premium Fanfare offers



Self service and kiosk bag tagging



Enhanced baggage policy



Create your own travel combinations...

**NAGODIVES**

Nagoya

Maldives

Vantage Pass promotion

# 2017 Outlook



- Operating environment in 2017 expected to remain challenging.
- Strong competition from other airlines expected to continue.
- Strength of the Hong Kong dollar expected to impact the travel sentiment to Hong Kong.
- Continued heavy pressure on yield.
- Overcapacity in the cargo market is expected to persist.
- We expect to continue to benefit from low fuel prices, but to a lesser extent than prior periods.
- Business is expected to grow in the long term.
- Continued investment in new and more fuel efficient aircraft will increase productivity and reduce costs.
- Starting on a three year programme of corporate transformation.





# Corporate Transformation Programme

# Transformation Programme

- Starting a 3 year programme of corporate transformation.
- ASK and DLATK expected to grow over this period.
- Targeting returns above our cost of capital.
- A more agile and competitive organisation.
- Continued investment in our brand and customers, but more effectively through use of digital analytics.
- Targeting to reduce our unit costs (ex fuel) over next 3 years.
- Our organisation will become leaner.

## Two time horizons



# Hub, Fleet & Network strategy

## ■ Fleet rationalisation

- Maximise the use of the available slots in HKIA.
- Drive productivity and efficiency gains.
- Allows growth without additional airframe or crew resources.

## ■ Continued aircraft investment

- The A350-900 fleet helped to open up new markets.
- The A350-1000 scheduled for 2018-20 will provide further capacity, range and lower trip cost.
- The Boeing 777-9X scheduled for 2021-24 will reinforce our position in the transpacific market.
- The five additional Boeing 777-300 joining the fleet in 2018/19 will bolster the regional capacity.

## ■ Fleet simplification

- Simplifying the number of sub-fleets will reduce costs and reduce the complexity in our deployment.



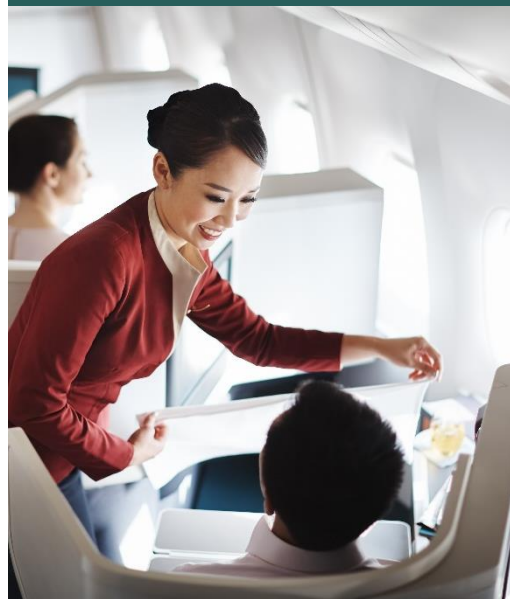
# Improving our customer experience

## Customer Insights Team



- New centralised function from mid-2017
- Will provide actionable business insights

## Project Zenith



- Dine-on-demand service for Business Class customers
- First trials this year

## A350-900s



- 11 currently in service
- 10 more this year
- 11%pt increase in seat comfort scores in 2016

Customer Centric

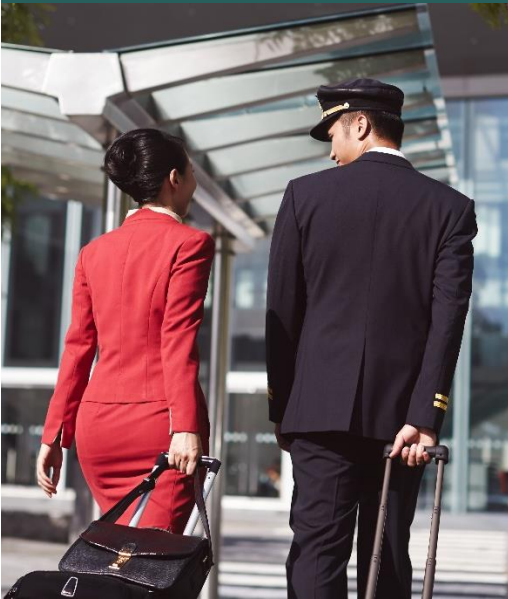
Operational Excellence

Productivity and Value Focused

High Performance Culture

# Delivering to an exacting schedule

## Crew Management Programme



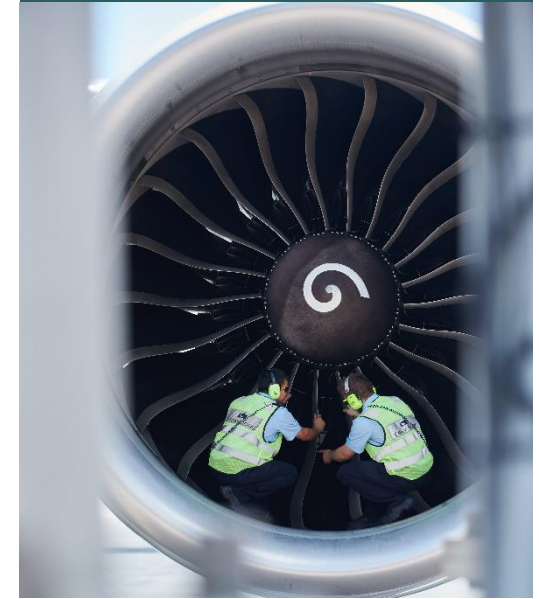
- Improved crew satisfaction
- Increased airline productivity

## Improved On-Time Performance



- On-the-dot departures for CX & KA rose 12%pts year-on-year in the first two months of 2017

## AA Collaborative Decision Making



- Stakeholder information sharing
- Optimised aircraft movement & departure

Customer Centric

Operational Excellence

Productivity and Value Focused

High Performance Culture

# Continuous productivity gains

## Enterprise Portfolio Management Office



- Improving timeliness, value and efficiency of all projects

## Shared Services



- Driving out wasteful and duplicative functions

## Category Management



- Procurement category planning via Ariba system to drive efficiency and savings

Customer Centric

Operational Excellence

Productivity and Value Focused

High Performance Culture

# Getting the best from our people

## Employee Experience Review



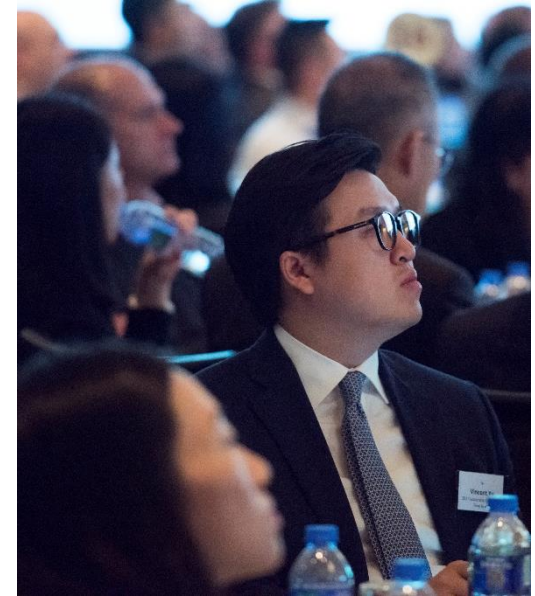
- End-to-end employee experience review

## Performance Management System



- Effective tracking and feedback
- New recognition and reward framework

## Revamping Internal Communications



- New communication channels
- People oriented communications

Customer Centric

Operational Excellence

Productivity and Value Focused

High Performance Culture



# Organisational efficiency

## Head Office



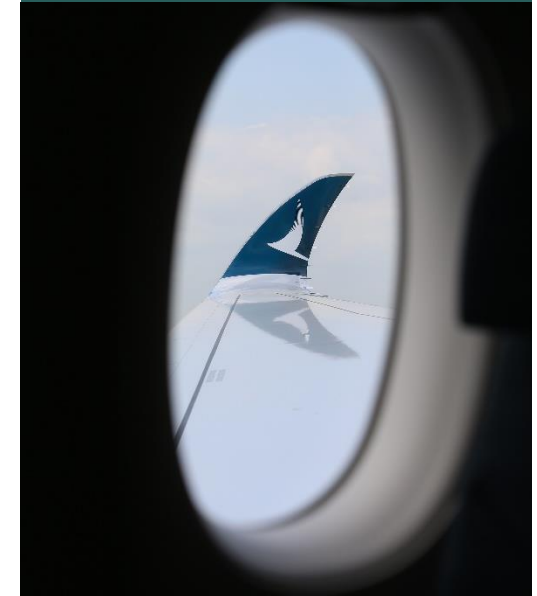
- Leaner
- More agile
- More accountable

## Airports



- Future Airport Experience
- Rapid advance of self-service technology

## Inflight



- Working with the unions to improve productivity

Customer Centric

Operational Excellence

Productivity and Value Focused

High Performance Culture

# Digital Transformation



Data & Analytics



Mobile



IoT



Social

Apply on



Operation

- Service Delivery Consistency
- Structural Cost Change



Customer

- Personalizing Service
- Reassuring Operation
- Enticing Retail Experience
- Enriching Customer Insight



Commercial

- Extend Customer Reach
- Shorten Speed-to-Market
- Increase targeting efficiency
- Improve profitability of sales

## Proof-of-Concept

#1: Operation Insight

#2: Operation Research

#3: Internet-Of-Things

#3: Internet-Of-Things

#5: Customer Data Model Design

#4: Omni-Channel Tool Stack Rationalization

#6 : Customer Value Model

# Strategy on a page



Our unique positioning

Brand-led, relentlessly focused on enabling a Life Well Travelled for our customers

Our call to action

## It's Time to Win

By being digitally enabled and insights-driven

Our pillars

**CUSTOMER CENTRIC**

**OPERATIONAL EXCELLENCE**

**PRODUCTIVITY AND VALUE FOCUSED**

**HIGH PERFORMANCE CULTURE**

Our focus

Experience  
Loyalty  
Advocacy

Safety  
Efficiency  
Consistency

Smart working  
Resource management  
Continuous improvement

Accountability  
Opportunity  
Experience

Success for our customers

"You have my lifetime loyalty"

"You are a brand I trust"

"You keep improving what you do to keep me travelling well"

"Your employees are service-oriented and focused on enhancing my travel experience"



# Q&A

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