TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Half-Year Ended 30 September 2010

(Read in conjunction with Powerpoint Presentation)

SIA Training Centre

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E&OE – may be edited for grammar

Presentation

Mr. Nicholas Ionides:

Good afternoon, everyone. Welcome to the media and analyst briefing for Singapore Airlines' second quarter and first half financial results. My name is Nicholas Ionides, and I will be moderating today's session. The format will be as follows: we will begin with Mr. Chan Hon Chew, Senior Vice President Finance. He will be presenting the Parent Airline Company results. This will be followed by a presentation by Mr. Chew Choon Seng, Chief Executive Officer, with the SIA Group results. We will then move to the Q & A segment, which will be led by Mr. Chew. Joining the panel will be CEO Designate, Mr. Goh Choon Phong as well as Senior Executive Vice President for Marketing and Corporate Services, Mr. Bey Soo Khiang, as well as Mr. Chan. Before we begin, a gentle reminder please, we kindly ask that you turn your mobile telephones off or switch them to silent mode. I'll now invite Mr. Chan to give his presentation.

Mr. Chan Hon Chew:

Good evening, ladies and gentleman. Once again, welcome to the briefing of the results of Singapore Airlines for the second quarter and first half of financial year 2010/11. I'll kick off with the parent airline results, starting with the headline numbers for the parent airline. First the top line for the second quarter of the financial year 2010/11, the parent airline earned total revenues of $2.93 billion. This is $480 million, or 19.6% higher, than the same quarter last year. This reflects the recovery in passenger loads and yields, and this recovery is broad-based, as most route regions have recorded better load factors. In terms of yields, we see yield improvements across all cabin classes, benefiting from higher fares and also improvement in passenger mix. The improvement, however, has to be looked at in the context of a low base last year. As you will recall, revenues were affected by the downturn in Q2 last year.

Expenditure, as you can see on the chart, we came in at $2.68 billion. This is about $80 million or 3% higher than the same quarter last year. On fuel costs, it was higher by about $70 million, or 8.8%. This is largely driven by higher jet fuel prices, which went up from about $80 per barrel to $90 per barrel in Q2 this year. However, offsetting that is lower fuel hedging loss. It was reduced by about $131 million. Ex-fuel costs were higher by about $140 million, largely from higher staff costs and also other variable costs as a result of the growth in passenger carriage.

Consequently, as revenue grew at a faster pace than the increase in expenditure for the second quarter of the financial year, the parent made an operating profit of $244 million, which was about $400 million higher than the operating loss last year. Including the $136 million operating profit in the first quarter, this gives us a first half operating profit of $380 million. This is a turnaround from the operating losses last year.

Moving on to the operating statistics, here we look at the two quarters that make up the first half. As you can see from the chart, capacity as measured in available seat kilometres for the second quarter was about 3% higher than the first quarter. While passenger carriage measured in revenue passenger kilometres was over 6% higher, so that has resulted in improvement in the passenger load factor by about 1.9 points to 80.3%. Aggregating that for the first half, this translates to a passenger load factor of 79.4% for the first half of the financial year, which was 3.8 points improvement from the first half of the previous financial year.

On the yield side, quarter on quarter, there continued to be improvement on yields, from 11.7 cents to 11.8 cents. On the cost side, unit cost was lower by 0.2 cents from 9.0 cents to 8.8 cents. With higher yields and lower unit costs. the breakeven load factor has improved by about 2.3 points to 74.6%. Aggregating that for the first half of the financial year, this translates to a breakeven load factor of 75.4%. This is improvement of 10 over points from 86% last year, and as you can see, this is driven largely from higher yields. Yields have improved year on year by about 18%. Comparing the passenger load factor for the first half of 79.4% to the breakeven load factor for the first half of 75.4%, this translates to a passenger load factor margin of 4 percentage points.

Let's take a look at the passenger load factor margin over the last five years. First, looking at the passenger load factor, you can see from the chart, this has improved from 75.6% to 79.4% in the first half of the current financial year. Now let's look at the breakeven load factor. As you can see, last year in the first half, the breakeven load factor went up to 86%, and this was due to depressed yields last year, which were affected by the downturn. Yields have since improved as we saw in the earlier chart. This has driven the breakeven down to 75.4%, which gives us the 4 percentage points passenger load factor margin that we talked about earlier. However, if you look at the chart, this is still lower than pre-crisis levels. As you can see, the breakeven load factor is still higher than pre-crisis, which used to be in the low 70s. This is largely because while yields have improved, as we can see from this chart, it has bottomed out in the second quarter of FY2009/10, and it has improved steadily since then. In the second quarter, we recorded 11.8 cents in terms of yield. But this is still lower than the 12 over cents that in the first quarter and second quarter of FY2008/09 as you can see from the chart.

Moving on to costs, this pie chart shows the top five expenditure which makes up close to 80% of total expenditure.

Let's take a look at year-on-year comparison. Fuel costs has gone up. We'll have a later slide to look at the details for the year-on-year comparison. Aircraft depreciation and lease rentals has gone up largely because of progressive delivery of aircraft. Staff costs has gone up by 8.8%. As you know, the wage cuts have since been restored and also measures such as voluntary no-pay leave has since been discontinued. As well, variable remuneration such as allowances have also gone up because of increase in level activity. Sales costs have gone up 14.9%, largely driven by higher commissions and incentives that were incurred on higher revenues.

Let's take a look at the fuel expenditure. Here at a starting point here, for reference, this is the fuel bill for the first half of the previous financial year at $1.8 billion. This is after hedging loss. In the first half the fuel price actually went up by 27% from about $73 per barrel to $92 per barrel for jet fuel in the first half of the financial year, so that added $389 million to our fuel expenditure. Fuel volume went up by about 2%. That added $24 million. We had some partial relief from a weaker US dollar. That reduced costs by $99 million, and also we have lower hedging losses that reduced by $303 million. And so that gives us a net increase in fuel expenditure by $11 million. So on that note, I conclude my presentation and I hand over to Mr. Chew to brief you on the group results and also the outlook. Thank you.

Mr. Chew Choon Seng:
Thank you Hon Chew. Good afternoon. Thank you for making time to join us this evening. I will now present the numbers at the group level, which consolidates what you have just seen with results from the principal subsidiaries of SilkAir, Singapore Airlines Cargo, and SIA Engineering Company.

These bars show the quarterly group revenue levels that were attained for the first half-year and the first half of the last financial year. This year, the six months from April to September produced $7.1 billion in revenue, which is a year-on-year improvement of 19%, or $1.1 billion as we rebounded from the global financial crisis. Of course, the figures in the previous year included the numbers for SATS, the subsidiary that we spun off later in the past financial year. So if we adjust by taking out the SATS numbers, the comparison shows a higher increase in revenue at the group level of $1.5 billion or 26.6%.

Likewise, group expenditure on a reported basis for the half year showed an increase of 0.7%, $46 million. But if adjusted for the spinning off of SATS, the increase was actually 5%. So still, revenue grew much faster than expenditure.

The net result is that group operating profit for the half year was a turnaround of a $1.1 billion to $596 million for the halfway mark at the group level. And adjusted for SATS, the increase was an even higher $1.173 billion.

This is a summary of the contribution to group operating profit. As you can see, all four companies were profitable, and all showed significant turnarounds from operating losses with 3 of the 4 the pre-year before. I should just add a footnote here that the $41 million turnaround in fortunes for SilkAir reflects partly the transfer of some of our flights to Penang and Kuala Lumpur to SilkAir, and it demonstrates that the strategic move to transfer those routes from the parent company to SilkAir with the smaller Airbus 320 fleet to combat new entrance when those routes were opened up to the low cost carriers. That strategic move proved to be the correct one.

This is the group bottom line net profit attributable to shareholders for the comparative periods. Half-year bottom line of $633 million, which was a turnaround of $1.1 billion. And adjusted for SATS again, it is quite close to the difference at the operating level.

Per share metrics, EBITDA cash flow per share, improved from 70 cents the year before to a $1.64. EPS, from a loss to positive earnings of 53 cents per share. Consequent to that, the board has declared an interim dividend of 20 cents per share compared with none last year because of the losses. Book value per share has gone up from $11.30 to $11.71 as at end of September.

Outlook for the second half of the financial year that we are in. Our flight schedules for the second half will translate into available seat kilometres growth of 5% versus the second half of the previous year. That would bring ASK growth for the year as a whole to about 2.2%. But most of it will be in the second half.

We anticipate that demand will be sustained enough to match this increase in capacity growth so that load factors would be steady at the levels that we experience in the first half at around high 70s into the low 80s, depending on months.

Likewise, we project stability in yields, meaning that the yields that we attained in the first half are likely to be maintained and continue to show sequential month-on-month, quarter-on-quarter improvement, albeit at a slower rate, and will still be below pre-financial crisis levels.

Now, I think most of you do not need any elaboration on foreign exchange movements, maybe you are more experts at it than I am, but key currencies for us would be the US dollar, the Euro, and the UK pound. The reason being that we are perennially short in US dollars in that we expend more in US dollars and US dollar denominated expenditures than we generate in US dollar revenue. So that means that a weak dollar relative to Singapore dollar would be plus for the company in that fewer expenditures and other US dollar expenditures will translate into fewer Singapore dollars. And that would be much more than the translation loss when we convert US dollar revenue into Singapore dollar numbers. However, we are long in Euros and in UK pounds, so the weakness in those currencies will be a minus for us, but those are the three key ones to watch. If the Yen and the Australian dollar continue to be strong, that will give us some counter balance effect, but those are the key factors to bear in mind when we look ahead for the next six months' numbers.

The market forwards indicate that jet fuel will hang in there around a level of $95 per barrel. This past couple of days, the spot levels have been closer to 99, nearly reaching a hundred, but these are spot variations and we think this level of jet fuel price will stay with us for a while more. With that I conclude this presentation, and we will go on to the panel and take your questions. Thank you.

Question & Answer

Mr. Nicholas Ionides:
Thank you Mr. Chew, we will now be inviting our panelists up to the stage for the Q & A session, but before we do, just a couple of additional reminders. First, if you have a question, please direct it through me by giving me a signal that you'd like to ask one and I will call upon you. Second, we will be recording today's sessions so please use a microphone. There will be a couple of microphones that will be around here and we will, you can ask your question through that. With that we'll invite our panelists up to the stage. Alright we have the first question down there, fourth from the back.

Mr. Robert Kong:
Hi, Robert Kong from Citi. Thank you for the comprehensive presentation. I just wanted to ask some questions on your outlook and an obvious housekeeping question; could you give some guidance on your fuel hedging situation.

Mr. Chew Choon Seng:
We continue to hedge on a limited basis. We started throttling back our fuel hedging volumes when first of all uncertainty surfaced and then things became very volatile. The truth of the matter is that as a philosophy, we still believe in hedging as a means of mitigating the result of swings in our fuel expenditure which still constitutes about 40% of our total expense. However, the prices that had been, and that are prevailing in the market for hedging make it unattractive. So as a result of which given the way the

forward prices are still in contango, albeit less sharp than before, we are hedging at the low end of the level. Meaning, we have a threshold of between 20% to 60% of our projected volume requirements and we are hedging to the 20% level, which means that the smoothening effect is less but conversely the impact from the cost of hedging is much smaller and that's reflected in the results that we have announced where despite the fact that unit fuel price shot up by 20 odd percent year-on-year, the much smaller hedging losses that we, or the cost of hedging that we incurred this year enable us to hold the increase in our fuel expenditure down to 2.2% or 3% thereabouts.

Mr. Robert Kong:
What kinds of instruments are you using for hedging?

Mr. Chew Choon Seng:
We are now principally buying call options.

Mr. Robert Kong:
Okay, and sorry just one follow up question. On your yield guidance, as I understand it you still have reasonably good forward bookings?

Mr. Chew Choon Seng:
Yes.

Mr. Robert Kong:
Certainly getting business class seats is quite tough at the moment and if I remember rightly, I think you raised some of your prices in October so I'm a little surprised that your guidance for yields is conservative. I just wondered if you could provide some more colour as to your thinking behind that?

Mr. Chew Choon Seng:
I think when you read Karamjit's [Note: Straits Times Aviation Correspondent] comments that we have raised our fares on the same page and the same day I announced his nomination [Note: referring to Mr Goh Choon Phong], you have to see that in context. I think year-on-year yes, the fares have gone up. But sequentially it is a gradual attempt to climb back to pre-GFC ("Global Financial Crisis") levels. We are still running at least 5% overall below pre-financial crisis yields.

Mr. Robert Kong:
Thank you.

Mr. Nicholas Ionides:
Alright. Second row, the lady over there please.

Ms. Lee Ching Yee:
Hi. Ching Yee from the Chinese paper LianHe ZaoBao. I have questions on A380. You have grounded three planes today. Could you tell us more? How long will these processes take - the change of engines and how would it affect your flights and your capacity as well?

Mr. Chew Choon Seng:
Actually this is a presentation of results, but since you want some topical news I shall oblige. We are in very close communications with the aircraft manufacturer Airbus as well as the engine maker Rolls-Royce on the appropriate precautionary measures

following last Thursday's incident with another competitor airline's aircraft. We have three planes that are now on their way back to Singapore; one from London, one from Sydney and one from Melbourne. This is on the advice and recommendations of the manufacturers that purely as a measure for abundance of caution where further analysis had shown that there are some slight staining in certain areas where it is not a risk, but it should not be there.

However, it is very much a precautionary measure and we are bringing those planes back to have three engines; one on each of the three aircraft changed out. How long this will take, well the planes should be coming in this evening, all three of them. Overnight our teams will get to work on them, so they may be out of action for a day maximum two days or so. When we are thoroughly happy with them we put them back into service.

Through it all, our objective of course is never to compromise on safety and we will continue to work very closely with the manufacturers to do all that is necessary to ensure that our operations are safe and thoroughly reliable.

Ms. Lee Ching Yee:
The impact to your capacity?

Mr. Chew Choon Seng:
Well it would be, as I said for maybe 24 or 48 hours we may have some flights that would have been otherwise performed by these three planes. We will substitute other aircraft (smaller aircraft), there's none bigger than the A380 at the moment. But we have contingency plans which we will communicate with our passengers on and re-accommodate them through the best that we can.

Some of the passengers who are joining flights here in Singapore will get to enjoy Singapore a little bit longer; maybe they can visit the casinos. I don't know.

Ms. Lee Ching Yee:
So there won't be any cancellation flights. Are you saying that?

Mr. Chew Choon Seng:
No we are not working on it, but we will substitute planes and will perform all the services. So some flights will be downgauged to B747s; some may be to B777s. But all flights—we plan to maintain all flights; albeit re-timing and so on will happen.

Ms. Lee Ching Yee:
Sorry, one more question. Could you explain the oil stains? How different is it from the oil leakage?

Mr. Chew Choon Seng:
I'm afraid these technicalities I'm not qualified to address. Neither would it be fair to the manufacturers. They are the ones who can explain in greater detail and so on.

Mr. Nicholas Ionides:
Okay. We have one in the back and then we'll move over there and then down to you. The lady there about the third row from the back centre.

Ms. Pauline Mason:
Hello, Pauline Mason from the BBC. Could you elaborate on your plans for acquisitions going forward. You are expecting to take delivery of some more A380s with an option to buy six more. Have you made any decisions regarding that?

Mr. Chew Choon Seng:
No the factual answer is that we have - our order was for 19 firm; we started off with 10 and then we added nine. We've taken delivery of 11 with 8 more to come. We intend to take, I mean there's no cause for us to not to take the remaining 8. We could do it with all 19. As for whether we would upsize the order, that is something that we haven't addressed yet because the remaining 8 will not be completely delivered until I think another year-and-a-half from now.

Ms. Pauline Mason:
So could you say when you'll actually make an announcement about your aircraft acquisitions going forward?

Mr. Chew Choon Seng:
It's his answer not mine [Note: referring to Mr Goh Choon Phong, CEO Designate].

Ms. Pauline Mason:
Fair enough. Sorry if I can ask that question to you, as the person who will be making that decision?

Mr. Goh Choon Phong:
Okay. Obviously we will inform the market and the public as and when we make the decision. So there you go.

Mr. Nicholas Ionides:
To the gentleman over there and then we come down here; third row.

Mr. Gaurav Kumar Singh:
Hi. I'm Gaurav from Dow Jones. Just a confirmation; you said the three planes that are coming back today, for how long will they be out of service? Also I believe you said 24 to 48 hours. Can you just confirm that? Also are the placement engines available with you in Singapore right now to put them on?

Mr. Chew Choon Seng:
Yes you are correct. I said 24 to 48 hours and as for replacement engines I can categorically affirm that we have spare engines.

Mr. Nicholas Ionides:
Alright. The gentleman here, second row please.

Mr. Hino Lam:
Thanks for your presentation. Hino Lam from Goldman Sachs. Firstly on your balance sheet and capital structure, how does management think about it in terms of the optimal, long-term gearing? Number two, on your dividends, do you see a scenario where you would pay more than a dollar Sing for the full year dividend?

Mr. Chew Choon Seng:
Well, on our capital structure we have demonstrated the value of having a strong balance sheet through the financial crisis. Another advantage is that when we need to raise capital like we just did by the issue of bonds—to refinance bonds, not because we need cash, but more as a cushion. It has been demonstrated by the fact that we have never resorted to—never means within the last 20 years—never resorted to either EXIM bank or ECA financing because we could get much better rates if we wanted to on our own. But in the event that most of our capex have been funded by internally generated cash flow and by retained earnings. To that extent having a strong balance sheet gives us a lot more flexibility but if you follow the debate, there's quite a lot of complaints going on about unlevel playing field and that US carriers can't access EXIM bank financing and European carriers can't access ECA financing. To us it's a non issue because if you have a good enough balance sheet, you can get capital much more easily. I mean your cost of capital is very much low of borrowing.

On your other question about dividends, the board's policy is not to have a quantitatively specific dividend policy statement. In general you can say that the board will continue to pay dividends that are (a) affordable, and (b) sustainable. But as you can see this is a very cyclical industry. It's very capital intensive. So unlike utilities, we can't have a guaranteed level of dividend or as good as guaranteed level. I hope that answers your question.

Mr. Nicholas Ionides:
The third row here and then back to the fifth.

Mr. Robert Bruce:
Thanks Robert Bruce from CLSA. Firstly, I'd just like to congratulate you on a great and successful career at Singapore Airlines. You have really driven the company to great success. I've just got a question on your strategy going forward. So far you've constrained growth in an attempt to rebuild yields. You're now sort of easing back on those constraints a little bit. Are you still confident as we head into a seasonably strong period that you can regain those yields of the past? Or do you still have to be mindful and hold back capacity to a degree there? I've got a second question just after that.

Mr. Chew Choon Seng:
Well Robert, thank you for your kind words. I obviously will bow out in about a month-and-a-half's time and he's taking over. So today is for me, a swan song by a lame duck. Enjoy it. On your question about the way that we see it, yes we have exercised discipline in terms of putting back restoration of capacity. As I mentioned, we're quite confident that we can hold steadily for the rest of this financial year. For the next financial year we are also being cautious but with some degrees of freedom to step up the capacity game if market conditions can support it. The reason why we can do that is that as we take delivery of more A380s as well as the rate at which we release the older B777s, we have some degree of flexibility there. Those will be the areas that some fine tuning will be possible, but will be very much guided by market strength.

Mr. Robert Bruce:
But at present the conditions are that you can hit seasonal peaks and get closer to peak yields in terms of an outlook? Is that fair to say?

Mr. Chew Choon Seng:
I don't think that we can declare that the yields have recovered until we reach pre-GFC yield levels as Hon Chew's graphs show, we are still a bit off that at a moment. We

anticipate that by year end we'll be about minus 5% on that. As to whether or not we will ever reach those levels again is fine interplay. In this business, it's a juggle between unit cost, unit yields, breakeven and therefore as you adjust your fares, we keep another eye out on forward bookings as well as on market sentiments to get a sense of what will hold or what may need a bit of a push, meaning that you may have to be more modest in your yield expectations. We never forget that we're not operating in a vacuum. There are a lot of worthy competitors out there and to us it may seem a bit philosophical but we think the consumers' interests are best served that way, by free market forces. Of course I don't have to be responsible for it any more.

Mr. Robert Bruce:
Okay just a second question, probably for Hon Chew there. Just looking at the cash flow statement in terms of the working capital and the reciprocal liabilities in terms of advance sales - they increased quarter-on-quarter $27 million in the second quarter which is significantly slower than $116 million that the cash flow benefited from in the first quarter. Should we take that as a sign that the rate of growth in forward sales and forward bookings is slowing? Or is it purely a seasonal aspect?

Mr. Chan Hon Chew:
Yeah I think what you mention is correct. I think it's largely seasonal. So in terms of the quarter-on-quarter movement it's largely because the second quarter, traditionally, is better than the first.

Mr. Robert Bruce:
[INDISCERNIBLE]

Mr. Chan Hon Chew:
Yes the third quarter, traditionally, that is the year-end peak. That's right.

Mr. Nicholas Ionides:
We had one two rows back from that and then down to the centre here.

Mr. Satish Kumar Cheney Krishnan:
Hi I'm Satish Cheney from Channel News Asia. Just a few days ago we were told the engines on your A380 fleet, you had conducted some checks and there were no problems, but today 3 were grounded. I was just wondering do you think the initial checks were thorough enough? And my second question is how are you going to ensure that such problems do not arise again, especially with, there are some concerns with the A380 at the moment?

Mr. Chew Choon Seng:
Well as I predicated in my remarks, we are in very close communications and coordination with the aircraft manufacturer and the engine maker. The checks that we conducted were in full compliance and in accordance with their recommendations and instructions. And we do not pass judgment on the condition of the planes until we get confirmation from the manufacturers that the planes are safe to operate. It was on that— and this is a continuous program. In other words, even as they analyze the data, the observations and so on, they then come back to us again with new recommendations and it is an ongoing process. So it is not a question of the earlier checks would they have detected all this, but it is an ongoing, continuous process which will continue to be the case. In fact the level of scrutiny and close monitoring of the planes now is of a very high level.

Mr. Nicholas Ionides:
Right. We had down in the centre here please.

Mr. Satish Kumar Cheney Krishnan:
Sorry just one last question. How are you going to ensure, I mean you already said the security level of scrutiny and monitoring is at a very high level, but there are still concerns from passengers regarding A380, not just SQ. So perhaps some sort of an image overhaul or, what do you think about this?

Mr. Chew Choon Seng:
Well, let's say motor car recalls, just because a car is recalled does not mean you cannot continually use it in the meantime. So the same analogy is that if the manufacturers, and don't forget that our industry is still very much regulated from a technical viewpoint. Meaning the licensing authorities, the aviation and the airworthiness authorities would have to be satisfied that the planes are safe to fly while we continue to operate them. So there are these levels of safeguards all in place. We can but give our assurance to all our customers that we would not fly the planes unless we are confident that they are airworthy.

Mr. Nicholas Ionides:
We had down in the front here, second row please.

Mr. Mark Webb:
Hello. Mark Webb from HSBC; two questions. Firstly, coming back to your significant net cash balances. We're forecasting net cash balance is over $5 billion by the March 2011 year end, rightly or wrongly, but it's well over a billion higher than your previous record level in March 2007. And while I still appreciate that clearly the balance sheet strength is one of your advantages, that seems excessive. What's your strategy for utilizing those cash levels? That's the first question.

Mr. Chew Choon Seng:
Well if I can just take it– pause you there, it's a very simple explanation. As I said, we have decided to move ahead; to refinance the $900 million in bonds that will mature next year, in December 2011. The reason why we decided to build it up this year was because of the very low prevailing interest rates. So we raised $500 million in a placement at 3.22% and we just did a retail bond issue of $300 million at 2.15% for five years. That temporary blip from four to five will work itself down when we reach 2011 and we repay the bonds that were issued back in year 2001.

Mr. Mark Webb:
I was talking about net cash levels, not gross. And I estimate your net cash levels will continue to go up. I mean you're generating free cash flow of about $3 billion a year and your capex plan you gave out only gained out to about $2.2 billion next year. On a net basis your cash balances are still going up.

Mr. Chew Choon Seng:
Well I wanted to be sure that I leave a company that was liquid and very strong to my successor.

Mr. Mark Webb:
Okay fair enough. The second question then, there seems to be to us some quite clear signs that the cargos [CUT-OFF]

Mr. Chew Choon Seng:
Mark, it does give us a lot of strategic options or even maybe, you know, improved shareholder returns and so on. So would you prefer the alternative that we go hog everything up?

Mr. Mark Webb:
Well I mean I guess there's two options or three options; special dividends, share buyback or buying something. If you were going to stay on for another few years, which of those options do you think would be the best for Singapore Airlines?

Mr. Chew Choon Seng:
I would keep all our options open.

Mr. Mark Webb:
Okay, moving onto the second question then. There seems to be some clear signs the cargo [INDISCERNIBLE] thing quite a lot and you mentioned that in the outlook statement. Your comment that yields are likely to remain stable, does that also apply to the cargo business?

Mr. Chew Choon Seng:
Let me just ask my colleague who is the President of SIA Cargo, Mr. Tan Kai Ping to address that.

Mr. Tan Kai Ping:
We believe that yields on a medium-term basis is likely to remain stable. The outlook on a short-term basis is less clear because of recent changes in some of the macro conditions, for example, depreciation of currencies. But the pattern of trade, pattern of air cargo movement remain, on a macro basis, fairly stable/fairly strong.

Mr. Nicholas Ionides:
We had there first and so the centre please.

Mr. Wei Sim:
Good evening gentlemen, Wei Sim from Macquarie Securities; just two questions. Firstly back to the cargo. I saw some news this morning that some airlines were indicted on cargo cartel from the European Union. Do you have any opinion on this as to whether it may put downward pressure on cargo yields going forward? Secondly, in relation to your passenger mix at the moment, are you able to give any sense in regards to the premium passenger recovery? How that is versus pre-crisis levels? You'll decide, I mean if you could give something in regards to maybe premium versus economy passenger mix. Thank you.

Mr. Chew Choon Seng:
Well in your question, your remarks about the European Commission's statement of yesterday evening, we have consistently maintained that we have not—our cargo unit has—or even SIA has never indulged in anti-competition conduct. So it is disappointing that they have included us in the roll call and we will indeed lodge an appeal against it. That being the case, I will refrain from any further comment in that regard.

As for whether we foresee a rebound or sustenance of premium yield passenger traffic, our forward bookings indicate that indeed premium travel would also maintain a steady level of demand that I should be able to keep up, if not improve slightly upon what we've seen in the first half.

Mr. Nicholas Ionides:
Okay we have two seats over there and then we go over to that side of the room please.

Mr. Raymond Yap:
Hi Raymond from CIMB. Just one very simple question. In terms of the Rolls-Royce engines, how long is your warranty period for those engines? I'd just like to know if the problems continue with the engines, when do you actually have to start forking out money to repair them?

Mr. Chew Choon Seng:
Well we have warranty on the new engines for I think a period of one or two years. But beyond that, we have a power-by-hour, a TotalCare Services Agreement which we had announced previously with Rolls-Royce for the maintenance of the engines. It is an arrangement whereby we pay them a rate and then they are responsible entirely for the maintenance and for underwriting the performance of the planes—of the engines. To that extent, it's embedded in the cost that we've been paying. It's like leasing a car, you don't worry you need to change the car. The lessor has to take care of it for you.

Mr. Nicholas Ionides:
Okay. We go first to that side of the room, the front row there please.

Mr. David Fogarty:
A couple of quick questions to Mr. Chew. Thank you for this opportunity. My name is David Fogarty from Reuters. If I may, just turn to the A380 issue. A couple of questions, one is, can you say with confidence that Rolls-Royce has identified the true cause of the engine problems? Or is there a risk of more flight delays or more A380s being taken out of service? That's the first question. The second is, up until last week before the Qantas engine failure, how have the Trent 900 engines performed in your fleet up until that time? Have you had any issues of any failures that have not led to emergency landings, or indeed, anything to give you cause beyond the normal sort of wear-and-tear of an engine. The last question is, you have sufficient engines now, but if you have more failures, does Rolls-Royce, or your airline, have enough spares basically? I mean I don't know how much these engines cost, but I can't imagine there are too many spare engines around the world at this point.

Mr. Chew Choon Seng:
You have three questions. The first question as to whether Roll-Royce has established the truth—the facts of the matter as to what happened, you know, what was the causes and so on. I can't speak to that because the investigations and so on are still going on and it's more something that Rolls-Royce is in a much better and more valid position to address. What I can say is that I'm quite assured at the highest levels that Rolls-Royce is doing all that it takes to get to that point.

Second question is to how has the Trent 900 been performing with us since we started service with the engine and the A380 in October 2007; that's three years already. In that three years it has performed more than 10,000 flights; more than 100,000 flying hours;

carried more than 4 million passengers. Those are the facts of the matter. Fuel burn characteristics have been up to specification and guarantee. The engine has been reliable throughout. Those are facts too.

Your last question pertained to the number of spare engines. We have enough at the moment as I mentioned in addressing the previous question where the TotalCare Services Agreement with Rolls-Royce where they undertake to provide full maintenance as well as spare engines. All the resources are available to us for our needs.

Mr. David Fogarty:
How many spares does Rolls-Royce have?

Mr. Chew Choon Seng:
I don't have the exact number because we don't own Rolls-Royce. I don't know how many they do have. That's something that you would have to address.

Mr. David Fogarty:
[INDISCERNIBLE]

Mr. Chew Choon Seng:
It all depends on whether further changes are required and so on.

Mr. Nicholas Ionides:
I believe there was one there, yeah.

Mr. Chin Lim:
Thanks, Chin Lim Morgan Stanley. I didn't catch the fines. I was in the conference this morning, so this fine is booked or is it a charge against you? In other words are you going to book that? Or are you going to contest against the fine?

Mr. Chew Choon Seng:
We are going to appeal against the penalty that they have indicated. But as for whether we would provide for it, I think the most prudent accounting practice would be to make the provision but that is something we will address in due course and if and when we do take a charge, we would announce it accordingly.

Mr. Chin Lim:
So it could be this year, this fiscal year?

Mr. Chew Choon Seng:
We haven't decided yet, Chin.

Mr. Chin Lim:
Alright. Second question is, a lot of people ask about, because there is a hundred or a thousand over people at Ritz Carlton right now. They're asking whether the flights will be delayed or not for your A380. What should I tell them? It's going to be on time?

Mr. Chew Choon Seng:
Tell them to enjoy the golf.

Mr. Chin Lim:
Alright. Last one. This is really an investor's question. The last time you declared an interim dividend $0.20, that was FY2007/08, you ended up with $1.00 dividend. Is there a similar pattern?

Mr. Chan Hon Chew:
Well I don't think you can determine the level of dividends based on the level of interim dividend. At the end of the financial year, management and the board will have to have make an evaluation and decide what's the dividend for the financial year when the financial year closes. So, no, you shouldn't look at the interim dividend. It's true if you look back in history, the highest interim that we've paid out was $0.20. Not just the year when we paid the $1.00 dividend.

Mr. Chew Choon Seng:
But Chin if you look at the numbers, the year when we paid that level of dividend was also a year when we made more than $2 billion. So I leave you to decide.

Mr. Chin Lim:
Cash or EPS [INDISCERNIBLE]?

Mr. Chew Choon Seng:
As I said, we will pay a dividend that is affordable, sustainable, and measures with our capex forecast and whatever other needs we may have for capital.

Mr. Nicholas Ionides:
Right. We probably have time for just two more. The gentleman here in the third row please.

Mr. Ajith:
Hi, I'm Ajith from UOB Kay Hian. Mr. Chew, the last time when you divested SATS you mentioned that SATS was not core operations and now you have SIA Engineering bidding for a third ground handling license. Perhaps you can explain what's the thinking behind that.

The next question is related to that. We have a contract with SATS until 2014. Would SIA consider going to ground handling on its own after that?

Mr. Chew Choon Seng:
I think if you followed what SIA Engineering Company clarified on the news that they were bidding for a ground handling license at Changi Airport. They were actually only bidding for an extension of a license which they presently hold to perform what we call, technical ramp handling which has components of engineering in it, in that it includes things like pushback services, servicing of planes, water servicing and so on which they are presently doing. It's not a question of they are trying to eat SATS' lunch. Although on the other side, SATS obtained a license to provide such similar kind of services in competition against Engineering Company. But it is not Engineering Company's intention to go into passenger check-in, handling and catering services, no. So I hope that clarifies.

Mr. Ajith:
Thank you.

Mr. Nicholas Ionides:
Alright. Last one please.

Mr. Chew Choon Seng:
On the second point that you asked, as to whether—I know somewhere down the road we may again start the handling company. I don't think we are in the habit of re-inventing things, nor breaking faith with shareholders because at the end of the handling arrangement, unless the rates – the arm's length rates that SATS quotes to us, and any other alternatives available at Changi Airport are so exorbitant that it makes all economic sense to do things on our own again. Unless that scenario comes out, which I doubt, because the airport authorities here want competition at Changi for ground services, so you know. But of course that's not something that you would check with me in two or three years' time. You're going to check with him [Note: refers to Mr Goh Choon Phong].

Mr. Ajith:
Thank you.

Mr. Nicholas Ionides:
Alright. We have the last one in the second row please. Centre of the second row please? Centre.

Ms. Miao Fong Tien:
Hi, Fong Tien from LianHe ZaoBao. You expect yields to be steady for the rest of the financial year? So can I take it as the fare will not be adjusted in the next six months?

Mr. Chew Choon Seng:
No I did see that you would see some sequential improvement, meaning month-on-month; quarter-on-quarter on the way. I think we have to be careful here. The consumers think that when we raise fares it has an immediate impact. Not quite you know. The numbers that we report—that reflect in earnings —actually are a mix of current purchases as well as tickets that were bought maybe six months ago, or in some cases even eight or nine months ago. Travel in one direction, not coming back. Like a student goes to London; he bought a return ticket say in April. He won't be coming back until Christmas. So that ticket reflects the price of April.

We obviously, as I said, are working towards moving our overall yields back to pre-financial crisis levels. If you think of it, cost of petrol has gone up. Cost of property in Singapore has gone up. Even ERP has gone up; our fares haven't gone up as much so it's not unreasonable. All of us have to eat as well, you know? Thank you.

Mr. Nicholas Ionides:
Alright. With that we will bring this afternoon's session to a close. Thank you very much to the panelists and thank you all for attending.

ENDS