TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Half-Year Ended 30 September 2013

(Read in conjunction with PowerPoint Presentation)

SIA Training Centre

Wednesday 13 November 2013, 10:00am

E&OE – may be edited for grammar

Presentation

Mr Nicholas Ionides: Good morning. 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 this morning's session. We'll follow the usual format. We'll start with a presentation by Mr Chan Hon Chew, Senior Vice President Finance. He'll be presenting the Parent Airline Company results. We will then move to Mr Goh Choon Phong, our Chief Executive Officer, with the SIA Group results. The Q&A segment will follow. That will include Mr Goh, Mr Chan, as well as our Executive Vice President Commercial, Mr Mak Swee Wah, and Executive Vice President HR and Operations, Mr Ng Chin Hwee. The usual reminder as well please, if you can turn your mobile phone to silent mode, or turn it off. I'll now invite Mr Chan to the stage for his presentation.

Mr Chan Hon Chew: Thanks Nick. Once again good morning everyone. Welcome to the briefing on the results for Singapore Airlines for the second quarter and first half. I'll start with the Parent Airline, the second quarter. Total revenues earned by the Parent, at $3.22 billion, that's $81 million, or 2.6% higher than the same quarter last year. Although our passenger carriage grew by 4.9%, revenue grew at a lower rate of 2.6%. The less than proportionate growth was largely due to yields declining by 3.5%. The decline in yields is a reflection of the sluggish global economy, and also at the same time in part due to the stronger Sing dollar.

Expenditure increased by $68 million. Fuel cost was also higher. In the second quarter, fuel price was actually almost flat compared to the same quarter last year, so the cost increase was driven largely by capacity growth of over 3%, so the fuel volume uplift was higher, adding about $39 million to our fuel bill. Partially offsetting that is fuel hedging gain. We had $30 million improvement in the hedging result, so that partially offset the increase in fuel cost. Ex-fuel costs, also higher by $59 million, and that's coming from variable costs. And also at the same time, we had higher aircraft costs. In particular we had increase in depreciation of aircraft costs and one reason is that we had to accelerate depreciation on our A340-500 fleet. As you know, we are going to decommission that aircraft and we had to accelerate depreciation for the five aircraft. Apart from that, aircraft lease rentals also went up as we progressively take delivery of the A330s, which are all on operating leases.

So as the revenue grew at a faster pace than increase in expenditure, operating profit went up by 15% to $97 million. And including the first quarter's operating profit of $89 million, that gives us a first half operating profit of $186 million.

Next we'll take a closer look at the operating statistics. Capacity for the Parent grew by 3.2%. This was more than matched by passenger carriage growth of 4.9%, so as a result our load factor improved by 1.3 points to 81.1%. For the first half, including the first quarter, we registered a load factor of 79.6%. That is flat year-on-year as the capacity growth was fully matched by passenger carriage growth.

Moving on to yields, as we alluded to earlier, yields were down 3.5% to 11 cents in the second quarter. On the other hand, unit cost was flat at 9.1 cents, and as a result our breakeven was pushed higher by 2.9 points to 82.7%, well above the 80% mark. And similarly, for the first half, yields were down 3.5% while unit cost was maintained at the same level - 9.1 cents, so as a result, that drove our breakeven to 82.7%. And if we compare this chart against the last five years, you can see the first half 2013/2014 our load factor, 79.6%, flat year-on-year. You can see actually 79.6% was the highest load factor in the last five years. However, as we said earlier, yields fell 3.5%. That drove breakeven to 82.7%, resulting in a negative spread of 3.1 percentage points.

You would recall in my first slide, we actually did make an operating profit of $186 million. However, at the root level it's a negative spread. The reason is - I think we have seen this before in previous briefings - largely due to incidental revenue which is not included in this analysis.

The next chart we'll take a closer look at yields, looking at the trends on a monthly basis. First, starting with the previous financial year, 2012/2013. As you can see, starting from the month of October, yields have been falling, with the exception of March 2013. And then the first month of the new financial year, it continued to drop to 10.9 cents - that's another 4% drop. And thereafter, the monthly yields pretty much track the same trend as the previous financial year, albeit with a gap of 3 to 4 percentage points. It remains a challenge in trying to lift yields as the sluggish global economy continues to dampen business sentiment. So leisure and business travel continues to be price sensitive while competition keeps our yields low. As we noted earlier for the first half, yields were down 3.5%; roughly about half of that 3.5% drop in yields was due to the stronger Sing dollar.

If we look at the yields in perspective, yields have now fallen to the levels we last saw three years ago - that's in 2009/2010 - in the year that was the most affected by the global financial crisis. And if you can see here, the lowest we have seen yields were at 9.7, 9.8 cents. So where we are in the second quarter, 10.8 cents is just 1 cent apart from the lowest yield in 2009/2010. However, if you look at fuel price, third quarter 2009/2010, fuel prices were well below $100 per barrel, whereas the fuel prices we are seeing today are still at very high levels, above $120 per barrel. So you can see that actually the operating environment we see today is even more challenging than in 2009/2010 when we were affected by the global financial crisis.

Moving on to costs, this pie chart shows the top five expenditure. Again, no surprise, fuel cost continues to be the largest expenditure at close to 40%. The next chart shows the year-on-year comparison of the top five expenditure. Starting with fuel; we'll have more analysis on that in the next slide. Aircraft depreciation and lease rentals, as we mentioned earlier, it increased largely due to firstly the A345's, we had to accelerate depreciation as we are going to decommission the aircraft this year. Also, aircraft lease rentals went up as we take progressive delivery of the A330s which are on operating leases. Staff costs, pretty much flat year-on-year, while the other two top five expenditures are variable costs, went up by between 1.2% to 2%. That is well within the capacity growth of 3.4%.

Next we take a closer look at fuel expenditure. Firstly the reference point here is the fuel bill last year. And as mentioned earlier, because of our higher fuel volume uplift arising from the capacity growth, that added $80 million to our fuel bill. Partially offsetting that actually is fuel price. For the first half actually, fuel price was about 4% lower, resulting in savings of $114 million. And we had a bigger hedging gain. That's about $19 million in savings, so resulting in a fuel bill for the first half of $2.44 billion - that's $53 million lower than last year. That's my last slide. With that I hand over to our CEO, Mr Goh Choon Phong. He will continue the presentation on the Group. Thank you.

Mr Goh Choon Phong: Good morning ladies and gentlemen. Welcome again to our training centre auditorium. I'll be presenting the Group results, starting with the Group revenue. In the first quarter, revenue went up 1.7%. In the second quarter it went up further, 2.8%. And at the half year point, 2.2%; $170 million. Much of the contribution of this increase in revenue comes from the three passenger airlines, SIA, Scoot as well as MI. Altogether the three added about $278 million. However, there was a decrease in revenue from Cargo to the tune of about $119 million, hence the result.

Expenditure-wise, went up at a slower pace. First quarter is 1.4%, and second quarter, slightly higher, 2.4%. And overall for the first half, 1.9%. And because expenditure is growing at the slower pace on also a lower base, you see that there's operating profit for both quarters and for the half year. Half year operating profit went up 19%.

Contributions from the various units in the Group; SIA - Hon Chew had presented the details. Engineering Company - profit was down by about $10 million, largely because the revenue was flat, largely flat, for Engineering Company, but there was an increase in cost predominantly because of staff-related costs. SilkAir saw a decline in profit as well. The capacity injection for SilkAir wasn't adequately absorbed by the market, resulting in lower load factor. Plus SilkAir too, like SIA, had an increase in cost associated with aircraft, particularly with the accelerated depreciation because of the transition between the A320 into the new 737s.

SIA Cargo saw a decrease in the loss, and in part because we have written down, as you guys know, we have written down four freighters. And the depreciation associated with the four freighters goes away in the second quarter.

In terms of net profit, this was reported in the first quarter; second quarter, and at a half-year point $282 million in net profit, an increase of 68%. So how do we get from last year's $168 million to this year's $282 million? We saw that operating profit went up $27 million. There was a greater gain from the disposal of aircraft, particularly with respect to two 777-200s we sold this year. Higher share of profit from associated companies and JV's, this is more from the Engineering Company side, particularly SAESL and Eagle. And then there was exceptional items increase. These relate largely to first quarter. As you know, first quarter we sold our Virgin Atlantic stake, which amounted to $339 million in profit. However, we actually took impairment for the write-down of four freighters, as well as write-down of the closing of the Maroochydore flight training centre.

We also wrote back some deferred taxations and also some tax credits. And the result, a 68% increase in net profit. As a result of the net profit increase, EBIDTAR has gone up, so has earnings per share. The Board has approved an interim dividend of 10 cents. And if you look at our net asset value per share it is significantly higher than our current share price, which I last checked was - I think most of you have checked it as well - $10.30. So we should encourage everybody to buy.

Fleet development. This is at half-year point. We took delivery of two more A330s. These are leased aircraft from Airbus. We also took one - we will be taking - sorry, this is about this next half-year. So we'll be taking delivery of two A330s plus one more 777-300ER, the new 777-300ER. As you know, we have taken two already and those are with the new products that we have launched, and they are deployed currently on our London route.

There will be two 777-200ERs that will be returned from lease. We leased them to Royal Brunei and they'll be returned to us in the second half of the financial year. Leaving the fleet, one 777-200 that's for sale. And then of course the remaining four A345s. These will be for sale back to Airbus.

SilkAir. For the second half of the financial year, it will take delivery of one more A320 and starting to take delivery of the 737s that have been ordered. Decommissioned two A320s. One of them will be returning to lessor, the other will be preparing for sale. Hence a net increase of one. Scoot, I think this has been announced that Scoot is taking one more aircraft from SIA. So at the end of the financial year it will be at six aircraft.

Capital expenditure - as you can see it actually goes up towards financial year 2017, and that's because a lot of the new aircraft we ordered will be coming in from that point onward.

Fuel hedging - for the remaining half of the financial year, we're hedged at 60%, $118 per barrel.

Outlook - I think the outlook is quite clear to everybody, and it's not very different from the last time I presented, so I wouldn't be putting too much time on describing them. I think those are quite clear challenges that we face. And as a result of that, as we have stated also in our release, we expect to have continued pressure on our yield as competition heats up and the economy is still somewhat sluggish.

To meet those challenges, we remain focused on the key pillars for SIA. And we have stated that we'll continue to focus on making sure that we take the lead on product, service, and we continue to offer an increasingly even more comprehensive network to our customers.

Product - we have launched the new product, and this will be fitted on all the new 777-300ERs that will be delivered, and also progressively retrofitted on our existing 777-300ERs.

We have announced this before, and now we are seeing that the first lounge with this new concept will be in place. And in fact, it will be in Sydney, and we target to open that lounge by the end of this calendar year. And you can see that over the next few years, we are actually progressively rolling out the same concept to the rest of our network.

We have mentioned this initiative as well. This is a very key initiative in lifting the customer service standard. And this is, in particular, paying attention to how we can be even more proactive and more personalised with respect to serving our customers. Our frontline staff, about 75% of our overseas stations, have already gone through soft-skills training on what to expect and how to use the tool when it's eventually introduced. We expect that the first module of this initiative will begin to come in from the second half of next year.

We have announced this as well, the loyalty enhancement. In particular you might recall the announcement we made on paying with miles, and that has been well received by our customers.

Website - it has been a heartache to say the least, for us to see the problems that we went through when we first introduced our revamped website in 2011. This is the booking level before the new website was introduced. And during the period when it was introduced, because of the problems, the booking level remained relatively flat, which means that we were not effectively able to use the website to reach out to more customers and increase the bookings on the Internet. And I'm glad to say that that problem is now behind us. We have taken very concerted efforts to improve the website, and the most recent result shows the improvement. We are not sitting still. Our colleagues both in IT and Commercial, as we speak, are looking at how to further improve the website, and that new design for the website will begin to be introduced sometime next year.

Network connectivity comes in two forms. Organically we are continuing to grow, SilkAir and SIA. And as you are aware, SilkAir and SIA have a very close planning group to look at ensuring that the connectivity remains seamless as we grow. The other part of our growth - the other key strategy of our growth in terms of network connectivity - is with our partners. The last time I presented this to this audience we showed this, that through our partners we added 41% more from 2011 to 2013. More destinations, growth on codeshares, and also in terms of growth in the marketing flights in that three-year span.

Now, half a year later, I'm glad to report that the effort continues, and this is now the new number. So you see that there is significant growth, even within a half-year period, we're talking about for the destinations - for new destinations added to the SQ network - a 10 percentage point increase, and for marketing flights or new flights that we can put our code on, it's more than a 30 point increase. Now to put things into perspective, and if you look at the September 2013 numbers, that number shows that we're actually at - at this point in time, we have about three times more destinations than SIA's online points. It means if we currently have, for example, 63 points online globally, we expanded through codeshares to four times 63 which is - or 63 plus another three times more destinations. So it shows the extensiveness of the reach of our network through the codeshare points. And similarly for the case of codeshare flights, it actually increased our flights per week by six times from our own organic operations per week. And we operate about 822 flights per week. So it is a very significant part of increasing our reach without necessarily putting our metal on the route.

Fleet development - this is really going beyond the next, not just looking at the next half year, but from henceforth, this is for the year, the remaining year. And this is the future for all the three carriers. And we are talking about on firm order at least, 197. This will allow us the ability to grow and also to re-fleet the current fleets that are sort of ageing, like the older 777s and so forth.

The other part is, of course, again I've mentioned it to this audience before, the portfolio of airlines. And this chart should be familiar to this audience. We continue to push for growth of each of the segments, and you can see that SilkAir-SIA is growing, although at very different rates. And so is Scoot. Scoot is growing aggressively. With the new aircraft that is coming in, it has added both Hong Kong as well as Perth, at timings that would not have been possible for SIA to operate in a commercially viable manner.

You see that SIA and SilkAir continue to co-operate closely on network development as well as marketing efforts. Similarly you also see that Scoot and Tiger have been increasing their efforts to co-operate. We are aware, of course, that they now make available ability for connection between Scoot and Tiger without the passenger having to get out of the immigration and re-enter immigration as most LCC connections would be. They could also in some sense through-check their baggage between the two airlines. Of course, as we speak again, the two carriers will be discussing about whether there will be further co-operation that they could engage each other on, and whether, therefore, there's a need for anti-trust application. I must add that any of this co-operation between Scoot and Tiger obviously would be based on commercial viability and benefits to both carriers.

We continue to believe that there is a space for each of these airlines to expand, and because they are individually incorporated and independently managed, they have the ability and flexibility to react to the changes in their specific market in a very timely, responsive manner, and take advantage of whatever opportunities that might arise in those sectors.

The other part is really going beyond just the Singapore hub itself, which is going into new growth areas. I've alluded to this possibility in past presentations about being open to such opportunities. We're glad to be able to share that we are now making that a reality. I think the choice of India is probably obvious to most people, the kind of market potential that we could expect. Young population. The population is expected to reach 550 million people in the middle class by the year 2025; 430 million of the population is between 15 to 34, a very young population, productive, and very, very low trip per capita, 0.04. Contrast that with, let's say, China, at 0.3, and with the developed countries like US, Europe, at 2. So there is huge potential for this market.

What does it mean to SIA? It allows us to participate directly in this huge growth market. India is obviously one of the two huge engines of growth in Asia. It allows us, therefore, also to diversify our traffic base and not just be only dependent solely on Singapore traffic base. And also because of the locations of both SIA in Singapore and this new venture in India, we see good commercial synergies in the future when this airline is set up.

I have to add, of course, that by no means do we think that this is going to be a walk in the park. The venture, setting up in India, will have its challenges. We are all familiar with some of the challenges in India. It's a very competitive market domestically, and as a new start-up the current rule says that one has to operate for five years, and to reach a fleet of 20 aircraft before you're allowed to go overseas. And we all know how competitive the domestic market is, and therefore it is going to be a highly challenging venture to actually make it work. But we believe that we have the right partner. In fact, we believe that we have the best partner we could find, someone we know for a long time, which is Tata Sons. And we believe that we also have the right environment with India liberalisation taking place to actually enter this market, and we believe we can make a positive contribution to make it work for India. I must also add that this venture is an independent venture, and it will operate in a manner that best suits its objectives and benefits.

This is the last point I'm going to touch on, and in fact I'm not going to have any slides associated with this. What I would put on this slide is that we will continue - I mean this is, as I mentioned to our own staff as well, this is a very dynamic environment, in the aviation sector especially. We must not take status quo as given. It is not business as usual. We must all be ready for new things and if the opportunity comes about, we must be willing and bold enough to seize it. So we'll continue to seize and look out for new opportunities to enhance value for the Group. What those are, we will be able to talk about it when things become more certain. That's my last point. Thank you very much.

Q & A

Mr Nicholas Ionides: Thank you Mr Goh. We will now move to the Q&A. As the tables are being moved into position, allow me to make a few more requests please. Kindly direct your questions through me. Just give me a signal that you would like to ask a question and I will call upon you. We will also be recording today's session for the benefit of those who aren't able to attend, so please use a microphone, and identify yourself and the organisation that you are representing.

I'll now invite the executives to the stage. Thank you. We will now take the first question. We'll start in the centre here, the third row from the front - aisle seat please.

Mr Timothy Ross, Credit Suisse: Thanks Nick, Timothy Ross from Credit Suisse. Good morning gentlemen, just a couple of questions on your yields. The first, I wonder whether you could comment on the direction of premium cabin load factors. Whether you've seen any improvement in those over the first half, indeed the second quarter. And my second question relates to, I guess the comparison say, with Cathay Pacific, one of your closely followed peers. The currency aside, they've been guiding for higher yields. I just wonder where you see the disconnect between your experience, and what they're generating out of Hong Kong. Thanks.

Mr Goh Choon Phong: Sorry, could you repeat the second question?

Mr Timothy Ross, Credit Suisse: Certainly. Cathay have both recorded and guided for higher yields. So currency aside, where do you see the disconnect between your own operations and theirs?

Mr Goh Choon Phong: Okay I take the second question and Mak you could comment on the premium yield questions. Well we don't comment on - or we don't make direct comparison with other carriers, but from our perspective, I think currency does play a part. Local yield we do see some - I'm talking in general, not just for premium yield - we do see some downward pressure. We continue to see that in parts of Europe and certainly in Australia. I say in part because there had been so much capacity added into the Australian market.

Mr Mak Swee Wah: Yeah, on your question about premium cabin load factor. We do see a premium cabin load factor holding up well. I don't - looking at the forward loads, the premium cabin bookings are still healthy. And we expect this to remain so. In fact, on the question of yields as well, I think in some of these segments the yields are holding, but it is a question of different traffic mix and also because of the source country currencies that are dampening our overall whole numbers.

Mr Timothy Ross, Credit Suisse: Thank you.

Mr Nicholas Ionides: Okay. We'll go to this side please. Second row; the gentleman there.

Mr Joe Liew, Deutsche Bank: Good morning gentlemen, I'm Joe Liew from Deutsche Bank. My question centres around India. So firstly, when do you expect operations to start up in India? Secondly, how quickly do you intend to grow in India? Do you expect two aircraft, three aircraft in the first year or more than that for example? And thirdly, you need as much as 20 aircraft over the next five years for this venture. Should we expect you to be ordering more aircraft? Or would you allocate some of the SIA orders over to this Indian venture? Thank you.

Mr Goh Choon Phong: On the timing of the set-up, you might have, you might be aware, that the chairman that's in it for the joint venture has actually told the press that the target is for middle of next year. So that's what it is. On the discussions, with regard to the aircraft, the number and the type and how whether it's lease or owned, all that, that is something that the Board would decide. And obviously the Board would then announce accordingly. I mean the Board for the joint venture.

Mr Nicholas Ionides: Alright two rows behind that please.

Ms Karamjit Kaur, The Straits-Times: Hi. I am Karamjit from The Straits Times. I have just a couple of follow-ups to the India thing. It's been about three weeks since you received approval from the Foreign Investment Promotion Board. Can you give us an update on what's been happening since then? Do you have a team? Basically what has it been up to? Second question, now that you have this very important approval, albeit verbally, are you confident that the venture will take off? Or do you foresee that they may - you may come across hurdles getting there? And last question, if I may. So India's got very strong prospects, but you've talked about some of the challenges and the fact that all Indian carriers but one are losing money, so - and you clearly are not going in to lose money - so are you confident that you'll be able to do better than the Indian carriers? And if so, where does this confidence come from? Thank you.

Mr Goh Choon Phong: Yes, indeed we have received verbal approval from FIPB. But we will be - we're actually still awaiting the written approval, as you're aware. But yes, a verbal approval has been given. So the next - after FIPB approval, once the written approval comes in, obviously the next stage is - the next major approval needed, is what they call the NOC - No Objection Certificate. And subsequent to that, the AOC. So those are the key approvals that are required. Whether it will take off? Well I think we have received very good response. I mean we, as in both ourselves and our partners, from both the Indian public and the authorities, to this venture. So we have no reason, at this point in time, not to believe that it will take off. And thirdly, the challenges in India, I have outlined it. It is there and it is something that we know. We don't take it lightly but of course, if we do not have confidence to make it work we wouldn't have been in there. There's some, obviously, as with any venture, there will be risk. But we believe that is acceptable given the potential and the benefits that we can see, this venture eventually brings in. So those were the key points.

Mr Nicholas Ionides: Okay. The gentleman here, third row from the front.

Mr Eric Lin, UBS: Good morning, Eric Lin from UBS. My first question is about SIA Cargo. Surely global trade is still weak, but on a cost side, or more specifically on capacity, are you looking for further reduction? Or to an extreme do you see your full freighter business being necessary in the future? That is my first question. The second one is on Tiger. Heard about all this marketing strategy. But in the near term, are you looking to do more proactively to make this investment a positive return for the SIA Group? Thanks.

Mr Goh Choon Phong: I will take the Tiger questions, and my colleague, Chin Hwee, who is the Chair for Cargo, will respond to your Cargo question. Yes. I think we are encouraging, of course, at the LCC level, more co-operation between Scoot and Tiger because it makes perfect sense. Scoot is a medium haul to long haul LCC. Tiger has extensive coverage in the region, and the feed, as it is similar to that we see for SIA/SilkAir, would encourage, would enable both partners or both parties to actually benefit from this cross feeding. We have, as a shareholder, of course we have engagement with the management and of course we also do have nominated Board directors on the [Tiger] Board. So yes, we are taking a keen interest in the development of Tiger. And when we needed to support, we will certainly look into what we can do to make sure that Tiger continues to do well and to actually grow going forward.

Mr Ng Chin Hwee: Yeah. On Cargo, as you're aware, we have announced last quarter that we are parking four freighter aircraft marked down for sale. Consequently for the first half of this financial year, our freighter capacity has come down by about 21%. However, the bellyhold capacity is up by 5%, arising from the increase in the capacity mounted by on the passenger aircraft. So overall we are down in terms of the capacity by 5.1%. Now the capacity reduction, obviously will flow through the whole financial year with the parking of four aircraft. Yes, we are obviously rightsizing the fleet to match the demand. And I think clearly we're yielding results in terms of our reduction in the losses. Now as for the role of freighter operations, we have done reviews quite regularly and we -- our position remains that there is a role for SIA Cargo in terms of both bellyhold and freighter. And there is a natural feed and cross feed between both operations. And the presence - I mean the sheer ownership of freighters in our fleet, meant that we are top of mind with the larger freight forwarders for special carriage of cargo as well. To give you an example, the carriage of F1 cars for the F1 in Singapore.

Mr Eric Lin, UBS: Just a follow-up, do you think your current freighter fleet is the right size?

Mr Ng Chin Hwee: Well, we are happy with the current fleet size. Obviously whether the fleet size is appropriate for the future would have to depend on the market condition.

Mr Goh Choon Phong: You should certainly expect that we will review this on a regular basis.

Mr Nicholas Ionides: Okay one row behind please. If you could just pass the microphone. Thank you.

Mr Brendan Sobie, CAPA: Yeah. Good morning. This is Brendan Sobie with CAPA Centre for Aviation. I have a couple questions on the long haul markets, Europe and North America, particularly corporate accounts. What kind of market conditions do you see in terms of demand, but also in terms of competition? And particularly for the US with corporate accounts, what kind of impact would you see on corporate accounts in the US because of the termination of the non-stops?

Mr Mak Swee Wah: Yeah I think what we see is some stability in the - or rather the situation in Europe has stabilised. And US in fact there are some signs of improvement improving. You know, we call that a sign of improvement in the market as a whole. So in terms of corporate markets, in these two major areas, hopefully we have seen the worst and things are hopefully either bottomed out or coming back. And that's reflected in our business, our bookings out of both Europe and US. On the US, of course the termination of the non-stop service will have an impact on our capacity because those two routes have been well supported by the corporate market. But in place of that, you're probably aware that we have now deployed or we will be deploying the A380 to both New York and Los Angeles with a large business class configuration. And that will help us to provide some - or get back some - capacity loss as a result of the termination of the A345. So in that way, we continue to work hard to secure corporate accounts in the US. And the teams there are working to make sure that the proposition remains strong.

Mr Brendan Sobie, CAPA: But it's more than just about capacity, it's about relevance with the non-stop. I mean do you see corporates saying, you know, re-looking at their options because the non-stops are not there?

Mr Mak Swee Wah: Well, I mean we were the only non-stop. So without a non-stop then, you know, we will compete with all the other one-stoppers and make sure that just like in all other markets, where we compete with all the other markets and have to fight for the corporate business based on the whole package of corporate benefits.

Mr Nicholas Ionides: Alright. If you can pass it across and behind. Thank you.

Mr Robert Bruce, CLSA: Thanks. Robert Bruce from CLSA. Just a couple of questions. Firstly, on forward bookings, would you say that they are now tracking ahead of planned capacity growth? Which is a slight improvement compared to previous trends of just tracking capacity growth? And also, I'm interested in specific routes to Indonesia. There's been a lot of capacity out at that market. Other carriers talking about substantial cuts in yields there; particularly in the leisure market. Is that impacting you? Or is your clientele sufficiently insulated from that so there's no big pressure? Because obviously it's a very profitable market for SQ. And then lastly, just a quick question on accounting. Just adding up the four business units for the second quarter, I got to I think $102 million of operating profit versus the disclosed amount. Can you identify what the difference is please?

Mr Mak Swee Wah: Okay on bookings. Bookings are generally tracking capacity growth. So that's why we say that looking ahead, the bookings seem to be holding up based on the capacity deployment that we have put in the market. On Indonesia, yes there is a lot of capacity. And there's many airlines are mounting many flights. For SIA and the SilkAir group, we have also expanded. Largely because we want to take advantage of the expanded air services agreement entitlements that came up. I mean these are clearly important opportunities and we need to make sure that we are getting to pick up this for strategic reasons. So we have - that's why we have mounted additional flights to Jakarta, we're planning Bali, and then SilkAir has also mounted extras to new points.

[Inaudible Question]

Mr Mak Swee Wah: Well, for some markets because of the influx in capacity, naturally the demand has - or rather supply has run ahead of demand, there will be some impact. But it varies from market to market. I mean for some markets like Jakarta and all that, I think that the market is strong enough to hold up.

Mr Chan Hon Chew: Okay I'll touch on the last question on the slide that you saw earlier on, that showed the four major companies in the Group. And you tried to add up and compare against the Group operating profit. Of course here we are only looking at the four major ones. There are many other subsidiaries in the Group, including, you know, some of the smaller operations, Tradewinds and so on. But of course you can't just add all the operating profit and expect the Group number to be the same. Because as with accounting - those familiar with accounting - there are what we call consolidation adjustments to eliminate intra-group transactions. So you can't just add them up. One example is SIA Engineering. We buy services from Engineering so you can't just pick the SIA Engineering number and add up with the rest of subsidiaries and expect their number to be the same. Because the intra-group transactions have to be eliminated. But of course that number also included Scoot - I forgot to mention earlier - it's also one of the companies in the Group.

[Inaudible Question]

Mr Chan Hon Chew: No. It's not the only item. I think it's a clever question. I know what you are trying to get at.

Mr Nicholas Ionides: Second row from the back please.

Ms Cheong Su Yeen, PLATTS: Hi. My name is Cheong Su Yeen from Platts. You mentioned that the second half of the year, hedging for fuel is actually at 60%. Can I please check what was the percentage for the hedging for the first half of the year? Okay, and going forward what would be hedging for fuel, how do you intend - what's the percentage?

Mr Goh Choon Phong: I think the policy, the guideline rather that we have announced before remained, largely between 20% to 60% of the requirements.

Ms Cheong Su Yeen, PLATTS: Ah, 20% to 60%, right. And with the expansion of network, as well as increase in flights, do you project fuel consumption to increase? And maybe by how many percentage?

Mr Goh Choon Phong: Yes. With the expansion in flights there will be a requirement in line with the expansion for more fuel consumption. That's correct.

Ms Cheong Su Yeen, PLATTS: Okay. Is there any projection of how many percentage that would be?

Mr Goh Choon Phong: I think the general guideline you might be able to use, of course because we do have different aircraft types and some aircraft types consume more fuel than others, like clearly the A345 with its long distance, four engines, consumes a lot more fuel. But by and large you could expect that the consumption increase to be in line with that of the expansion, percentage wise, roughly.

Ms Cheong Su Yeen, PLATTS: Okay. Okay. Thank you.

Mr Nicholas Ionides: Okay to your left please? Two rows in front. Sorry, well the gentleman in the darker shirt first, and then we'll go one row ahead, thanks.

Mr Ellis Taylor, Flightglobal: Good morning gents. I'm Ellis Taylor from Flightglobal. I know you're not going to give a figure on it, but could you give some overall colour to how Scoot is performing and how you see it going over the next year ahead?

Mr Goh Choon Phong: Scoot will continue to expand, as you can see. And Scoot, as you also can see, actually going into areas where, for example, it doesn't make sense commercially for SIA to operate to. Or that there is a clear segment - a new segment in the LCC part of it, of the market, where they can actually tap into. So for example, you look at the way Scoot serves Tokyo and Seoul, via Taipei. Now, Taipei-Seoul is not a sector where SIA could actually tap into. Or, for that matter, look at Hong Kong. The timing that Scoot flies to Hong Kong is not again, a slot that SIA itself could actually make commercial sense operating. So Scoot actually is able to do that and also cater to that segment of the more budget-conscious travellers. Going forward, we already said that we are actually - Scoot is actually getting the 20 787s that we ordered previously. And that will provide a very good base in terms of aircraft provision for Scoot to grow. So clearly Scoot will continue to grow and I think grow fairly aggressively.

Mr Ellis Taylor, Flightglobal: And as I understand it, those 787s start rolling in next year, will they be replacing the five 777s? Or is the intention that they will - the 777s will stay in the fleet, at least in the short term?

Mr Goh Choon Phong: Well that has yet to be decided. It's in part determined by how - what is the assessment of what the market can take at a point in time.

Mr Ellis Taylor, Flightglobal: Thank you.

Mr Nicholas Ionides: Can you just pass the microphone forward? Thank you.

Mr K Ajith, UOB Kay Hian: Hi this is Ajith from UOB Kay Hian. Two questions from me. Firstly on the A340s sales. Can we expect cash sales from this disposal? Or is it part of a purchase agreement with Airbus, any purchase agreement with Airbus. A second question is regarding SIA Cargo's agreement with Eithad, some sort of capacity sharing, can you shed a bit of light on that? Is SIA Cargo planning to enter the African market for example?

Mr Goh Choon Phong: The sales is back to Airbus at the agreed sales price. So therefore that is - you can take it as cash coming in. Whether or not that cash is then used to buy some other aircraft, it's, you know - in some sense it's kind of academic. Because we did have new purchase of aircraft associated with that deal as you may recall. Yeah.

Mr Ng Chin Hwee: Well as for Cargo, from time to time we will always engage in co-operation with other carriers in the market. And that's not withstanding the fact that Etihad is a competitor against the passenger side. We're still quite open to any form of co-operation. And this is not just one of the - one deal. We've done, you know, quite a number of similar co-operation with other like-minded cargo carriers as well. As for our interest in Africa, that's no secret. I mean we are, in fact, currently operating freighters into places like Lagos as well as Nairobi. So our co-operation with Etihad yes, naturally it offers for us an opportunity to tap into more opportunities in Africa.

Mr K Ajith, UOB Kay Hian: Thank you.

Mr Nicholas Ionides: Okay we'll have time for two to three more. This gentleman, one from the back there. Thank you.

Mr Anshuman Daga, Thomson Reuters: Hello Mr Goh, this is Anshuman from Reuters. On Scoot, you're basically not giving numbers. Can you say versus expectations, how Scoot has been doing on load factors and on yields? And the second question, it's been about two years since you took over as CEO. How do you think the Group is faring now because you've got new changes, new aircraft orders, announced the venture to India. What are the key challenges now for SIA now to get back on the growth path, versus when you took over, you know? Thanks.

Mr Goh Choon Phong: Okay, Scoot's performance, we have mentioned that before. I think it's fair to say that Scoot's performance is in line with what we have expected. And I think we also believe that Scoot's potential looking forward is actually quite good. So we'll continue therefore to grow Scoot. On the changes that SIA has introduced, over the last few years I think it is, as I have mentioned, also before, that the environment changes all the time. So we can never stay still. And SIA is a company where we, at the management level, we actually work as a team. So, as a team we believe that with changes that are taking place in the market, these are the right things that we should do in respect to increasing partnership. In respect to the new aircraft order to re-fleet, so that we are - partly to re-fleet and to grow, so that we are a lot more cost-efficient, fuel efficient. Given especially that the fuel price is at such high levels. And also this new venture, both in terms of setting up Scoot and also now this full service carrier that we are going to go into setting up in India. So I think all these are things that are necessary for us to do in order to ensure that long-term foundation of the company, of the SIA Group to remain on solid ground.

Mr Nicholas Ionides: Thank you. We'll take two more. Over there please. Thank you.

Ms Karamjit Kaur, The Straits-Times: Hi it's Karam again. I have two customer-centric questions. You've just issued a release on higher baggage allowance across all classes. I'm just wondering why are you doing this and at what cost in terms of dollars and cents to the company. And the second question, you mentioned earlier about the redesign to your website next year. Can you tell us a bit more about this? Is this like a major overhaul? Or are you just looking at cosmetic changes of icons and stuff like that? Thank you.

Mr Goh Choon Phong: Mak will answer the customer one, I would just touch a little bit on the website release. If you are alluding to whether or not there's going to be a problem, let me assure you that we learned our lesson very well. So that's not going to happen. Yes, we are actually going to make the website more intuitive and friendly and easier for our customers. Of course we've done a lot of that over the last couple of years since the last revamp. But we believe that we have some good ideas that we can introduce and we will be sure to announce it when it's time to do so. But be assured that what happened then would not happen again.

[Inaudible Question]

Mr Goh Choon Phong: Yeah we will announce that in due time.

Mr Mak Swee Wah: Yeah the higher baggage allowance announced, released just now. This is just one of the many things that we look at and see how we can respond better to what our customers are telling us. And baggage allowance obviously is an important area. And in some of the key markets, I think this is a very important area. And so we thought, we felt the time is right for us to make the adjustments so that our overall value proposition remains strong. So again, this is just one of the things that we do, just like we have also announced all the improvements to the frequent flyer programme and all that in response to what our customers are telling us.

Mr Nicholas Ionides: We'll take one last one. Third from the front, here in the centre please.

Mr Richard Wei, UBS Yes. Good morning. This is Richard Wei from UBS. Just a question regarding China. How do you see giving the increasing, accelerating growth of China outbound travel to the world, maybe, you know, either to Asian countries or to US/Europe. How do you see SIA as a future growth strategy related to China? Any kind of opportunities or challenges that you will see going forward from a medium term perspective?

Mr Goh Choon Phong: Okay. China is a very important market for us. And as you can see, we continue to grow into China, both SilkAir to the secondary points and so SIA. And in fact, you know that SIA has recently mounted A380 operations into Shanghai, which actually would then be able to offer our Chinese customers one of our flagship product service as well. So therefore China continues to be important and we, as a Group, are looking at all ways of serving China. Continue to grow our frequency, our capacity into China. Of course we would also welcome the opportunities to go beyond China, meaning that what we typically call the fifth freedom traffic, which means to go into China major cities and then go on beyond that. And that is something that we will be subjected to the bilateral agreement and negotiation. If you are alluding to whether there are ventures in China that we are interested in, and I said that before as well, that we of course will remain open to any opportunities that we believe is something strategic and good for the long-term benefits of the Group.

Mr Richard Wei, UBS: Thank you.

Mr Nicholas Ionides: That brings this morning's session to a close. Thank you all for attending.

(ENDS)