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E&OE – may be edited for grammar

Presentation

Mr Nicholas Ionides: A very good morning, everyone. Welcome to the media and analyst briefing for Singapore Airlines' second quarter and first half financial results. I'm Nicholas Ionides. I'll be moderating this session again this morning. We'll begin with a presentation by Stephen Barnes, our Senior Vice President Finance. He'll be presenting both the Parent Airline Company results and the Group results. We'll follow with a presentation by our CEO, Mr Goh Choon Phong. He'll presenting an update on the strategic initiatives and the outlook for the second half. We'll follow with a Q&A session. Joining Mr Goh and Mr Barnes on stage will be our two Executive Vice Presidents: Mr Ng Chin Hwee, our EVP HR and Operations, and Mr Mak Swee Wah, our EVP Commercial. With that, I'll now invite Mr Barnes to the stage.

Mr Stephen Barnes: Good morning, CEO, EVPs, friends and colleagues. It's my pleasure to be here to present the financial results for Q2 and for the first half. Let me begin with the Parent Airline. I think as many people will have already identified through the commentaries yesterday evening, the operating results really are a story with two themes. One is solid growth of revenue on the back of strong growth in loads, offset, unfortunately, by much stronger or higher fuel costs. Focusing in the passenger operations, growth in capacity was up. Well, we had growth, actually, which was in a way the most exciting thing for SIA, so capacity was up 2.6%. Stronger growth in carriage at 6% meant that the load factors were up for the full half by 2.7 percentage points.

The higher loads mean that our RASK grew by 2.4% in the quarter and by 1.2% for the half year. However, unit costs did rise on the back of higher fuel costs, so if you compare, really, the passenger unit cost, including fuel and excluding fuel, there's really a stark difference. For the half, our unit costs ex-fuel actually declined by 1.8%.

Here's the progression of RASK. This was the monthly RASK two years ago. By and large, RASK improved during last financial year and it continued through the first half of this financial year.

Turning to Cargo, cargo capacity was up by 1.4%, but it was actually to a large extent affected, adversely affected, by heavy maintenance of two freighters, but nevertheless, growth overall. Loads, on the other hand, were down due to forwarders not making full use of the blocked space that they had agreed to.

Cargo yields, on the other hand, were up nearly 10%. They were really boosted by the block space agreements, but also by an improved traffic mix, so we had a greater share of higher value shipments. Unit costs, overall, were flat during the half while they rose 5% during the second quarter and, really, this is seeing the impact of higher fuel costs really coming through. On the other hand, unit ex-fuel costs were able to be reduced, largely on the back of lower handling costs with the reduction in loads.

So here's the progression of yields for cargo. This is two years ago. Clearly, an improvement last year and the improvement continuing into the first half of this year. This is a satisfying trajectory.

I'll try to actually put some analysis around all of this. Really, the major movers in both the second quarter as well as the first half are really two things. On one hand, higher net fuel costs and, on the other hand, an improvement in revenue. That's really being driven by passenger and cargo flown revenue.

In the second quarter, you can see that net fuel costs were up $166 million and flown revenue, passenger and cargo together, were up $160 million. It was a very similar story, actually, in the first half, so flown revenue was up in the first half by $277 million, this is for SIA Parent, whereas fuel rose by $279 million, so very close.

One other thing I should call out, if I may, in relation to the first half results is that we did have some one-off, non-recurring revenue items, which were recorded in the first quarter last year. These were in relation to breakage revenue for KrisFlyer points and, secondly, compensation we received, or were able to recognise, from Airbus, in relation to delivery slots. I'll come back to this, but the overall impact on last year's results of those non-recurring revenue items was $175 million, which we didn't have this year.

Taking a look at the cost base, fuel, as you can see, is the main driver, up a total of $279 million, and if I could point out sales costs, also up by 11%. This is really on the back of more marketing campaigns, but also we pay more to our agents for booking fees and, of course, these expenses are driving the strong revenue growth. Others include a reasonably large foreign exchange revaluation loss, but also IT projects contributing in the form of depreciation of computer equipment and professional fees. All the other categories really are managed well within the rate of growth of capacity.

When you look at the passenger unit costs, you can see that they were up by 0.3 cents per ASK. This is all in fuel. When we look at the cargo unit costs, which were flat year-on-year, again, the increase is all in fuel.

So if we broaden the focus now to the Group, we'll dive straight into the numbers. Again, really, the major move in here in both the second quarter as well as for the full half is in net fuel costs and flown revenue. In the second quarter, net fuel costs were up by $226 million. That was more than mitigated by higher flown revenue of $244 million, so the change in the operating profit was really, due to other normal fuel expenditure, which is very much in line with the capacity growth and it's the same story for the full half. The difference for the full half is that although our reported increase in revenue is $195 million, which you can see on the slide, but you need to imagine that the one-off or non-recurring revenue items of $175 million were not there last year for a comparison of year-on-year, so the year-on-year revenue actually rose by just over $370 million or just under 5%.

First half revenue for the Group was $7.9 billion, up $195 million. It's quite obvious that Q2 revenue showed improvement year-on-year, but we need to ask you to imagine the absence of the non-recurring revenue in Q1 last year in order to see the improvement year-on-year in our first quarter this year. So overall, up just under 5%.

Taking a quick look at the core position of revenue, both passenger flown revenue as well as cargo flown revenue were positive. The decline in passenger other revenue of $113 million is really explained by the absence of the KrisFlyer breakage revenue of $115 million, which we recorded last year. With the others, again, we would have recorded last year a $60 million benefit from the compensation from Airbus, so that's largely explaining the reduction in other items.

If I look at Group expenditure, for like-for-like comparison because we had this significant change in the accounting standard, IFRS 1, from this financial year, as a consequence of that, we had adjusted carrying values of some of our aircraft and that, in turn, means that as we go forward, the depreciation charge is lower. If we adjust last year's numbers as if the depreciation charge had not been present, you can see the solid block in blue would have been the comparable expenditure last year. On that basis, the overall Group expenditure is higher by $530 million and we need to explain a little bit more about that.

Here's the composition. Again, the largest slice of the pie, the blue slice of the pie is fuel, which I'll come back to. If I look at staff costs, this is driven by really two things, and one would be higher allowances in relation to more flying hours, but also on the back of higher staff strength with growth, we have higher pay and allowances. The very small change in depreciation and lease rentals is really a combination. Although we have taken delivery of a lot of aircraft on an owned basis, depreciation charge rose $68 million, we also returned a number of aircraft to lessors and as a consequence, our lease rental costs went down by $66 million, so net-net, just a small increase. Then if I call out, I suppose, all of the other expenditure items, they're really managed comfortably within the rate of growth of capacity and so overall our ex-fuel unit costs are being driven down.

Let's take a look at fuel. This is the effect of a 40% increase in fuel price on our fuel bill. It is mitigated by hedging gains during the first half. It is also mitigated, compared with last year, because we have a slightly weaker US dollar against the Singapore dollar, but we did consume more fuel. Now that increase in fuel consumption is 1.7%. In the context of more than 5% growth in capacity, that's demonstrating the value of the new technology aircraft and the new cabin configurations as they enter into our fleet, so overall we have a 20% increase in our fuel bill.

The Group operating profit was down $336 million, but again I'd like to give you a slightly different perspective by adjusting out the non-recurring revenue in the first quarter of last year. On an underlying basis, our operating profit, we're still down $161 million, which is explained in this manner. We have an improvement in passenger flown revenue, we have an improvement in cargo flown revenue, slightly offset by a reduction in engineering services revenue. We did not have the one-off items that we recorded last year, but we did have a much higher fuel bill and our ex-fuel costs grew by $152 million. That growth, again, I'd like to just put into perspective. That's an increase of 3% compared with last year and, again, that compares with a growth of 5% in our capacity and some reductions in other forms of revenue, leading to an overall reduction of $336 million in our operating profit.

When we look at operating profit across the different operating entities, the big picture really is that all of the companies reported reductions in their operating profit. Now for SIA and really the like-for-like comparison is to take out the $175 million of non-recurring revenue, so actually the decline for SIA is $96 million. That's not to say this is unimportant, but I just wish to give it a little bit of perspective.

SilkAir reported a loss of $3 million, which is a reversal from a profit last year, so revenue growth trailed the growth in capacity, so capacity was up about 6.6% year-on-year. The growth in carriage was actually even stronger at just over 10%. However, that was, to a large extent, offset by weaker yields. Yields were actually down in SilkAir by 7%.

Scoot recorded an operating loss as well. Again, very strong growth in capacity, 16% growth in capacity. More than taken up by growth in carriage, which was a little over 19% and that helped to drive revenue growth of $139 million, so our RASK was up 2.1%. However, expenditure outpaced the growth in revenue. Expenditure was up $154 million, most of that coming from a higher net fuel cost, but also the remainder coming from the cost of, due to the 16% increase in capacity.

Engineering Company had lower revenue primarily from its aircraft overhaul and component overhaul businesses. That was mitigated by reductions in materials costs, but otherwise it was not sufficient to fully mitigate the reduction in revenue.

If I then turn to net profit, so net profit in the first half was down by $435 million or nearly 70%. That clearly requires some explanation. Again, if I may make an adjustment for the non-recurring items in the first quarter of last year, the $145 million that I show here is the net of tax position. Secondly, in Q2 of this year, our associate, Virgin Australia, announced that it was taking charges in relation to its deferred tax assets and also aircraft leases and other assets within Virgin Australia International. Our 20% share of those charges amounted to $116 million, so without those effects, the decline in net profit would have been less, but still a decline of $174 million.

To explain this, obviously, the lower operating profit is the main part of the story. This is the overall impact of the associate contribution to our bottom line. We have higher borrowings by about $700 million[1] during the half so that translates into higher net finance charges and because we are making a lower profit, our taxation bill is lower leading to an overall decline, as I say, of nearly 69% in net profit.

If I could turn to some per share data, first of all, EBITDAR, which is a little bit of a proxy for cash generation, operating cash generation per share is down about 25% from $1.53 per share to $1.15. Earnings per share, down the same percentage as the net earnings, of course, by about 69%, and yesterday we announced that we will pay an interim dividend of 8 cents per share. Now that's a reduction of 20%. On an interim dividend payout ratio, that's 48% and compares, if I may, with the interim

[1] This excludes $900 million secured financing raised in September 2018

dividend of 10 cents paid last year against our restated numbers, which is a 19% ratio. Finally here, net asset value per share is up 9% to $11.87.

Focusing on the fleet and the big picture is that by the end of March 2019 or the financial year, the Group will operate 200 passenger aircraft, which is up from 186 at the half year and it will continue to operate a fleet of seven freighters. During this half, during the second half, SIA itself will take delivery of 12 aircraft, so all of the ultra-long-range A350s, all seven of them, the first three of the A350s in a medium-haul configuration and two more 787-10s.

SilkAir will add an additional MAX 8 to its operating fleet and Scoot has taken delivery, in fact, one's already in service, but is taking delivery of two A320neos during the second half. In addition, four A320s will be returned from IndiGo and Scoot will return to lessors a couple of A320s.

Next update, the capacity guidance that we provided in May, so we guided that SIA's growth for the year would be 5% and it remains unchanged. We had guided that SilkAir's growth would be 9%. That is now pulled back to a 4% increase in capacity and it's largely to do with a number of planned operations not coming through, but also to an extent, it has been affected by cancellations because of natural disasters in Lombok and Kochi.

Scoot, we had guided growth of 17%. We are slightly adjusting that to an overall year-on-year increase of 16%. Again, that is largely due to frequencies to destinations in China and Indonesia that have not materialised.

Cargo operations we expect will remain flat.

If I can update the capital expenditure numbers, across the board these are $200-300 million higher than we guided in May. The primary reason is because not very much has changed in our plans, the primary reason is the strengthening of the US dollar, because most of our capital expenditure is denominated in US dollars.

My final slide is an update on our fuel hedging position. You can see that for the remainder of this year, we currently are hedged at 58% for the second half, I should say, at an average price of jet fuel of US$71/bbl. In FY19-20, we have a 52% hedge in place and US$79/bbl for jet fuel and US$56/bbl for Brent. Then in the remaining years of our hedge out to FY23-24, we have hedges up to 46% of our expected consumption, I should say, at the prices indicated.

That's it for me. I'd like to hand over to Mr Goh Choon Phong for discussion on strategic developments. Thank you.

Mr Goh Choon Phong: Good morning, ladies and gentlemen. Again, welcome to our media and analyst briefing. My presentation will basically be providing an update on the various strategic initiatives that we have embarked on some six, seven years back and also provide some updates on the transformation exercise that we have started a couple of years back.

This should be a familiar slide for everyone, and in terms of strengthening our premium positioning, I think everybody is well aware of what we have done. Long range flights that we have added, ultra-long-range as well, how we are partnering various partners to enhance comfort as well as service delivery to our customers, and also, how we have enhanced various IFE options, especially for our KrisFlyer members.

Fleet renewal continues as you saw in Stephen's chart earlier about the capital expenditure. It all relates to bringing in new aircraft, new technology aircraft and in an environment where fuel price has been volatile, but on a higher side, it has helped to provide a more fuel-efficient operation for our network, and of course, we have embarked on this upgrade for SilkAir, which I will touch on a little bit more later.

The portfolio approach that we've taken continues to yield good benefits for the Group. We're able to, again, be nimble and flexible in the way we deploy our various airlines on various routes, and being able to switch the model as and when it is necessary.

As a Group, we continue to have a strong presence in major markets, such as India and, of course, Southwest Pacific. Southwest Pacific, in fact, we now are the biggest foreign operator in terms of number of points served. Similarly for India. As you can see there, we have 29 points in China, which makes us, again, one of the biggest foreign operators in terms of number of points.

Besides the portfolio, we have also the multi-hub strategy in which we established hubs outside Singapore to enable the Group to participate in growth outside Singapore. As we all know, the Singapore market does have constraints given the size of the local market. In particular, Vistara has now reached 22 aircraft in its fleet, which means that it is able to go international. It has applied to the regulatory bodies for international operations and we will await the decisions and approval.

NokScoot, five 777-200 planes with them and they continue to grow their network, including now besides China, also Japan and they are looking at India as a potential growth market. We have also shared previously that NokScoot is also looking into inducting a narrowbody fleet, and this will help to provide feed onto their longer haul widebody or medium-haul widebody operations.

We continue to also look out for new revenue opportunities, new business opportunities. We have set up previously AATC, the joint venture with Airbus for pilot training for all Airbus fleets or Airbus aircraft types. We also embarked on a similar joint venture, this time with CAE for the Boeing planes.

KrisShop, as you are aware, is now looking beyond just providing sales opportunities, revenue opportunities for selling on board. It's looking into a more comprehensive, more encompassing e-commerce plan.

Digital transformation is one of the key initiatives that we have embarked on and we were quite clear that it is not just a simple initiative. It does require us to build some strong foundations and I highlighted here on this slide four key aspects of it. First, we want to be able to bring all our people to enhance the understanding of what digital is all about, and that will include an understanding of how to do design thinking, what is agile methodology, how do you leverage some of the digital technologies to enhance the work productivity, etc. That means that we actually went ahead and conducted courses for all our staff, everybody in our company to enhance this understanding. I think that is a very important aspect of changing or inculcating a digital culture.

The other part is, of course, building internally capabilities, internal IT digital capabilities and you might be aware that we have set up dedicated expertise within our IT division on the various aspects of the technology whether it is data analytics, whether it is AI, whereby we also provide technical training to enhance the skillset of our people in the technical areas.

Then, of course, we have to ensure that we upgrade our infrastructure from an architectural perspective, so that we can leverage the latest technology and platforms. Beyond that, we also wanted to create an environment, an ecosystem whereby our people can work with external parties and that includes our longstanding partners in the technology areas and also the start-up community in this part of the world, plus also research institutions such as A*STAR and NUS so that we can actually work with these parties and co-create, share ideas and co-create solutions. Who knows? Some of them might lead to new business ideas and new business opportunities. We have announced this, so I won't say too much. It's just an illustration of our continued effort for us to adopt and work with the best in the field.

KrisPay, as you know, is actually the first blockchain-based loyalty application that has been launched in the industry.

Next, I wanted to touch on the transformations that we had announced a year and a half ago or so. I just wanted to provide some concrete results from the transformation initiative that we have embarked on. Part of it, of course, is this merger that we are talking about between SilkAir and SIA, and you can see here that the progress is on track. We have finalised a selection of products for the SilkAir narrowbody planes so that it can offer a similar type of customer experience when our customers travel on the narrowbody 737 planes. We have also completed the commercial merger, the integration of the commercial units between SilkAir and SIA, so we will continue to provide progressive updates on this particular initiative.

We talked about three key aspects of our transformation. One is on enhancing customer service. The other two are revenue generation as well as improving operations. You can see here some of the concrete outcomes of what we've done in the customer experience aspect, including, let's take a look at the second one for example, saving 10 million hours of customer waiting time. I'll give you an example. One of them is we have implemented an auto refund system whereby if a passenger has to change the itinerary as a result of operational issues, that we can actually do auto refund in a clear-cut case, which will cut down the refund process from nine days typically to one day. That means that customers do not have to wait so long. And this is just one of the initiatives.

So there are concrete outcomes. They have also been manifested in the feedback that we get from customers. For example, the last part, the third item here that we've shown, improving customer satisfaction, which we measure on a regular basis. I just want to say that a lot of focus here is really about, as we mentioned before, providing proactive and personalised service to our customers.

Revenue-generation-wise, we also have embarked on various initiatives. The revenue management system was one of those areas that I mentioned before. We are also able now with the restructuring, to be much more effective in the way we manage fare filings, which will give us a lot more prompt change, if we need, to fare levels and we have also been providing APIs, a catalogue of APIs, so our partners can work with us and that could actually enable closer collaborations and also one of the things that we talk about in the industry is about NDC, which is an IATA-led initiative, which we are also leveraging, so that we can actually offer more products and services options that our end consumers can reach.

All these, you can see that they are showing results in terms of the revenue performance. Stephen had presented how our flown revenue has improved on a year-on-year basis. Of course, you also saw earlier in Stephen's slides that the unit other costs have come down and here are some of the initiatives with some concrete numbers here illustrating how we are actually able to achieve that through all these productivity gains and innovation.

Suffice to say that we have set out on this journey of transformation. We wanted to get ourselves back to being the undisputed #1. This is about being able to simplify processes, both internally and for our customers, being able to provide proactive, personalised service, being able to leverage technology, to reach out more effectively to our customers and to be more productive. This is my last slide, so I'll leave this with you and you can be assured that we will continue this journey and to push ahead with the various initiatives. Thank you.

<u>Q&A</u>

Mr Nicholas Ionides: Thank you Mr Goh. We will move to the Q&A segment now. Please bear with us for a few minutes as we move the tables into position. And while that is taking place, just a couple of reminders if I may. Please do direct your questions through me. Just give me a signal that you'd like to ask a question and I will call upon you. I do have one already there. Please also wait for one of the roaming microphones to come to you and do identify yourself by stating your name and the organisation that you are representing. As usual, please limit your questions to two to give more people the chance to ask questions. If there is time, of course I will come back to you. I think we can take the first question now. The first one is the gentleman there, to your left. Thank you.

Mr Daniel Lau, Morgan Stanley: Hi Mr Goh, this is Daniel from Morgan Stanley. I would say it is a pretty good set of results in my view, sequential improvement in net profit despite higher fuel costs. But I thought that this result would have been even better if you were able to increase your passenger yields, especially for mainline. And if you look at a lot of your peers, they actually have been able to raise yields. Given that you have implemented this revenue management system, which possibility gave you a little bit more flexibility, just wanted to get a sense of your outlook. Should we expect yield improvement going forward? The second question is more on costs. I guess that in this quarter, fuel cost has been a very big pressure on your margins.

You have increased your fuel hedging for the next second half of the year. Just wanted to get a sense of what you guys think on fuel going forward. Thank you.

Mr Goh Choon Phong: So in terms of fuel, as you can see, there are various ways to measure that. If you look at RASK, you can see how it has improved from first quarter to this second quarter. So for the second quarter, RASK improvement is 2.4%. Let me just rephrase your question on how the other players in the market actually see a different direction in their yield. I think one has to put into context of where the airline is located. If you look at airlines in our part of the world with a very different competitive environment, you would see that what you said is not really what is happening in the market. However, you can see that through various efforts, to both manage and be more nimble in the way we do our pricing, in the way we manage our inventory, we are able to increase RASK. We have stated in our outlook that we think that the environment will remain fairly competitive. But having said that, you can be assured that we will do all efforts to of course price in a manner that ensures that the demand and supply situation is met. On your cost, fuel cost, we have undertaken, as you can see, a fair bit of hedging, almost 60% for the second half. Fuel price has been very volatile. I mean today you saw how it has come down. So we don't try to speculate, so you will see that we will continue to be hedging just to ensure that we manage the volatility.

Mr Nicholas Ionides: Alright, I'll take another question. The gentleman here at the aisle.

Mr Benjamin Hartwright, Goldman Sachs: Hi, thanks. This is Ben Hartwright from Goldman Sachs. So a couple of questions from me. I am just following up on Daniel's question on yields. I am just wondering if you can give us a sense of how you are seeing the new non-stop routes to North America. How they are performing, and what are the sort of impact on yields and costs we should think about for that big ASK growth in the second half. My second question is just on capex. How do you think about buying versus leasing, and in particular on the lease cost as it came down in the first half? How should we think about those going into the second half and then next year? What is your strategy in terms of buying versus leasing? Thank you.

Mr Mak Swee Wah: I think the ULR services have just been launched. Early signs are encouraging. I think we expect to see take-up building up in the coming months. Of course now we are entering Thanksgiving and Christmas. But beyond that, I think we are fairly confident that the demand of the services will be there and we should be able to achieve our desired results in terms of yield and loads. So I think we expect it to be positive.

Mr Stephen Barnes: In terms of leasing, our propensity to lease, we in the past have obviously done quite a lot. We are also aware that the pricing in the market seems to have improved. But on the same token, we are also encouraged by the interest from the debt markets in new technology aircraft and security. So that has driven for us, attractive pricing on the debt side. So we may return to looking at the leasing market in the course of the next year. But at the moment we are agnostic as to which way we are going to go. It is going to be very much an economic decision.

Mr Nicholas Ionides: We will go to the centre of the room, third row from the front.

Ms Jamie Freed, Thomson Reuters: Hi, this is Jamie Freed from Reuters. I have two questions. The first is on the North America routes. In terms of Premium Economy versus Business performance, do you think you have the right balance of seats there because there have been some pretty good discounts on Premium Economy in particular, in the market. The second question is on India. Do you have any interest in Jet Airways, which I believe your joint venture partner, TATA, is reportedly looking at?

Mr Goh Choon Phong: I will take the India question first, and my colleague can take the North America question. Actually the answer is very simple. We have been very consistent, so we don't comment on speculation. So if there is anything that we do that we can announce or should announce, we will do so.

Mr Mak Swee Wah: Yes, I think on the mix of the, or rather the configuration of the ULR. I think for Business Class there is no issue. I think there is existing demand, and demand will pick up. Premium Economy, we think it is a right product for the ultra-long-haul, given the range and the flying hours. But of course, we have already introduced this product for quite a few years. It is still something that some markets are not entirely familiar with and so I think we need to continue to stimulate and encourage the market to consider this product. Initially we have very attractive pricing, but I think eventually, people will see that even at the prices we offer, it is a good product to purchase given that it is a very long flight.

Mr Nicholas Ionides: Alright, third row from the back. The gentleman in the jacket there.

Mr James Teo, JP Morgan: Hi, morning. To follow up on the yield questions, we noticed that RASK has been continuing to improve for the last two years and load factor has also reached an all-time high. So can you help me to understand how do we see load factors going forward? Is there a chance to further raise it, given the premium positioning? Maybe at over 80%, you might start denying passengers. So how would RASK and load factors look like, going forward? That's one question. The other one is I see quite different performance between the Parent Airline and the other airlines, whether it is SilkAir or Scoot. Could you comment a little bit about the reasons, whether in terms of yields, and also in terms of perhaps cost structure thereby affecting profitability? At current oil prices, we are seeing Scoot and SilkAir despite having pretty new aircraft, but still not being very profitable this quarter. So how should we see it? Due to competition in the market as you alluded to it earlier? Or something else? So just to help my understanding. Thank you.

Mr Goh Choon Phong: So let me take your questions. Firstly on this thing about load factor and yield. Really, what we are talking about, and that is how the revenue management system will work as well is about maximising revenue, total revenue. I believe you are actually alluding to it, where if let us say there is a certain load factor beyond which is incrementally more difficult to increase because a lot of planes will be full. Then if you want to maximise revenue, where else can you go? The only other way really is about how we price the product. Therefore, you can imagine that if we are reaching the stage whereby load factor is incrementally more difficult, that there will therefore be more opportunities for us to actually price it differently, so that we can actually increase our total revenue. That's the answer to your question. The second part which is about the different performance of the parent company and the subsidiaries. If you were to look at it carefully, both are actually affected by fuel price. Even if you look at Scoot's performance corresponding time last year, it is at that point in time, marginally profitable. It is not a huge profit. And this is in part because there is the different seasonality for budget carriers in this part of the world. So you could expect that the demand, and typically, that's the case for budget carriers in the current quarter, which is the year-end quarter. You expect the demand to be a lot stronger, and therefore there will be more opportunities for Scoot to do well.

Mr Nicholas Ionides: And just for the purpose of the transcript, that was James from JP Morgan. Alright, thanks. I will take the next one. The lady here, third from the front of the aisle there, and then move over two to Brendan over there.

Ms Mayuko Tani, Nikkei: Thank you. Good morning. This is Mayuko from Nikkei. I would like to ask a question about the fleet, particularly on SilkAir. I believe there is, I think three 737 MAX 8s, and you have ordered 37 total. In view of the accident by Lion Air, may I know what Singapore Airlines is doing about this particular type of aircraft? Have you started or did you do any specific audits or checks? Have you spoken to Boeing about the possible delay or reschedule of the rest of the ordered airplanes? Would you be able to give some comment on the news that has come out about the information on some kind of defect on the stabilising system that that type of aircraft might have? Thank you.

Mr Goh Choon Phong: 737 MAX. All we can tell you at this point in time is that we will comply with all requirements by Boeing and any regulators with respect to this particular aircraft type. The investigation, as you know, is still ongoing and we will have nothing to add at this point.

Mr Nicholas Ionides: We will stick to the same aisle, two down. Thanks.

Mr Brendan Sobie, Centre for Aviation: Hi, good morning. Brendan from CAPA, Centre for Aviation. I have a question on SilkAir. Very different, though. First one is related to the product and the fleet plans. You alluded in your slides that a decision selection has been made on the product for the lie-flat. I was wondering if you have any update then on the timeline for the first one and also how many aircraft exactly will be retrofitted, how many NGs and how many MAXs. The second question is related to this as well. It seems like you have slowed down the MAX intake and you only have one coming this year now. So is that maybe the last aircraft before the lie-flat? Obviously, it would make sense to take as few airplanes as possible until you have the new product and so I am thinking maybe there was some decision on that, that you could talk about.

Mr Goh Choon Phong: So we cannot provide any details on the retrofit programme itself because you are talking about how many of existing planes will actually be going through retrofit and all that. However, I suppose I can share that we are looking at 2020 being the year that the new product will be available to us because of demand in the market. So we are talking about from 2020 onwards. On the delivery of the MAX, well, actually it is really driven at this point in time from assessment of demand and supply and also, as I alluded earlier, the decision taken at a portfolio level to see what destination is best served with which vehicle. Those are the things that are driving the decision for the interim between now and when the product is available.

Mr Nicholas Ionides: I will take the next question please. We will go to that side of the room to alternate, the lady in the red there and then the gentleman right next to her.

Ms Noor Azita, Macquarie: Hi, this is Azita from Macquarie. The first question is could you just elaborate on the RASK movement by cabin? Premium, Premium Economy and Economy? Then the second question is on the fuel uplift. How much was the fuel uplift? The reason I am asking is because I believe it is growing slower than the capacity growth and it is a result of the fuel efficiency. For the fuel efficiency, is it driven mainly by new planes or there are other procedures or programmes that you are doing to reduce fuel uplift? Thank you.

Mr Mak Swee Wah: I think the RASK, as Mr Goh explained just now is a combination of pricing and load factor. So there are two drivers here. They are all moving, I think, across all the cabins. The premium end of our traffic remains strong, so we are also seeing good loads and pricing there. The Economy Class side is, of course, very competitive, but then we have been able to increase our load factor. So I would say that the RASK movement is quite even across all cabins.

Mr Goh Choon Phong: Can I just add that you saw earlier in my slides about part of the transformation is the organisational review and changes. What has happened there is that we have put in place in Commercial an organisation that is able to be much more nimble than before. Which means that they are better able to react to the market much faster whenever they are changes and opportunities to be pursued.

Mr Stephen Barnes: In terms of the fuel uplift, it's very much a mix of ongoing efforts to improve operational productivity for fuel as well as the introduction of the new aircraft. So it is both. I think actually in terms of capacity, there is one other feature, which I think I mentioned as well, which is the cabin configuration to the extent that we are able to reconfigure aircraft with more seats. That also helps to drive unit efficiency, fuel efficiency.

Mr Nicholas Ionides: Alright, the gentleman next.

Mr Raymond Yap, CIMB Investment Bank: Hi, this is Raymond from CIMB. My question relates to the hike in the Changi Airport PSC on 1st July and Scoot's efforts to raise their ticket prices by 5% from, I believe, 1st September. Have those efforts been able to succeed to passengers and has the Changi Airport PSC hike, perhaps, constrained the efforts by all the airlines in the Group, especially Scoot, to raise their ticket prices for fuel cost recovery?

Mr Goh Choon Phong: Scoot has, of course, announced and gone ahead with this price adjustment to the market. I would say by and large, they have been able to actually put that through. Of course, specific markets with different competitive environments, they would have to adjust, but I would say, by and large, that has been accepted by the market. On Changi Airport's PSC, I mean frankly speaking, as an airline we are never happy to see that the cost of coming through Changi is higher. However, it is of course what it is and we would have to, if we need to, adjust pricing to compete and to bring passengers through Changi, we willl have to do so, but I think it is early days.

Mr Nicholas Ionides: Alright, we will take the next one. The lady in the second row here and then we will go to one, two, three, four, fifth, the lady in the black there in the centre.

Ms Park Kyung Hee, Bloomberg: Hi, this is Kyung Hee from Bloomberg. Two questions. First one is on cargo. As we now enter peak season, how are you seeing cargo demand going forward and how much of that is being affected by the trade dispute between China and the US? My second question is about India. You mentioned earlier that you have already sort of applied for an international licence?

Mr Goh Choon Phong: Sorry, not international licence. It already has a licence to operate. It is about international operations.

Ms Park Kyung Hee, Bloomberg: Right, when do you expect that to come through? If I am not mistaken, Vistara did say that they are expecting to fly international in the second half. We are almost at the end of the second half, so can you give us an update on when?

Mr Goh Choon Phong: So I will take that question and my colleague, Mak, will take the earlier one on cargo. It's very simple. We have applied. Vistara is still waiting for a response. We are hoping to be able to hear something by end of the year. We would have to continue to pursue that.

Mr Mak Swee Wah: Cargo demand so far, I think the outlook is still encouraging. We still think that business will still be coming in. Of course, there is a lot of concern about trade war and what it means. I think everybody is feeling the uncertainty, but right now we don't see any immediate impact yet, so we are keeping our fingers crossed.

Mr Nicholas Ionides: Right, the lady there with her hand up. Thanks.

Ms Deborah Ong, OCBC: Hi, Deborah from OCBC. Given that oil prices have fallen recently, hypothetically, if it were to stay at current levels, in which quarter would we see the positive flow-through from those lower fuel prices? We just want to get a better sense of the lag effect given that they are hedges.

Mr Goh Choon Phong: Current oil prices, typically the full effect of it will be seen from the following month. Yes, that is right.

Mr Nicholas Ionides: Okay, we will go to Karam there. Fourth row from the front.

Ms Karamjit Kaur, The Straits Times: Hi, Karam from The Straits Times. A question related to the ongoing ASEAN Summit if I may. There has been quite a lot of talk about concerns over protectionism, here and in the region as well. With regard to aviation, what more do you think ASEAN as a group can, and perhaps should do? What would you say to other carriers in the region who may be concerned of any further reforms or integration would benefit strong carriers like SIA at their expense?

Mr Goh Choon Phong: I wouldn't quite put it that way, whether it is benefitting one carrier at the expense of others. But I think from a perspective for the industry and for the convenience of passenger travel, obviously a fully liberalised ASEAN aviation market is very much welcomed. Then you can ensure that if there is demand, carriers from any part of ASEAN can actually be able to deploy the resources to fulfil the demand. Obviously, for different carriers at a different point in time, they may not have the spare capacity, but if some carriers have spare capacity and this demand, you can then deploy it. It will optimise the use of resources to meet the travel demand. I think that would be something, hopefully, we can achieve going forward. But of course, we would also welcome, for example, what is going on in Europe where they allow a much more liberal regime around, let us say, mergers and acquisitions. So you can see how Lufthansa, how Air France-KLM, how IAG has actually grouped together and been able to provide some consolidation. I think that would also be a welcome development.

Ms Karamjit Kaur, The Straits Times: Sorry, may I ask a follow up? When you talk about liberalisation, are you just talking about the air service side? You also mentioned a bit about what this integration, what about the area of safety, for example? A common set of rules, for example, for safety purposes in the use of aircraft and all that. When you talk about, perhaps, how you hope to see what is happening in Europe translated here, do you think that is practical and possible given how fragmented the region is in terms of levels of development and all that?

Mr Goh Choon Phong: I have no comment on practicality. You did not ask me about how practical it is. You asked what you think is a good thing to do. I think ideally that should be the way to go. How long it takes to reach there, I do not know, but the more liberal the aviation environment is in this part of the world, the better it is for our traveling public. So that should certainly be something, hopefully, we will work towards.

Mr Nicholas Ionides: We have time for two more questions. Alright, gentleman there in the suit.

Mr James Teo, JP Morgan: Hi, James again from JP Morgan. Just to follow up a bit more on cargo, it was mentioned earlier about cargo block space agreements. So in the very good yield performance, how much of it was due to these agreements, how long are they and is it underlying strong demand outside of this block space agreements as well? That is one and the other one is on your digital transformation. Are you able to comment on how this is similar or different from what AirAsia is saying they are doing? That they are going to become a technology company and so forth. Is that the similar direction that SIA is taking or quite different?

Mr Goh Choon Phong: I think we would like to be judged on what we have done and the results we have shown. That is the reason why when we showed the slides earlier, we showed what the outcome is. I leave the public and yourself to judge how we have progressed. For example, some of you might be aware, we recently had our fourth annual App Challenge. I think it was on the 28th of October and because of the awareness that the general public has of SIA's digital efforts and all that, we actually attracted, I would say, unprecedented interest from all around the world. We had, for example, more than 1,500 participants from 73 countries who submitted interest to participate in this particular challenge. I think it is just a reflection, because obviously if you are attracting this kind of interest, the general public and those in the community must be aware of what we are doing.

Mr Mak Swee Wah: I think on this block space, it was mentioned by Stephen just now. But I just want to clarify that is actually not the main reason for the load factor change. In any case, agreements are all confidential. The load factor is driven by many things, including the traffic mix, the long versus short. You talk about weight versus volumetric. So many things go into it. So I think that is probably not a relevant matter.

Mr Nicholas Ionides: We have time for one final question. The lady here, third row from the front centre.

Ms Maria Clara, Thomson Reuters: Hi, I'm Maria Clara from Reuters Breakingviews. I would like to ask you a market outlook question, actually, for both India and China. You talked about India briefly, but are we reaching an inflection point there? Are we getting to the point where prices cannot get any more destructive and what does it mean for Vistara? I wonder also if you could give a similar answer for China where we are seeing some signs finally of liberalisation and what does that mean for your own plans there. Thank you.

Mr Goh Choon Phong: Sorry, China liberalisation in what?

Ms Maria Clara, Thomson Reuters: Well, in subsidies, for example. It is very slow, obviously, but I would like to know what you are seeing in terms of opportunities for carriers like yourselves.

Mr Goh Choon Phong: Opportunities in China as far as, you are talking more about setting up?

Ms Maria Clara, Thomson Reuters: I think we are probably some way away from setting up a business in China, but just your own views on the outlook. Obviously, it is a key competitor for you.

Mr Goh Choon Phong: India and China are two key growing markets in this part of the world. You know the IATA projections. I mean the year might change a little bit, but they are talking about by 2024, 2025, India will be the third largest travel market in the world based on the projection by IATA. The projection was that China will also overtake the US to be the number one. The fact that we are actually so close to these two markets obviously means that we believe that those are the markets that we absolutely must have a strong presence in. Hence, you saw the slides earlier that as a portfolio, we have a huge presence in both markets. So we will continue. Obviously both countries are growing, still growing at a very good pace relative to the rest of the world, so we will continue to want to be able to participate in the growth. In the case of India, we have Vistara, so besides being able to serve the market from Singapore, we are able to participate directly in the market through Vistara. As we mentioned earlier, Vistara would be looking at mounting international operations. They have gone ahead and did this aircraft exercise and they have, for example, selected 787-9 to be its aircraft choice for long haul widebody. So we will continue to be open to any opportunities that we can do.

Mr Nicholas Ionides: Alright, that brings us to the end of this morning's session. Thank you to everyone for attending.

(ENDS)