TRANSCRIPT
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(Read in conjunction with Powerpoint Presentation)

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E&OE – may be edited for grammar

Mr. Nicholas Ionides: Good afternoon and thank you for joining us here today at the media and analyst briefing for Singapore Airlines' fourth quarter and full-year financial results. My name is Nicholas Ionides, and I'll be moderating today's session. The format will be as follows: we will start with a presentation by Mr. Chan Hon Chew, Senior Vice President Finance. He will be presenting the parent airline company results. This will be followed by a presentation by Chief Executive Officer, Mr. Goh Choon Phong, with the SIA Group results. We will then move to the Q&A segment which will be led by Mr. Goh. Joining the panel will be Mr. Chan, as well as Executive Vice President for Human Resources and Operations, Mr. Ng Chin Hwee, and Senior Vice President Marketing, Mr. Tan Chik Quee. Before we begin, a gentle reminder please, could you kindly turn your mobile telephones off or switch them to silent mode. I'll now invite Mr. Chan to the stage to give his presentation.

Mr. Chan Hon Chew: Good evening ladies and gentlemen. Once again welcome to the briefing on the results of Singapore Airlines for the financial year 2010/11. The results were announced yesterday so I'm sure you have seen them. It's available on the SGX website and also on the SIA website.

I'll kick off with the parent airline. First of all let's look at the fourth quarter for the financial year 10/11. The top line, the airline earned total revenues of $2.9 billion for the fourth quarter or $242 million higher than the same quarter last year. This is about 9% higher. The revenue growth was achieved despite a confluence of natural disasters during the fourth quarter. You might recall 2011 started with the snowstorms in the US and also in Europe and massive floods in Australia. Following that we had the earthquake in New Zealand and in March we had the earthquake in Japan and also the tsunami and the resultant nuclear crisis which is still unfolding at this point. That has affected our passenger carriage and in the fourth quarter our passenger carriage was actually down by 0.5%.

However, you do see on the chart here we have managed to achieve revenue growth largely driven by improvement in yields. Yield improvement was achieved across all cabin classes benefiting from higher fares and also improvement in passenger mix. We show more details of the operating statistics in later slides.

On the cost side, total expenditure was higher by $307 million or about 12% largely driven by higher fuel costs. As you can see here, fuel costs were higher by $242 million. That's largely driven by increase in fuel price from about an average of $89 per barrel last year to $119 per barrel in the fourth quarter this year. That's a massive 34% increase in fuel price.

In terms of hedging, there's a reduction by $49 million from a loss of $16 million last year to a small gain this year of $33 million. In terms of ex-fuel costs, that's increased by $114 million, largely from higher staff costs and also higher aircraft depreciation and lease rental costs.

Consequently, as the expenditure increased at a higher pace than revenue growth, the operating profit for the quarter declined by $65 million. Adding up for the year, including the first three quarters of the year, the operating profit for the parent airline came in at $851 million, which is $890 million better than last year. However, we have to look at this in context because you might recall the first two quarters of 09/10 was in the midst of the global financial crisis. So we have to look at this in the context of a lower base last year.

Next, we zoom in on the operating statistics, in terms of capacity in the fourth quarter it grew by 5.3% while the passenger carriage declined by 0.5% due to the natural disasters that we mentioned earlier. As a result, the passenger load factor for the fourth quarter fell by 4.5 points to 75.5%. However, for the full year, the capacity of growth of 2.3% was fully matched by passenger carriage growth of 2.3%, thereby the passenger load factor stayed flat at 78.5%.

On the yield side, despite the challenges we faced in the fourth quarter, the airline held on to the yield gains in the first few quarters and came in at a yield of 12.1 cents which is the same level as the third quarter.

Hence you can see, we didn't have the full benefit of the 9% yield growth as there's some dilution from the increase in unit cost. Hence that kept the improvement in passenger breakeven load factor to 2.3 points. So the breakeven for the fourth quarter was 75.2%. For full year, yield growth of 14.4%, again bearing in mind the low base last year, especially the first two quarters of last year. The yield growth was at the higher rate than unit cost increase of 3.5%. As a result, passenger breakeven load factor improved by 7.9 points.

Let's compare the passenger load factor and the breakeven load factor for the fourth quarter. As a result of the drop in the load factor by 4.5 points, the passenger load factor spread narrowed to 0.3 points. As for the full year, passenger load factor, 78.5%, exceeded the breakeven of 74.8% by 3.7 points. Let's compare the passenger load factor spread for a full year against the last four years.

Load factor, as you can see, the two financial years are almost flat. However, last year's 78.4% load factor was achieved with large volume of promotional fares. That's because of the global financial crisis, promotions were required to stimulate demand. So as a result we can see here, last year's breakeven hit above 80% at 82.7%. As a result there was an operating loss last year. That has since improved, yield has since improved, and the breakeven for the 10/11 financial year improved to 74.8%, giving us a spread of 3.7 percentage points. However, compared against the 06/07 and 07/08 financial years we are still not back to pre-crisis levels. That's largely because yields are still not back to pre-crisis as we can see in this chart here. The fourth quarter yield of 12.1 cents is still below the yield of 12.8 cents before the crisis.

Moving on to costs, this chart shows the top five expenditure and topping the chart, no surprises, is fuel, that makes up 35% of the total expenditure for the parent airline. Let's look at the year-on-year comparison of the top five expenditure. Fuel increased by over $200 million or 7.6% for the full financial year. Aircraft depreciation and lease rentals also increased by 3.1%, that's largely because of the progressive delivery of aircraft; we took in another eight A330s and another one A380 during the financial year. Staff costs increased as well by 12.8% largely because wage cuts have since been restored and also because of higher provision for profit sharing bonus in accordance with collective agreements. Variable costs such as handling costs and passenger costs also increased but very much in line with the growth in capacity of 2.3%.

Let's take a closer look at fuel costs. The starting point is the fuel bill for last year, $3.5 billion. As mentioned earlier, fuel prices increased sharply during the year by about 26%. That added $841 million to our fuel bill. As capacity grew by 2.3%, the volume of fuel uplifted increased and that added $100 million to the fuel bill. We had partial relief coming from a weaker US dollar against Sing dollar that provided relief of $263 million. Partially offsetting that is lower hedging losses of about $410 million which gives us a full year fuel bill of $3.8 billion, higher by $268 million.

However as we mentioned earlier, in the fourth quarter fuel prices increased very, very sharply, so let's take a recap of the pie chart. This shows the composition of the expenditure for the fourth quarter. As you can see here, fuel now makes up 36.8% of total expenditure, up from 35% for the full year and if you look at the increase in fuel costs for the fourth quarter alone it was $193 million. So out of the $268 million increase in total fuel costs for the full year, $193 million of that took place in the fourth quarter.

This is my last chart just to show the trend of fuel prices over the last two financial years. As you can see, this started in the first quarter of the previous financial year at $64 per barrel climbing up all the way to $90 per barrel in the first half of the financial year 10/11 and it accelerated sharply during the third and fourth quarter, and by the fourth quarter it averaged $119 per barrel. In fact, that continued to go up. By April 2011 the average jet fuel price was at $140 per barrel. While there was some recent respite as commodity prices have corrected over the course of last week, fuel prices remain high and volatile.

So on that note I conclude this part of the presentation and I hand over to our CEO, Mr. Goh Choon Phong, who will review the group results. Thank you.

Mr. Goh Choon Phong: Good evening ladies and gentlemen and a special thanks because I know that it is a Friday night and you're still here, so we'll try to keep it as prompt as possible.

The group result. This is the group revenue last year by quarter and as you can see in the chart, the first and second quarters previously had the SATS results in it, we have taken it out so this is the pro forma for a better perspective when you compare. So this is this quarter and you can see the difference. The thing to note here is that the improvement in the revenue is - the quantum of the improvement - is actually on the decline as you go from first quarter to fourth quarter. Of course we bear in mind that the first two quarters of last year were actually having still an impact of the global financial crisis. This is the expenditure side; the reverse is true. As we go from quarter one to quarter four the expenditure actually increased and the key driver of this increase is in fact the fuel cost, as Hon Chew has presented for the parent airline. Operating profit, take the difference between the two, this year it's all positive and again the first three quarters were all improvements and the last quarter we saw a decline. Net profit, same picture.

So now we compare the results with the last four years. This is with SATS in so we should take a look at the pro forma later. Year-on-year 09/10, half the year the results were with SATS incorporated. So if we were to remove SATS for all the previous years as well, this is how it compares. You see that 10/11 revenue is roughly at the level of 06/07. This is expenditure. Again if you remove the SATS impact, here again you find that the expenditure 10/11 is roughly that of 06/07. Therefore it's probably not surprising when you take the pro forma, that the result at the operating profit level is comparable. That is if you compare 10/11 and 06/07, basically we are going back to the result that we would have seen in 06/07.

Here are the contributions from the various companies in the group. Hon Chew had gone into detail about Singapore Airlines itself. Cargo have seen a very good turnaround in profit, and largely driven because there was a lot of restocking of inventory last year and also as the economy recovered there was more consumption and there was the iPad impact and so on. So you see that Cargo has done well in making the recovery.

SIA Engineering have announced the result and had a separate briefing. Suffice to say here that this is one of the best results that SIA Engineering have achieved, in fact the best since the year 02/03. SilkAir, very good results, in fact the best result ever for SilkAir.

These are at the operating level so now we recap again, this is the operating profit for the financial year 10/11. We had some disposal, particularly aircraft, 777s as well as a sale and leaseback of one A380, and then of course the provision for the cargo fine and that was the profit before tax, $1.4 billion, and we had the tax.

You'll notice that the tax is quite big – 270 - and the reason why this is the case is because the provision for fines is not tax deductible. So the 200 that you saw earlier under provision fines, we cannot deduct it on tax. So therefore if that had not been the case you would probably add back another $34 million or so reduction in the tax. Minority interests, and here we get it, the net profit of $1.1 billion.

Here again, comparing the group profit with the last four years, taking the pro forma, and this is what you get. Now we saw earlier that at the operating level, the 10/11 result is comparable to that of 06/07 but you see here that 06/07 had a much higher net profit level compared to 10/11 and the reason some of you may recall was because of some exceptional items during that year, particularly two of them: one was the sale of the SIA building and the other one was the sale of the leasing company SALE. So that contributed to the increase in the net profit.

So if you were to look at how the performance is and where the figures are coming from relative to last year, last year the net profit was 157 million. We added 1.3 or so billion in operating profit, more surplus from sales of aircraft, take off the fine, the tax, and the $1.1 billion.

Some statistics on the share, improvement in EBITDAR, earnings per share and net asset value. So relative to earnings per share, as we know there was an interim dividend of 20 cents; final dividend that the Board is going to propose to shareholders is 40 cents; and also a special dividend of 80 cents.

What is the outlook? Two key challenges. Let's take a look at the first one: jet fuel prices. Jet fuel prices prior to the recent sharp correction - not even correction, I wouldn't use the word correction, but sharp drop in the fuel price - it was about $140 and that was at a 2-1/2 year high. In fact it was a 25% surge compared to even the beginning of the year. So as you can see this chart here, from the point towards the end of last year until sometime in April, you'll see a drastic increase in fuel price of $39 per barrel, and it has been increasing ever since. I mean it has been stable roughly at $140 in April and then last week we saw a sharp correction - a sharp downward revision in the price - on Friday actually, and then since then it's sort of going up and down. It is very volatile.

On the demand side, I think all of us know that the US is still having some issues, in fact the outlook has been downgraded by Standard & Poor's. The debt crisis in Europe is still playing out. We hear a lot recently about what's going on in Greece and whether or not the debt has to be restructured and whether or not there has to be fresh loans. Then, this is well known in this part of the world, concern about nuclear radiation in Japan following the earthquake in late March.

All these are actually putting a dampener on our forward loads and the reason why these three particular items are highlighted is because they actually reflect the relative weakness in the loads on these three sectors. Japan particularly is very heavily affected.

Fleet development. We had 108 aircraft at the end of last year. We'll be taking the remaining eight deliveries of A380s, returning some aircraft - 777s, six of them, and selling all the remaining 744s and converting one 744 freighter – and we will have 104 at the end of the financial year.

Here is the capital expenditure for the next five years. This largely reflects the capital expenditure that we have to commit to for the deliveries of those, for the taking of the new aircraft that are coming online, the A350s and the 787s. That is my last chart.

Mr. Nicholas Ionides: Thank you Mr. Goh. We will now move to the Q&A segment. As the table is being moved into position, a few more requests please. Kindly direct your questions through me by giving 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 are not able to attend, so I would ask that you please wait for a microphone, and kindly identify yourself as well as the organisation that you are representing. I would now like to invite our executives to the stage. Thank you, we will now take our first question. The centre here, second row please.

Mr. Mark Webb, HSBC: Hello, Mark Webb from HSBC. With the risks of the high and volatile oil prices, could you give us an update of the level of jet fuel hedging for this year and also [INAUDIBLE].

Mr. Goh Choon Phong: For the full year this year we are hedged at roughly 20% of our jet fuel requirements and it is at roughly USD130 per barrel.

Mr. Nicholas Ionides: Right next to you please.

Mr. Eric Lin, UBS: Hi, Eric Lin from UBS. Could you please elaborate a bit more about forward bookings? Is it loads is going to be weaker, is it more because you are adding more capacity or actually the number of passengers is lower versus the last year? And also according to the presentation you highlighted three areas of weakness. Does that mean the loads of these three areas are weak whereas others are doing okay?

Mr. Goh Choon Phong: For the specific case of Japan it certainly is much lower than before, and I could probably just give a rough number. The traffic dropped about 30% for our flights to Japan, I mean Japan as a whole. So what we've done however, in response to that kind of correction in demand, is to actually adapt our capacity. I think many of you would have known that we actually reduced our frequency to Haneda from two to one. We actually changed the aircraft type for the non-stop service to Narita from A380 to A330 and then for the flights that go via Narita to Los Angeles, SQ11 and SQ12, it was operated with a 744 aircraft, it is now operated with a 777-300ER, so all these have, basically the result of it is that there will be a lower capacity compared to before.

Now for the other, on the whole, as a whole system for this year we will be seeing an ASK increase of about 6%. So when we talk about demand, because I think you saw the slides earlier that we're talking about a relatively weaker load factor, so we're talking with respect to the capacity that we have planned to inject into the market. Relative between the post-crisis and pre-crisis the traffic is down by about 30%.

Mr. Nicholas Ionides: We'll take this one here. The third row—sorry the other side. Yes the third row right there please.

Ms. Corinne Png, JP Morgan: Good evening. I'm Corinne from JP Morgan. I have two questions. One is a follow-up question from what Eric asked. So where are you deploying - re-deploying - the excess capacity from the Japan routes? To which regions? Which regions are you seeing stronger demand? And my second question is what is the outlook for the cargo operations, you mentioned about the iPad rush last year, and how do you compare with this year? Thank you very much.

Mr. Goh Choon Phong: I think I'll leave the cargo questions to my colleague Chin Hwee who is the Chairman for SIA Cargo, you are asking about the outlook for cargo. You are asking also about capacity redeployment for the routes. One of the things is that the 744 is actually being retired, so in some sense some of the retirement capacities are actually not going to be redeployed, they're just going to be retired. Now the A380s, there has been - you're probably also aware that there were some delays in the A380 deliveries, so again there is capacity that we don't really have to redeploy either.

Mr. Ng Chin Hwee: Okay on cargo, maybe it's pertinent to put some backdrop into the answer. Our planned capacity increase this year for cargo is up to 11%. We'll be bringing on two aircraft into the system, up to 13 aircraft. So I have to take you to this context so at least you know what I meant by increase…against this increase of capacity. The first quarter, well traditionally we always have a peak pre-Easter. That hasn't quite materialised, but of course we are now seeing some pickup in the loads post-Easter. The industry, the trade figures that we are seeing right now, are still fairly healthy, we are talking about the PMI indexes, book-to-bill ratio. So there is I think, based on our assessment, there's likely to be a restocking going forward in the later half of this year. So that would be our assessment. Of course for cargo, like the passenger airline, it's not really the issue of demand, per se, it's still the high fuel price that is plaguing the industry as a whole.

Mr. Nicholas Ionides: Now we'll go to the left over there please; my left.

Mr. Rohan Suppiah, Kim Eng: Hi, Rohan from Kim Eng. Just looking at your operating statistics it indicates that cargo actually lost money in the fourth quarter. Is that correct? And is it mainly because of the higher fuel costs?

Mr. Ng Chin Hwee: Actually fourth quarter we made a profit. Don't forget there is also the yield effect as well, on top of the loads as well. So that's really the answer.

Mr. Nicholas Ionides: Right next to you there please.

Mr. Hino Lam, Goldman Sachs: Thanks, Hino Lam from Goldman Sachs. I have two questions, both related to pricing. Firstly can you break down the yield change into how much is airfare improvement, yield mix change and currency? My second question is your outlook on yields. So what are you seeing in April and what do you expect in the fiscal first quarter? Thank you.

Mr. Goh Choon Phong: I would direct the first question to my finance colleague and the second question to my marketing colleague.

Mr. Chan Hon Chew: Okay. For the year-on-year yield change of 14.7%, the large part of that comes from higher local currency yields. In other words, higher underlying fares. That is about 15.1 percentage point. However, as you know the Sing dollar has strengthened against many of the other currencies so there is a negative impact from there. So that took away about 3.7 percentage points. We have also improvement in the passenger mix as we continue to see improvement in terms of the premium passenger numbers. So that benefited the yield by about 1.4 percentage point. Fuel surcharge, because of the increase in fuel prices, we had a number of revisions to our fuel surcharges so that added about 1.6 percentage points, so all-in-all adds up to about 14.4% year-on-year for the full year.

Mr. Hino Lam, Goldman Sachs: Is it possible to break it down by quarter-on-quarter?

Mr. Chan Hon Chew: If you want to perhaps look at the fourth quarter year-on-year I can give you a flavour of that as well. But it's very similar to the full year. The biggest part of the yield growth came from underlying fares. So for the fourth quarter year-on-year a total of 9%, 10.9 percentage points actually came from higher underlying fares. Because of currency that took away about 5 percentage points. The rest is between passenger mix and fuel surcharge.

Mr. Hino Lam, Goldman Sachs: So quarter-on-quarter your yields are flat from 3Q?

Mr. Chan Hon Chew: Yes.

Mr. Hino Lam, Goldman Sachs: Because it's safe to say that—

Mr. Chan Hon Chew: The fourth quarter is 12.1 cents. The third quarter is also 12.1 cents so it was flat.

Mr. Hino Lam, Goldman Sachs: Because airfares are flat - mostly because airfares are flat? Yields are flat quarter-on-quarter mainly because airfares are flat, is that right?

Mr. Chan Hon Chew: Yes it is.

Mr. Tan Chik Quee: I think you already answered your own question. The outlook is indeed that the yields would be fairly flat, apart from the challenge of the weaker foreign currency to Singapore dollar, we also have the improvement from we hope better mix of traffic that will bring yield up a bit. But on the whole we still have to face the challenge of additional capacity from not just ourselves but the competitors. So I would see it as fairly flat.

Mr. Hino Lam, Goldman Sachs: Thank you.

Mr. Nicholas Ionides: Fourth row from the back there please.

Mr. K Ajith, UOB Kay Hian: Hi this is Ajith from UOB Kay Hian. Can you give us a flavour of your new route to Sao Paulo and how's the response for that? Number two I noticed that SilkAir actually performed very well in the fourth quarter. Does it mean that you could potentially add new routes or shift some of the focus towards the regional routes? Number three is about A380, do you have plans to have further sale and leasebacks on these?

Mr. Goh Choon Phong: I will just quickly touch on Sao Paulo and maybe CQ you can complement. I think we are quite happy with the Sao Paulo operations. For a new flight, from our experience of operating new flights, I think it has credible loads, and we are quite confident that the flight going forward will be successful.

Mr. Tan Chik Quee: And I will just add to it, it is better than we had expected to the extent that we might even be thinking of looking at more.

Mr. Goh Choon Phong: Okay SilkAir. Indeed I think you would see that SilkAir will have a higher ASK growth relative to the parent company, in part because SilkAir has a much smaller base relative to the company and also that the aircraft type that SilkAir has is ideally suited to operate into many of those secondary points within Southeast Asia and also to parts of China and India as you saw. So yes, SilkAir will continue to play that role and we will actually see greater integration in terms of connectivity between SilkAir and the parent company.

On A380 sale and leasebacks, we will look at what is in the market and we will make a decision on what is the best way to do it. Whether or not we do more depends on whether the market has something that is good for us.

Mr. Nicholas Ionides: Now we'll go to this side of the room please, on the right side for you please.

Mr. Harry Suhartono, Reuters: Hi I'm Harry from Reuters. In a recent interview you mentioned that you'd like to add capacity into Shanghai, Beijing and Guangzhou, and you would also like to offer direct service between China and US. Can you give more colour on this, when you think this plan will materialise and how much capacity you would like to add for these routes?

Mr. Goh Choon Phong: We would like to add but I think all of us probably are aware that slots in those key coastal cities, the two in particular, Shanghai and Beijing, that you mentioned, are not available so we will have to wait for that availability in order to add capacity. As for beyond rights from Shanghai to USA, I don't think it will be available in the near term. I mean that is a bilateral agreement between China and Singapore and we will have to continue to work on it.

Mr. Nicholas Ionides: Same side of the room, very last row please.

Ms. Siti Rahil, Kyodo News: Hi I'm Siti from Kyodo News. I'd like to ask you about the Singapore-Japan sector. I think you've taken measures like cutting back on flights and also maybe offering some discounts as reported in the papers. I'd just like to know the situation now, how is it. To what extent is it going back to normal and what are the prospects of full recovery? Thanks.

Mr. Goh Choon Phong: I think it will be very difficult to give a definite timeline but I believe looking at the forward loads that it will take a while, at least a few more months, before people begin to accept, that to go back to normalcy, as in people are willing to accept that there is less or no concern over radiation in Japan. So there's a lot that we have to do and we are doing that together with the tourism authorities as well as the agents to try to provide as much information as possible with regard to the safe travel to Japan.

Mr. Nicholas Ionides: We'll go to this side of the room please.

Mr. Chin Lim, Morgan Stanley: Thanks. I'm Chin Lim with Morgan Stanley. I was trying to understand your capacity, you have 6% ASK, and AFTK which is cargo 11%, right? I think passengers is about right, but cargo 11% in this environment, do you think that's too high given oil is pretty high right now? I guess another question related to that is if I look at yield for cargo, if you look at the surcharge and you strip off the surcharge, your yield's actually fallen. So is it a good idea to add that much capacity for cargo?

Mr. Ng Chin Hwee: I think we have to take this in perspective. Obviously the cargo business had gone down into a fairly extended period of decline over the last almost 15 months. This period of decline is in fact longer than that of the passenger side. And during that period of time, we've actually cut back quite significantly in capacity. So putting the two aircraft is in some ways restoring back some of the capacity that we had.

If you talk about the yield, I think it is really the total component that we look at in terms of the revenue, both the fare as well as the fuel surcharge. Now this is as planned, obviously, and when we plan, it was on the assumption of a certain fuel price. That would mean that if the fuel price should - high fuel price should - be sustained, then we would have to be flexible in our deployment and also in capacity injection.

To give an example, with the rising fuel price of late, we have actually adjusted our deployment, cutting back some of our US services for example, and shifting them down into the intra-Asia services. So there is a lot of flexibility when it comes to cargo, both in terms of deployment and capacity that we are going to inject.

Mr. Nicholas Ionides: Okay, right next to you there please.

Mr. Raymond Yap, CIMB: Hi, I'm Raymond from CIMB. SIA had a net cash position, a large net cash position, for a very long time, and now that conditions do not look very favourable to you given the high fuel prices, I'm just trying to understand the rationale of paying that really good special dividend now. Why now? And in fact your net profits are about half the level that they were when you paid one Sing dollar in dividend and now you're paying $1.40. So I'm just trying to understand, what's the rationale of that? Thank you.

Mr. Goh Choon Phong: I suppose it would have been better if we didn't pay?

Mr. Raymond Yap, CIMB: No, of course—

Mr. Goh Choon Phong: I'm joking. We do a very thorough review of our net cash requirements and of course factoring in whatever, not just the need for capital expenditure, but also potential future scenarios where we might require a lot more cash if things were to deteriorate very rapidly. So having done the simulation, even though this year hasn't done as well as previous years, in peak years where we've had $2 billion profit, but the cash has actually been accumulated over time and it reached about $7.4 billion or so. So having done the thorough review, we feel that it's quite comfortable for the company to actually give this amount of—give back this amount to the shareholder in a special dividend and we don't see that there is any danger of the company ever running short of cash because of this.

So rest assured that we don't do things that are reckless, nor would we do things that would weaken our balance sheet unnecessarily.

Mr. Raymond Yap, CIMB: Okay then just to follow up a little bit, that excess cash that you have determined as being what you would require versus what you actually have right now, how much of that did you actually pay out in that 80 cents? Is there more of it that you have not yet paid out in that 80 cents? What I am saying is that the excess cash, the total size of the excess cash that you—

Mr. Goh Choon Phong: Okay let's say the $7.4 billion or so?

Mr. Raymond Yap, CIMB: Yes that's right.

Mr. Goh Choon Phong: You are talking about the cash balance.

Mr. Raymond Yap, CIMB: That's right, the cash balance, minus whatever you think that you would want to keep in your bank account to tide you over any particular difficult moments and so on, that differential, how much of that has actually been paid out in that 80 cents special—

Mr. Goh Choon Phong: Well I think we don't want to go into the details on how we compute and all those things. Suffice it to say that we've done those simulations and we have determined that this is an amount that we could actually pay out, and we are sure, and we can assure all shareholders, that our company is well equipped to manage any downturn.

Mr. Raymond Yap, CIMB: Well perhaps I could just put it in another way, is that payment going to be spread out over time? Or is that—

Mr. Chan Hon Chew: Well Raymond I see where you are coming from. You are trying to determine how much more next year and you know you are not going to get an answer. (Laughter).

Mr. Raymond Yap, CIMB: It's always good to try.

Mr. Nicholas Ionides: Alright we'll move to the next one in the centre please. I believe the fourth row from the back.

Mr. Robert Kong, Citi: Robert Kong from Citi, two questions. First of all, on the hedging, you mentioned that for FY12 you're currently 20% hedged at $130. Do you have a target level of hedging? I mean historically it was much higher and so on and so forth.

Mr. Goh Choon Phong: On the range, since you asked that question it's a simple one so I'll just take it. The general guideline that we have remains the same, 20% to 60%.

Mr. Robert Kong, Citi: Okay so there is potential that you could bring it up during the year? Okay. The second question, you gave some guidance on passenger yield being flattish. On the cargo yield we've been seeing quite a steep fall sequentially quarter-by-quarter. Do you think that's bottoming? What's your sense on the cargo yield outlook?

Mr. Ng Chin Hwee: I think, certainly we don't think we're going to see a precipitous fall in the yield. If at all if that happens, obviously we will look at capacity other than allowing the yield to fall. I don't want to—I don't think we should be looking at this with such doomsday lenses. Yes in the near term we are talking about the fairly flat situation but I think the trade indicators are still showing that there is going to be possibly a pickup in terms of inventory restocking going out into the second half of this year.

Mr. Robert Kong, Citi: I think our concern is that you're already below breakeven as of this quarter, so if you have any further decline then obviously that equation looks a little worse.

Mr. Ng Chin Hwee: The fourth quarter, well I don't think we're going to see a sharp fall obviously.

Mr. Robert Kong, Citi: So can I add just one more question-

Mr. Goh Choon Phong: Sorry I just want to touch on this because earlier my colleague has mentioned that the whole—the whole world is changing very fast and particularly in cargo. In fact, for cargo—I was in cargo so I have also had some flavour of it. For cargo we don't really look beyond the next couple of weeks in terms of actually sizing up the demand. So it is very important, particularly for cargo, to be nimble and flexible in the way they deploy. You have to sense where the demands are and to be able to redeploy the capacity accordingly.

So it's hard to say that you fix one plan you pair up with it. But there's a lot of flexibility.

Mr. Robert Kong, Citi: So my final quick question is on the five planes up for sale. Do you have some guidance or some confidence that those are going to be potentially sold this year?

Mr. Goh Choon Phong: They actually have been committed for sale.

Mr. Nicholas Ionides: Second row please in the centre. The gentleman there.

Mr. Kelvin Lau, Daiwa: This is Kelvin Lau from Daiwa. Two questions. One question is that—the first question is about the ASK growth of 6%. I see your fleet size actually reduced, so I just want to reconfirm that it's mostly from the utilisation increase, right?

Mr. Goh Choon Phong: Well you also notice that we have more A380s with more capacity as well.

Mr. Kelvin Lau, Daiwa: Okay so how much is on the seats increase and how much is on the utilisation? And I want to know how the utilisation hours increased after that.

Mr. Chan Hon Chew: For the utilisation as you know last year we went through the crisis and the utilisation rates have come down and it hasn't gone back to the pre-crisis levels. I think in the past we mentioned before our utilisation rates were 13 hours or so and in the crisis years it was about 11 over hours. So we still have somewhere to go in terms of utilisation and moving it up. We don't give forecasts in terms of what's going to be the utilisation for the next year.

Mr. Kelvin Lau, Daiwa: My second question is about the staff cost. I saw from your announcement that the number of employees actually reduced by a lot, by nearly close to one third. Maybe part of it is excluding SATS, however I see your staff costs actually flattening and if you see the announcement, excluding SATS, actually increased 10% around. So I would like to know whether you see quite a pressure on the wage increases.

Mr. Chan Hon Chew: I think you have answered part of your own question. Yes if you look at the staff cost number, there is an element of SATS in there. Year on year increase in full year is $59 million. If you take off SATS, the increase is actually about $249 million. That is actually pro forma, and you can refer to that in the SGX announcement which gives the pro forma of last year excluding SATS. So you should take the two numbers and you'll find that staff cost has gone up by about $249 million. That's largely driven by the variable component of remuneration. For one, the profit sharing bonus pegged to how well the company performs. So with the improvement in the performance this year definitely the profit sharing bonus will go up. So that's the main driver for the increase in our staff costs in the 10/11 financial year. So next year it depends on how well the company does.

Mr. Kelvin Lau, Daiwa: So no specific pressure on wage increase, just like normal years?

Mr. Chan Hon Chew: Of course there is what we call the service increment which is negotiated every year. But that's not the main driver for the cost increase.

Mr. Nicholas Ionides: We'll have time for two more. One over there please.

Mr. Paul Dewberry, Merrill Lynch: Hi good evening, Paul Dewberry, Merrill Lynch. Question for Mr. Goh. You've been in the job now four and a half months, presumably a lot of hard work and review. I wonder if you could share with us your own thoughts on strategic initiatives needed to continue to take SIA Group forward. You've already alluded to a bigger role for SilkAir as well as an expansion of the cargo business but can you share with us where you are taking the airline over the coming years? Thanks.

Mr. Goh Choon Phong: Thank you for the question. Strategic initiatives. Well I think you'll probably get to hear more of them [in time]. Much of them actually it would be premature. There are, but unfortunately I can't really disclose them. But what you can see is that it will relate to, for example, I alluded to earlier about getting better network connectivity so that we can actually provide more seamless connections and service for our customers. That is one aspect of it.

And there are other aspects about being able to better engage our customers, for which also there are some initiatives on that and others like some of the product alignment and improvement. This one probably I could touch on a little bit more. For example I think some of you and some of our passengers as well, when they travel on a certain sector they find that even on the same sector they have differences in products and so forth. I can share with you that we're going through an exercise of retrofitting aircraft, particularly for the 777-200, 11 of them were retrofitted, and 777-300, seven of them will be retrofitted and that should be done by July. What that does is that actually changes the product offering on the aircraft itself in terms of the seat type. So the 777-300 are the three-class aircraft that we have. So for example in the First Class for the 777-300—not the ER now, this is the -300 for the mid-haul operations – the First Class seats will now be actually the Diamond Plus seats seen in the 777-300ER. So that is an improvement and also the Business Class as well and also the Economy Class that we will have refreshed the Economy Class with bigger IFE screens, it was 6” and now has gone to 9”, and other improvements. So this alignment means that I think from July onwards, when you are on our mid-haul operations, you will see that all the products will actually be aligned to the new standard.

Mr. Nicholas Ionides: We have time for one more. Down here, third row please.

Mr. Brendan Sobie, CAPA: Hi I’m Brendan with CAPA. I have a strategic question as well. You mentioned horizontal but I just was wondering what your thoughts are on mergers and acquisitions generally in the region as well as joint ventures. We’ve seen a lot of activity in the global industry, all over Europe, the Americas, but not really Asia so far. Why do you think that’s the case? And why won’t Singapore Airlines be interested in mergers, acquisitions or joint ventures in other countries to get into markets like China which are tough to get into from a beyond China standpoint?

Mr. Goh Choon Phong: No, we’re open—I’m open and my colleagues are open as a team, as a management team, and when there are opportunities we will certainly evaluate them and we will take whatever opportunity that is appropriate for the long-term strategic advantage for the group.

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

(ENDS)