TRANSCRIPT
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E&OE – may be edited for grammar

Presentation

Mr Nicholas Ionides: A very good morning. Welcome to the media and analyst briefing for Singapore Airlines' fourth quarter and full-year financial results. My name is Nicholas Ionides and I will be moderating the session today. We'll follow the usual format. We will start with a presentation by our Senior VP for Finance, Mr Chan Hon Chew. He'll be presenting the Parent Airline Company results. We'll then follow with a presentation by our CEO, Mr Goh Choon Phong, with the Group results. We'll move then to the Q&A session. That will be led by Mr Goh. Joining him on the panel will be Mr Chan as well as our two EVPs, Mr Mak Swee Wah and Mr Ng Chin Hwee. Before we begin, just the usual reminder please, can you turn your mobile phones to silent mode. With that I'll invite Mr Chan to the stage for his presentation.

Mr Chan Hon Chew: Thanks Nick. Good morning ladies and gentlemen. Once again welcome to the briefing on Singapore Airlines' results for the financial year 2012/2013. In this segment I will be presenting to you more details on the Parent Airline's performance. First, starting off with the fourth quarter. The top line for the Parent Airline at $2.99 billion - almost $3 billion, for the Parent. This is about $17 million, or under 1% lower year-on-year. The revenue is lower, notwithstanding that actually the passenger carriage grew by 3.7%. That's because yield fell by 4.3% compared to the same quarter last year. Of the 4.3% drop in yields, three-over percentage points is attributable to the stronger Sing dollar against some of the major currencies in which we earn our revenues. For instance the Euro, the US dollar, the pound. And more recently the yen as well.

On the expenditure side, expenditure was also higher, by $42 million. On fuel costs, you can see on the chart, it's in relative terms lower by $18 million - just marginal. But in absolute terms, if you look at the total fuel bill of $1.2 billion, that's still very high. That's because fuel price has remained at very high levels. More than USD130 per barrel. In fact, averaging around USD133 per barrel. Still at very high levels. The reason it's marginally lower, that's largely because of the weaker US dollar against the Sing. There's a small hedging gain of $20 million.

On the ex-fuel cost it's higher by about $60 million and that's largely because of the capacity growth driving up the variable cost higher. So net of it all, operating loss of $69 million - about $59 million higher than the $10 million loss last year.

On the bright side, for the full year we remained profitable, albeit at very thin margins of 1.5% and compared year-on-year it's about $6 million higher. If you look at the top line, there's still revenue growth for the full financial year at $317 million. That's about 2.6%. And that's despite passenger carriage growth of 6.8% for the full year. And as we mentioned earlier, the growth in revenues was less than proportionate to passenger carriage growth, mainly because yields fell year-on-year by about 3.4% for the full financial year.

On the expenditure side, it is also higher by $311 million. Fuel cost was higher, mainly because of the higher fuel volume uplift driven by the higher capacity. There's also a small hedging gain. And on ex-fuel cost as mentioned, it's higher mainly driven by capacity growth. So net of it all, the operating profit for the full financial year at $187 million - $6 million higher than last year.

Next I'll just have a quick recap on the operating statistics which you have already seen in the announcement. In terms of capacity growth for fourth quarter, 2.4%, while passenger carriage grew by a faster pace of 3.7%, thereby improving our load factor by one point to 78.6%. Similarly, for the full year, capacity grew 4.3% while passenger carriage grew by a higher rate of 6.8%. And so for the full financial year, our passenger load factor grew by 1.9 points to 79.3%. The improvement in load factor was across the board. All route regions saw improvement in load factor.

On the yield side, as we mentioned earlier, yield fell 4.3% while unit cost remained flat at 9.4 cents. As yield declined while unit costs remained flat, the breakeven load factor for the fourth quarter was driven higher by 3.6 points to 83.9%. That's well above our load factor for the fourth quarter of 78.6%, thereby resulting in the operating loss for the fourth quarter. Similarly for the full year, yield fell by 3.4% while unit cost was managed at the same level as last year at 9.2 cents, and that resulted in breakeven going up by 2.7 points to above 80%.

Here is a look at our load factor in a five-year series. As we mentioned earlier, the load factor improved by 1.9 points from last year to this year, while the breakeven also went up as yields fell, resulting in a negative load factor spread of 1.4 points. You would recall we mentioned earlier at the operating level we remained profitable at $187 million, but there's a negative load factor spread. Why is that? Well this analysis does not include indirect revenues like aircraft lease rental income, incidental revenues like in-flight sales, for example. So what this tells us is without those indirect revenues, without those incidental revenues, we could have made a loss at operating level. And this is notwithstanding that we have achieved a load factor of 79.3%, which as you can see on the chart is the highest in the last five years. Why is that? Well, no thanks to the drop in yields, which in part was also due to the strong Sing dollar.

Just to give us a bit of context on the yield number, this is the monthly yield number for 11/12 financial year. And you can see from the chart that the yields have been dropping since the second half of the previous financial year from the month of October all the way down to March. And into the current financial, into the 12/13 financial year, in the first quarter there seemed to be some hope of recovery. However in the summer months the yields continued to be range-bound. And then September onwards it fell. And continued to fall up to February. There was some recovery in the month of March.

The yields are now back to almost two years ago, as you can see here comparing to 09/10 financial year. We're back to the same levels we last saw in the fourth quarter of 09/10. You might recall 09/10 was the year that was the most affected by the global financial crisis.

This is just to put things in perspective, the fuel price, as we mentioned earlier, remained at very high levels. In fact, it has been so for the last eight quarters, or last two years. Well above USD130 per barrel compared to the last four to five years.

Moving on to expenditure, this pie chart shows the top five expenditure. Again, no surprise, the fuel cost remains the highest expenditure at 40.6%. And comparing year-on-year, fuel cost was higher by $82 million. We will have a chart later on to give you a bit more details. Aircraft depreciation and lease rentals are slightly lower. That's mainly because the 747 fleet has been decommissioned. So we had lower depreciation from that aircraft. Staff cost was also higher largely driven by the higher flying hours arising from the growth in capacity, apart from variable staff costs. Of course there were also increases arising from service increments from adjustments to pay rates and also adjustments to crew allowance rates.

The other two costs are variable costs. They are also higher largely because of the passenger carriage growth. But passenger cost has gone up more than proportionate, by 10.6%, largely because of in-flight meals cost which continued to go up mainly because of food price inflation and also the cost of improving our food menu.

This is just a recap of the increase in fuel cost as this is our largest expenditure. For reference this is our fuel bill for the previous financial year at $4.86 billion. The higher fuel volume uplifted, arising from the capacity growth, added $222 million to our fuel bill. Now there's a slight drop in the average fuel price, quite marginal, that has partially mitigated the increasing cost by about $73 million. But nevertheless, the average fuel price is still at very high levels. We're talking about above USD130 per barrel for the full year.

The US dollar was also weaker so that, again, partially offset the increasing costs. We had also a slightly higher hedging gain, so that translates to a full-year fuel bill of $4.95 billion. That's about $82 million higher year-on-year, higher than last year which was already at a very high level.

So that was my last slide. I will now hand over to our CEO, Mr Goh Choon Phong, who will continue with the presentation of the Group numbers. Thank you.

Mr Goh Choon Phong: Good morning ladies and gentlemen. Welcome again to our training centre. I shall present now the Group results. Revenue - it went up $240 million, 1.6%, largely because of passenger revenue. Costs went up more, close to $300 million, and as Hon Chew pointed out earlier, part of it was contributed by increased fuel cost. For the Group it amounts to about $96 million. And as a result of that, operating profit came down by about 20%.

This is the operating profit comparison by quarters, this year and last year, and you can see that except for the first quarter, Q2, Q3, Q4 are all lower than that of the corresponding quarter in the previous year. Q1 comparison we need to note also that it's comparing with the quarter that was adversely affected then by the Japanese tsunami situation. You can see that Q4, in particular, it dipped into a bigger negative in terms of operating performance. And this is contributed largely because of the operating losses from both the Parent Company and Cargo. We saw just now that Hon Chew mentioned, at the operating level, the Parent Company suffered a loss of $69 million. Cargo too suffered a loss in Q4 of about $39 million. However, one can note that it was, the Q4 Cargo performance was a $9 million improvement to the previous year Q4, largely because of tight capacity control by Cargo.

Here are the results of the various companies. SIA results were presented earlier by Hon Chew. Engineering Company about flat. Engineering too saw a 2% reduction in revenue, largely from their FMP, which is Fleet Management Programme, revenue. And that's largely also because of the cessation of operations in Bahrain. However, they did see a somewhat corresponding reduction in costs, particularly in overhead as well as material costs. And hence the flat results.

SilkAir saw a 7.6% decline in operating performance. That is largely because the capacity growth of 20% was more than the passenger carriage of 17%. Cargo, I mentioned earlier about the performance.

At a Group level the net profit went up $43 million or 12.8%. So we saw earlier that the operating result came down $57 million, but the Group net went up and here's why. This is last year, $57 million decline in terms of operating level. We did have a gain which is more than the previous year - $57 million from disposal of aircraft. This largely came from the sales and leaseback of two A380s as well as Trent 800 engines. And also in the previous year we actually had a loss on disposal of some 744s.

There's an increase in terms of net interest income from two sources. One is better return from the parent investments in bonds as well as credit-linked notes. As well as, this is corresponding to a year previously where we actually repaid the $900 million fixed-rate notes in December 2011.

This year we had the higher exceptional items. This relates to the settlement that SIA Cargo had with the competition authorities in both Australia and New Zealand. And then there was a higher share of profit, largely from SAESL, which is a joint venture between Engineering Company and Rolls-Royce, as well as better performance from Tiger Airways. And here you have it, the $43 million improvement.

As a result of the higher net profit, earnings per share went up. You'll recall that we paid a six cent interim dividend. The Board will be recommending to the shareholders at the coming AGM to pay a final dividend of 17 cents and that represents a three cent increase or 15% increase from last year's dividend.

Fleet development for the Parent Company - we started with 101 aircraft. We expect delivery of six A330s that we announced previously as part of the package of the 15 aircraft. And also the first three of the eight B777-300ERs that we ordered. We'll also be receiving two B777-200ERs which is really a return from Royal Brunei at the end of the lease. At the same time we'll be retiring six B777-200s as well as five A340-500s. The A340-500s was something that we have announced earlier as part of a deal where it was sold back to Airbus.

Net-wise, no change. However, you would realise that the aircraft that we're taking delivery of would have higher seat capacity than that of, for example, the A340-500. You also realise here that we are actually continuing to renew our aircraft to replace older, less efficient aircraft with newer ones that will give us better fuel efficiency, which is an important consideration given the fuel price at this current level.

SilkAir will be taking delivery of two new A320s and also the first two of the B737s. SilkAir too will retire two of the older A320s, and a net of two aircraft increase.

Scoot, started with four at the beginning of the financial year. Added one in April. And will be operating five aircraft for this financial year.

The Group's capital expenditure commitment, as you can see, over the next five years, we expect to be able to meet this commitment through internal funds. But of course if there is attractive external funding, we will look at it.

Fuel hedging, we have hedged 57% at this point for the full financial year at a price of $119 US dollars per barrel.

So what have we done to meet the challenges? Firstly, let us again remind that service obviously is very important and SIA remains the most awarded airline in the world. It's not so much that we actively make it our business to go after awards, but we do believe that this is an indication of how our customers have appreciated the consistent high service level that our staff continue to provide.

I've mentioned this before, and it hasn't changed very much over the last couple of years, the challenges. I will not go into details of what is - the economic situation in Europe, in the US, high fuel prices and keen competition.

I have also mentioned in the last analyst briefing about the steps we have taken over the last couple of years on how we meet these challenges. And they are listed here. No surprises to everyone. Let me take this opportunity today to update on the progress we have made in each of those areas.

Let's start out with Asia and Australia network. Obviously this is a growth region and we want to be able to capitalise and be able to tap into this growth. And over the last two and a half years this is what we have done in terms of network for this area. Substantial increase in each of those areas. And you look at China - this is Group capacity into each of these areas. India we would have grown more if we had more rights. But nevertheless, it is still a very significant 24% increase.

SQ-MI synergy, it is again an important part of our strategy for us to ensure good connectivity for our customers connecting between Singapore Airlines and SilkAir. And we have started a co-ordination, as we have mentioned previously in 2011. As a result, at this point in time, compared with when we started, the number of - this is measuring the number of passengers with both SQ and MI sectors, which means that they actually book flights with the connections between those two airlines. And you see that there's a significant increase of over 40%.

Airline partnerships, again, one of those initiatives that we push aggressively. And the result of it is firstly, compared with 2-1/2 years ago, an increase of 41% in terms of number of new destinations we added on our codeshares. 41% is about 50 destinations. Now to put in perspective, Singapore Airlines and SilkAir together operate to 99 destinations at this point in time. So it is a significant increase in the reach for our customers to the new destinations that they might want to travel to.

At the same time, if you look at flights, which means the number of flights per week that we add as a result of codeshare arrangements, is another significant 60%. And this is equivalent to about 1,500 flights per week. Again, to put it in perspective, together Singapore Airlines and SilkAir operate just over 1,100 flights per week ex-Singapore. So again it is a very significant increase. These are things that we want to push for us to be able to reach more markets, more effectively, more seamlessly for our customers.

Let me also go into two specific partnerships, because we have mentioned them in greater detail in our releases previously. One is Virgin Australia. Not only does this increase in connectivity and codeshares with other airlines allow us to reach more destinations more seamlessly, it also allows us to further build on our third-fourth freedoms so that we can actually pump in more capacity for the customers to take up.

So in this case, because we're able to connect more customers to the offline points, we are then able to also support an increase in capacity between, in this case, Singapore and Australia. And there's a significant increase of 18% in terms of capacity since we started.

For Scandinavian Airlines, it doesn't look like a very big increase - three to five times. But again to put in perspective, we've never operated more than three times to Copenhagen in the last 36 years that we have operated there. So this is a very promising start to the co-operation just started and we intend to do more, of course if the market can take it.

We also talk about the portfolio of airlines, about us ensuring that we can be in the position to tap growth in different segments of the business. There is the tapping of the higher yield, more sophisticated travel segments, which is being tapped through the SQ and MI synergy. There's also the LCC segment. And we have mentioned previously that this is a growth segment. As you can see here, for Asia-Pacific, the relative growth rate, and also for Asia-Pacific, it still has a lot of room to grow if you compare, for example, the market share in Asia-Pacific relative to some of the more established markets. So we think this is a growth segment that we should also participate in. And that's the reason why we have started Scoot, and also equipped Scoot with the right support in terms of aircraft, in terms of technical capabilities, and so forth. And here we have Scoot growing from four to five aircraft this year and in the future to take on the 20 B787 aircraft that we have transferred.

At the same time, because of our confidence in the LCC growth market, we have also in the recent exercise supported Tiger's exercise in their fundraising. And as you know it was in two parts. One the rights, and the other one in terms of perpetual convertible bonds. And we have supported the fundraising. And suppose today if all the perpetual convertible bonds, convertible securities, were to be converted, then you could see potentially our shareholding in Tiger going from 32.7% to 46.5%.

While we are doing all that, we have not taken our eyes off the need to ensure that we continue to have product and service leadership. All the three items here have been announced before, but this year you'll get to see all of them coming into fruition. We're very excited about it, and arrangements will be done in launching them and to invite both our guests and also the journalists to visit and view the new products very soon when they become available.

These are products; we also look at how we can take our service standard to the next leap. And here we leverage what we internally call the Customer Experience Management programme. This again is something we have announced before. The focus of it is really to look at how we can leverage technology and also training to ensure that we can actually provide our customers with even more proactive and personalised service. Here, in this case, we have actually appointed a technology partner. The announcement will be made soon. These efforts will involve analytics and big data. And we believe that it will bring our leading service standard to an even higher level.

So we've done all that and I can assure you that that's not all we are doing. In each of these areas, there are ongoing efforts to look at new things and also we are looking at things beyond what has been identified here, which I will share more when the time is right. Thank you.

Q & A

Mr Nicholas Ionides: Thank you Mr Goh. We will now move to the Q&A segment. As the tables are being moved into position, a couple of points please. If you have a question, please direct it through me. Just give me a signal that you'd like to ask a question and I'll call upon you. Also, we will have a couple of microphones. Please wait for those to come to you before you ask questions. Finally, when you are asking a question, before you do so please identify yourself and state the organisation that you are representing. Alright, I'll now invite the executives to the stage. Sorry, we just need to move the position of those two. Thank you. Now we can invite the executives to the stage please.

Mr Nicholas Ionides: Okay. I will take the first question please. We'll start in the centre here, third row from the front please.

Mr Joe Liew, Deutsche Bank: Good morning gentlemen, I'm Joe Liew from Deutsche Bank. I've got two questions for you. One is on capacity growth. Can you share with us your latest thoughts on planned capacity growth both in cargo and passengers, for the upcoming 1-2 years? The second question is on your passenger yield trend, and Hon Chew I saw the monthly trends you put up earlier where the latest one, March, we saw a pick-up in yield. Is that a one-off, or do you think that's a positive sign for a more supportive yield trend going forward? Thank you.

Mr Goh Choon Phong: Okay let me take the capacity question. At this point in time at least, we are looking at for the passenger side, maybe 3-4%. For the cargo side it will be also about 3%, but the cargo capacity growth is really largely from the passenger bellyhold, bearing in mind that Cargo also have full responsibility for the Scoot bellyhold capacity. I also add that this is, as you can see, this is a very challenging, uncertain environment. So we will always be very nimble and flexible with regard to having to adjust those capacities during the year to make sure that we better match demand. I'll let Swee Wah take the questions on the yield trend.

Mr Mak Swee Wah: As you know the yield trend, the yield is the function of two factors. One is the competitive environment and how it affects our pricing relative to the competitors to secure the loads. The other one, which is an increasingly large factor, is the strength of the Singapore dollar, which has affected the yield quite significantly in the last quarter.

So on the competitive front, as you all know though, the markets are still very uncertain. There's still a lot of competition. We are doing our utmost to get the best yield mix and the traffic mix. Our bookings are holding steady and we will try to make sure that we get the optimal yield out of the sales that we get. The other unknown factor is really where is the Singapore dollar heading, or rather where the other currencies are heading in relation to the Singapore dollar, and I think in recent months you can see the Japanese yen has really dived. And that has had quite an impact on this. So really, competition is still tough and we will continue to do our best. Currency, we'll have to see how it goes.

Mr Nicholas Ionides: We'll go here please. Third row, left side.

Mr Robert Bruce, CLSA: Hi, Robert Bruce from CLSA. Just a couple of questions on strategy if I may. Obviously Qantas has responded to the competitive pressures from the Middle Eastern airlines. Your cost base remains relatively high, notwithstanding the fuel cost. Will you consider something radical to lower the costs and be more competitive on the Kangaroo route going forward, either through partnerships or some other arrangement of sharing metal? Second question on the cargo side, I think the announcement last night indicated an increasing focus on emerging markets. Can you give us some idea of how Cargo may shift strategy? And lastly, on SilkAir, quite clearly the last few months passenger demand has failed to increase with the increased capacity. Do you need to reassess the growth plans for SilkAir in light of that response?

Mr Goh Choon Phong: Okay let me take the general question on costs first, and I will ask my colleague, Chin Hwee, to take the question on Cargo and Swee Wah to take the question on SilkAir. If you look at cost and if you look at our unit costs, you'll find out that the ex-fuel, that means the unit costs except taking out fuel, we have been maintaining very well, and in fact it has been managed in a way that we are trying to manage it down. But if you compare that cost with any major airlines, you'll find that we are actually one of the lowest. So we understand there is always cost pressure and we're very conscious that we need to keep that low and we have been doing so. It is not a one-off big cost-cutting exercise, it has been ongoing and it will continue to do so. So that's on the cost part.

Mr Ng Chin Hwee: On the cargo revenue area, there are basically two directions we are taking in terms of improving our performance, one of which of course was just mentioned of these emerging markets. We have actually reduced over the last one year, some of the services to our traditional routes to Europe and USA. And in place we have actually operated some flights quite regularly now to Nairobi, as well as Lagos. And also we diverted some of our operations into places like Indonesia – Jakarta, we have a freighter to Jakarta as well. That is one aspect of it. The other aspect is improving the mix of the cargo that we carry. And that's trying to target at the higher-yield cargo segment, which can be anything between valuable cargo, for example the carriage of horses, cars for the F1 for example, as well as the express cargo. We all hear about the growth of the e-commerce and that is one aspect that we are trying to tap into, this growing market with potentially higher yields. The way to achieve this obviously in trying to gain higher market share on these segments would be to improve on our handling capability and also the way we market for this product.

Mr Mak Swee Wah: On SilkAir's growth, we embark on the fairly aggressive growth part for SilkAir for two reasons. One is the relative strength of the regional markets, which remain relatively healthy compared to some other parts of the world. The other is more strategic. We have identified key markets like China, India and Indonesia as growth markets. And we have expanded rapidly into this, partly because in China, as you know, there are infrastructural constraints. So whenever there are opportunities we want to increase our frequencies to some of the secondary points which are already getting more congested. So this is expanding, maybe slightly ahead of demand, but we think that for the longer term this is the right thing to do. And as air services agreements open up, for example, you would have heard also the recent bigger package of rights to Indonesia, SilkAir immediately took up the so-called new opportunities having announced new flights to Makassar and Semarang.

So we will assess the growth as we go along. The team will do the utmost to fill up the routes, but we see this more as both medium and long-term kind of growth, albeit there are some short-term humps that we need to go through. So we continue to assess and if opportunities arise we will continue and we will tailor the growth accordingly.

Mr Goh Choon Phong: I just want to add that besides the internal process workflow and review to ensure our cost is effective, you saw earlier about fleet renewal which will be another critical part of ensuring the operations are efficient.

[Follow-up question - inaudible]

Mr Goh Choon Phong: No I think we are focused on costs. We're absolutely very focused and the various operating divisions are given strict targets to meet internally. And you can see that despite the increase in terms of - you can see the operating cost in general in Singapore increased, but we have kept our unit cost in a very tight lid. So there are a lot of efforts on the front. And we will certainly continue to do so. And in terms of yield, long haul and short haul, you are right that longer haul typically have lower yields in terms of PKM basis. But I think these couple of years are somewhat more extraordinary in some sense because the longer-haul economies are the ones that were most affected. That's one. And secondly, the depreciation of their currencies versus the Sing dollar is another significant difference.

Mr Nicholas Ionides: We'll move to the aisle on this side of the room please, third row.

Mr K Ajith, UOB Kay Hian: Hi, I'm Ajith from UOB Kay Hian. I've got two questions. Given that the yields have declined, mainly because of the FX movements, can you touch a bit on your FX hedging strategy? How much of your FX exposure was hedged last year and whether this will change in FY14? My next question is whether Scoot was profitable in 4th Q? That's all for me.

Mr Chan Hon Chew: Okay I'll take the first question on FX hedging. As with fuel we have a hedging programme for FX as well. But in terms of the philosophy it's more a means of smoothing out the effects so that we do not suffer from very sharp movements in foreign exchange. So we do hedge a certain proportion of our net exposures to the foreign currencies. We hedge somewhere between 30-60%. That said, I think the hedging programme can only get you so far. In other words, you can only hedge a certain time horizon. So when the exchange rates remain at those low levels they become a reality. So hedging programme does not change the fact that many of the major currencies have depreciated against the Sing dollar.

Mr Goh Choon Phong: For Scoot, I will just simply say that its performance has been ahead of our internal expectations and we are quite satisfied with it.

Mr Nicholas Ionides: Alright. We're moving back to the centre please, second row, and then we move over here. Second row here please.

Mr Paul Dewberry, Bank of America Merrill Lynch: Thanks. Paul Dewberry, Merrill Lynch. Three questions for you. Firstly, just in terms of the yield performance in the March quarter, can you give us an indication as to whether it was the premium or Economy Class yield which was most adversely affected during the quarter? Secondly, I presume that the long-haul routes to Europe and the US remain the most challenging and you can correct me if I'm wrong on that, but given the ongoing economic environment and some of the performance of your competitors pulling capacity off, isn't it time to start getting a little more aggressive with capacity cuts and re-deployments on those routes? 3-4% still looks quite optimistic given the current backdrop. And then thirdly on Cargo, you know, another year of very deep losses. Your freighter fleet is now quite old and you could argue an uncompetitive aircraft against some of the newer models out there. Is it time for a more wholesale restructuring of the cargo division and if a rebound comes with fewer capacity wouldn't that be beneficial to get some tightness into your cargo business? Thanks.

Mr Goh Choon Phong: I will just take the overall capacity increase that you mentioned to the various regions. We mentioned that it is between 3-4%. I also mentioned that we are going to be very flexible and nimble in the way we deploy that capacity. If the demand is not there, over a period of time we will match accordingly.

Having said that, you will notice that all our growth has been focused in the growth areas. So you're not seeing increases in growth to let's say, Europe or USA. The only growth that you see in Europe is as a result of our partnership with Scandinavian Airlines to Copenhagen, the three up to five flights a week that I mentioned earlier. So there is certainly a very careful assessment of where the growth is and where we put our capacity. And you're right, it is actually, you know, in the longer haul, those two economies are indeed suffering from yield declines more so than in other regions.

Mr Chan Hon Chew: As for the yield question, as you know we do not give a breakdown of yield by cabin class. Suffice to say that in terms of the passenger mix compared with last year, we are about the same as last year. Of course we are watching the trends very closely, especially the Business Class is an important cabin segment for us. But as you know we don't give the split by cabin class.

Mr Ng Chin Hwee: As for cargo capacity, our current fleet is not all that old actually. They are still fairly, relative to other cargo carriers, fairly young in age, and therefore they're fairly efficient relative to older 744s. Now having said that, we are obviously reviewing to see if there are suitable aircraft that could replace the fleet. This is done all the time anyway. For the moment we can only say that as far as what's offered in the market is concerned, I don't think the price points are right for us to want to undertake or even consider such a change in the aircraft type.

Mr Goh Choon Phong: Just in case anybody's wondering why Chin Hwee is answering all the cargo questions is that he is chairman of the cargo company and Mak is the chairman for SilkAir.

Mr Nicholas Ionides: We'll move to my right side of the room, the gentleman in the black jacket there.

Mr Siva Govindasamy, Thomson Reuters: Good morning, Siva from Reuters. Just two questions. One on your portfolio strategy. You've talked about how you hope to tap on the low-cost market. Do you have a target for how much revenues that would contribute to the growth in the medium term and how do you see that growing as a company? Are you worried about how that might dilute your branding, the main SIA brand? The second thing is the Virgin Australia partnership, can you give an indication of how that has contributed to the revenues? So you've given some statistics on growth and traffic and so on, but in terms of revenues, has that actually started to contribute and how much of it? And that partnership, you've talked about potential, other potential investments, is that again going to be a key thing? Is that going to be the template? Thank you.

Mr Goh Choon Phong: Well we are excited about our participation in the low-cost segment. Of course internally we have some assessment or expectations of what the revenue might be, but we do not share that publicly.

The other thing you are talking about, the branding issue. We are very conscious of that and that's the reason why you see that Scoot is operated completely independent of SIA. It is separately managed. It has an independent board as well. So as you can see, Scoot is doing a lot of things that would be, I would say perhaps less suitable if it were to be done by SIA. So there is a clear - and I think that Scoot had done a good job in actually identifying its own niche in terms of the market, in terms of the passenger segment. And it has also, I think, quite successfully carved out its own image to our consumer. So far we don't see that happening, this brand confusion that you allude to.

The other question you asked was Virgin. We have extensive collaboration. Actually more will come. We've just recently announced about codeshare, Virgin's codeshare from Australia all the way to Europe on our flights. And I've given you some flavour of the extent of the collaboration in terms of the interlining and also codeshare flights and so forth. We do not again give revenue because this, especially in this case, this involves another listed entity in Australia. So it would not be appropriate for us to comment on exactly how much revenue it generates for us or them. Thanks.

Mr Nicholas Ionides: Alright we'll switch to the other side of the room here. Gentleman in the second row please.

Mr Gaurav Raghuvanshi, Wall Street Journal: Hi this is Gaurav from the Wall Street Journal. A question on India. You mentioned that India is one of your growth markets and, you know, it's been about eight months that they opened up to foreign partnerships. Your former partner Tata has actually gone ahead and tied up with AirAsia. Are you looking at any partnership there, and what are you doing to catch up especially when you're constrained, as you said, for the flying rights into India?

Mr Goh Choon Phong: Okay. We have said so and it's the same position now. We are open to investment opportunities in growth areas and we continue to be so. So if there is an attractive proposition we will certainly consider it.

Mr Nicholas Ionides: We'll switch back to the centre. The lady in the red top please.

Ms Karamjit Kaur, The Straits-Times: Hi, good morning. A few questions if I may. You're carrying more people, so clearly people are quite happy to fly SIA, but perhaps they're not willing to pay the sort of fares that you would like to charge. So this, you know, erosion in your premium pricing power, if I may call it that, do you think this is temporary or do you think it's more of a long-term, bit of a structural change? That's one. And with regard to your new product launch, you said before that the plan is to launch it in the second half of this year. Can you perhaps be a bit more specific about that timeline? When exactly is this going to be unveiled? Just give out the month perhaps. And more importantly, do you think this is going to be a game changer for you in terms of, you know, perhaps bringing back some of the yields that have been eroded? Thank you.

Mr Mak Swee Wah: On the question of pricing power, I think we have to take in consideration the changing market landscape and changing competitive landscape. I mean clearly there are many other airlines which have grown aggressively and which have also adopted the SIA formula and also improving their products and services. And so clearly the market is much more crowded. We want to continue to maintain our leadership in the premium segment of the market and to be able to get the right yields and the right returns from our positioning. And the leadership is not so much just about hardware, although we talk about the coming product launch, which by the way, I think the invitations will be out soon. Anyway the first B777-300ER, that aircraft will be coming sometime in August or so, so the launch will be before then, so it wouldn't be that long.

So I think what we want to put out to the market is not that we have the best seat or the most radical, game-changing seat. It's a whole package. Our products will continue to evolve, with attention to comfort, with attention to design, with attention to look and feel, the in-flight experience, the in-flight entertainment experience, and as Mr Goh mentioned just now, the servicing element that sort of wraps up the whole package. So I think this is how we intend to stay ahead of the game and hopefully to rise above airlines who talk about the largest number of planes or the widest - or the biggest fleet of A380s and some of the hardware. And with that we hope to be able to get the right yields from customers who find the travelling experience with SIA preferred.

Mr Goh Choon Phong: And maybe I'd just add also that while it has been difficult of course to reach the top, it is also very, very difficult to maintain ourselves at the top. That's why it is not about a one-off game-changing type of thing. It's a continuous process of improvement. And that continuous process of improvement applies to both the hardware and the software which were some of the things that we talked about earlier.

Mr Nicholas Ionides: Back to this side, the very last row please.

Mr Andrew Orchard, CIMB: Hi, morning everyone. Andrew Orchard from CIMB. First a couple questions on SilkAir, and to piggyback off of Robert's question earlier. We've seen loads for SilkAir come off quite sharply in recent months, but yields hold up a little bit better. And that's been in contrast with the Parent Company where loads have been a bit more resilient, but yields have dropped more sharply. Can you tell us a bit more about that distinction? Is that a function of things like premium mix and also currencies? Or is that a philosophical decision.

And then number two, from the longer-term perspective, where do you see SilkAir eventually ending up relative to the parent carrier. For example, I think the revenue's right now about 7% of the parent company. In five years time, say where do you see that ending up? And lastly, a question on alliances, any thoughts on a switch in alliance strategy? Thank you.

Mr Goh Choon Phong: Sorry, what do you mean by switch in alliance strategy?

Mr Andrew Orchard, CIMB: A different alliance.

Mr Goh Choon Phong: Ah I see, okay. Let me just take the question on the alliance part. We are part of the Star Alliance, and I can tell you at this point in time that there's no plan to switch to any other alliance. However, one should note that we do have bilateral collaborations with many airlines who are not in Star Alliance. Besides Virgin Australia, we have also co-operation with various airlines in the US for example. So Star Alliance is not itself a constraint for us to co-operate with people or airlines outside that particular alliance.

Mr Mak Swee Wah: On SilkAir, on your observation that the load is down and the yields are holding, as opposed to the parent airline, I think this is because of the different profile. First of all the loads are not catching up with capacity, mainly because as I mentioned earlier we made the move to expand more rapidly into certain key markets like China where I think the – this was, I explained just now, a more strategic move. So those routes, the loads have not really caught up yet and has brought down the overall total. On yield front, it's a slightly different competitive situation, although a fair bit of traffic on SilkAir comes from SIA. But most of the traffic for SilkAir is more within the region. And it doesn't suffer from both the yield drop as well as the currency effect from markets like Europe, Japan, which really has affected SIA's long-haul yields. So it's a slightly different traffic mix and profile.

Mr Goh Choon Phong: I think there was one question on relative growth or something like that. Roughly you can tell where SilkAir is going from the aircraft order that we have made. But we also made it quite clear earlier about the integration between SilkAir and SIA. It is important because the provision of connectivity between the SIA network and the SilkAir network is actually something that is very much welcomed by the public as well as something that could make sure that we collectively are able to offer the best product to our customers.

Mr Nicholas Ionides: Okay we've got time for three more. We'll go to the centre, the second row please. Third seat over. Sorry, she was first. We'll go to you afterwards.

Ms Andrea West, Investor Central: Hello, I'm Andrea from Investor Central. We see that you've increased dividends to 23 cents this year compared to 20 cents last year. How could you do this given that times are tough and that you made an operating loss in quarter 3 and quarter 4? And my second question, which is quick. Sir Richard Branson was in town last week, did you get a chance to catch up? Or was there nothing left to talk about?

Mr Goh Choon Phong: I would not comment on any private appointment that I have. But on dividends, the dividend is deliberated by the Board. The Board of course discusses all aspects of it, including what you've mentioned about performance and all that. We believe that based on our net profit and also based on the cash reserve, this is something that we can pay out for this year.

Mr Nicholas Ionides: If you could just pass the microphone to your right please. Thank you.

Ms Corrine Png, JP Morgan: Hi, I'm Corrine from JP Morgan. I guess from my perspective I'm more greedy. Looking at the challenging environment that you operate in, it's great that you still generate positive cash flow. And net cash is now

$4 billion. So I just wanted to understand, you've kept your payout ratio at 71%, but is there real need to hold on to so much cash? Are we looking at more potential acquisitions going forward especially in China? And my second question is on your corporate structure. First of all, I understand that maintenance is a core operation, but is there a need to own a 79% stake in SIA Engineering? Could we bring it down to 51%? And then on the other hand for Tiger, if all the convertible bonds, I mean all the securities are converted, your stake will go up to 46%. Wouldn't it make more sense to merge Scoot and Tiger in the longer-term, to be more integrated like SIA and SilkAir? Thank you.

Mr Goh Choon Phong: The cash position is again something that the Board reviews all of the time, the capital structure, the cash reserves, and all that. And you know, this is a very volatile market. You saw the performance over the last 10 years. It can go up to as high as $2 billion at one point in time, and we could actually suffer an operating loss for the full year as well. So we need to ensure that we have sufficient cash to meet any of the adverse situations that might come about, especially if it's one after another. Having said that, it is something that the Board deliberates on. It is something that the Board will decide on as well. So that is what it is right now.

In terms of you were mentioning about corporate structure, Engineering. Yes, engineering as in the support and the maintenance and all that is actually a very critical part of airline operations. You can just recall those times when we had the engine issues on the A380s and also the wing rib issues. It came in with tremendous help for the airline to actually have Engineering. Now as to what holding and so forth, again it is something that will be deliberated and is always being discussed and reviewed by the Board.

Then you asked questions about Tiger I believe? As I mentioned, we believe that there is good growth potential in a different segment, which is the low-cost segment, and Tiger is in a position to tap those growths, especially in Southeast Asia. So that's why we supported the fundraising. At this point in time there is no plan on going anything further. In fact, you may recall that during the fundraising we actually, while we supported it, we limited our underwriting to a maximum of 49.9%, which means it's not control. So at this point in time, no. Thanks.

Mr Nicholas Ionides: Okay, we'll take the last one. Back on my right side of the room, third row from the back.

Mr Anshuman Daga, Thomson Reuters: Hi Mr Goh, this is Anshuman from Reuters. I want to check with you, over the last two years profits of SIA have slumped. Just the revenue is holding up. I mean is it time that investors should think that SIA - what can SIA do to get back on the growth track? Or should investors think that profits will remain at these levels, and there won't be a big increase in the margins going forward? I mean is this structural change for SIA?

Mr Goh Choon Phong: I think that you should look at not just SIA in this case, but you should look at the whole industry. And I think I'll leave you to look at the whole industry and look at each airline and see the performance. It is a very tough market for airlines in general. And why? Fuel price is one big one, which at USD130, USD120, it is still at almost historical highs. And fuel price is anywhere between 30-40% of an airline's expenditure – of an airline of our size at least, of this kind of network. And it's not something that we can control, and that affects everybody.

And you also would want to look at in particular for airlines with the kind of reach that we have, which means operating, for example, long-haul to some of the markets that are adversely affected by economic issues in the last few years - specifically to US as well as Europe - which affected the yields of those countries. And if you have that combination, you know, you have to operate long-haul to these destinations, and long-haul means that you actually burn more fuel, because you actually burn fuel to carry fuel, right? At the same time you have lower yields. That combination is not great for the operations. But if one subscribed to the view that these economies are basket cases and will never recover, sure, you know, then any airlines that operate there are going to be in trouble in the long run. But we don't think so. We think at some point there will be recovery and we will be well positioned to tap the recovery with the growth and the partnerships that we've established within Asia as well as in these other parts of the world.

[Follow-up question - inaudible]

Mr Goh Choon Phong: I don't know. I mean you maybe can tell me when the recovery will come in Europe for example. So it's anybody's guess. The question is, do you therefore decide to get out of Europe completely? Maybe, maybe some might wish to do that. But that's not how we view the world. Thank you.

Mr Nicholas Ionides: Thank you. And with that we will bring this morning's session to a close. Thank you all for attending.

(ENDS)