TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Full Year Ended 31 March 2019
(Read in conjunction with PowerPoint Presentation)
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E&OE – may be edited for grammar

Presentations

Mr Nicholas Ionides: Good Morning, and welcome to the earnings briefing for Singapore Airlines' full-year results. My name is Nicholas Ionides, and I'll be moderating this morning's session. We'll follow the usual format this morning. We will begin with a presentation by our Senior Vice President Finance Mr Stephen Barnes. He'll be presenting both the Parent Airline Company results as well as the Group results. Our Chief Executive Officer Mr Goh Choon Phong, will then follow with a presentation about the outlook and our strategic initiatives, followed by a Q&A. Joining Mr Goh and Mr Barnes on the panel will be our two Executive Vice Presidents, Mr Ng Chin Hwee, and Mr Mak Swee Wah. Stephen, I'll now invite you to the stage. Thanks.

Mr Stephen Barnes: Thanks very much, Nick. Good morning, CEO, EVPs, friends and colleagues. It's my pleasure to run through the financial results for FY18/19 for the Group. I'd like to start with perhaps some key takeaways, at least from our perspective. We had a record revenue year. It was ten years since the previous high point, which was in FY08/09, which you may recall was at a time when SATS was part of the Group. We achieved $16.3 billion this year, and that year we achieved just under $16 billion. It was led by strong growth in traffic across all passenger airlines, and we'll talk more about the details of that operating performance.

On the other hand, fuel costs rose by $1 billion before hedging. Clearly that's a significant headwind to overcome. We did enjoy last year a number of non-recurring revenue items. These are related to KrisFlyer breakage, and also the compensation that we received from Airbus. The $243 million of non-recurring revenue that arose last year is unfortunately not present this time around.

We'll start off with the Parent Airline, if I may. Overall demand was strong. It was ahead of growth in capacity, and overall as a consequence, our revenue grew by $337 million. That's up 2.6%. Once you take out the effects of the non-recurring items, the revenue growth was under 5%. But you could see in the expenditure column that we had a significant increase – nearly a 17% increase in our net fuel costs. So that's net of the increase in the hedging gain. On the other hand, our non-fuel costs rose by only 1.8%. What that means is that our capacity had grown by, on the passenger side, you'll see by around 5%, and on the cargo side by around 1%. So overall, we had capacity growth of around 3%. Our non-fuel expenditure was up by only 1.8%. Therefore, our non-fuel unit costs were well controlled and were down.

Turning to operating performance for the full year, passenger traffic growth was up 7%, well ahead of the 4.5% growth in capacity, which means our passenger load factor was up 83.1%. That's the highest we've ever achieved. Yield was slightly down by 1%. Nevertheless, the increase in the load meant that our RASK or our unit revenue was up by just over 1% for the year. On the other hand, our unit cost because of fuel also rose. Now if you take out fuel and look at the unit cost ex-fuel, you can see that we had a reduction of 1.8% in our non-fuel unit costs.

Let's turn back to revenue, the passenger flown revenue was about 80% of our total revenue. Cargo also grew by $45 million. The performance during the first half of the year, you may recall was very strong, but the market weakened or softened during the second half, particularly Q4, and so the overall increase was dampened a little bit. You can see that the red numbers, other passenger revenue and other revenue items, indicate that other sources of revenue were down. This is the effect of the absence of the non-recurring revenue items from last year, primarily.

Take a look at the last two- or three-years′ progression of RASK. This is where we began in FY16/17, and overall the improvement during the subsequent two years has been very encouraging. It's driven or contributed very substantially by improvements in loads and yields in the premium cabins. This picture is constrained by exchange rates. I'll return to that as well.

Turning to the cargo operating statistics for the year, you can see that the loads dropped by 3.5% on flat capacity. On the other hand, revenue improved as a consequence of the improvement in yield, which was up 5.7%. The otherwise relatively rosy picture was dampened a little bit by higher fuel costs which drove the higher cargo unit costs.

We take a look at the last couple of years′ progression of cargo yields, which began two years ago at this level, was much stronger in subsequent years. This is FY17/18; and then most of FY18/19, also showed very strong encouraging improvement. In the final quarter, you can see that demand had weakened. Capacity in the industry also grew, so both factors coming together mean that yields remained relatively flat in the final quarter.

Let's take a closer look at the costs for the Parent Airline. Unfortunately, fuel is now above 30% of our total costs, increasing over $500 million in the year. Other cost categories, on the other hand, were reasonably well contained. You can see the staff costs were up by 4.6%. This is on the back of roughly a 4% increase in headcount, which was driven by the fact that we needed more crew because we grew or increased our flying, and invested in more IT professional resources. If you combine that increase in headcount with the fact that we flew longer distances to, in particular, the U.S., the control of the staff cost was encouraging. Aircraft costs in the form of AMO costs, as well as depreciation and lease rentals all fell. This is despite the fact that we took delivery of 22 aircraft – this is just SIA alone. We took delivery of 22 aircraft, all of which were owned. They replaced a number of aircraft, about a dozen aircraft, that were returned to lessors, so really this is an interaction between the cost of ownership versus the cost of leasing our aircraft. AMO costs were down --again, this is linked to leasing. We provide for the cost of redelivering our aircraft, and in particular in the course of the last 18 months or so, we returned a number of A380s to lessors so the cost of those provisions has now fallen away, which contributed to the reduction in AMO costs. If you look at the other cost categories, whether it be handling, landing, parking, passenger costs, sales costs, all related to the volume of flying, the volume of traffic, the increases here were all well within the growth of the business.

When you come to look at the unit costs, you can see that non-fuel expenditure, in other words, the unit staff costs and the unit other costs were actually flat, year-on-year. The increase in our unit costs came about purely as a consequence of the higher fuel costs.

Looking at Group Performance, the major movers are really again related to the strong growth in traffic. Flown revenue rose by $829 million. It was offset, at least in part by the absence of the non-recurring revenue items from last year and some other smaller items. Our overall increase in revenue was $517 million, despite the very strong and much higher growth in flown revenue. But we're happy with the trend in the underlying operating performance. On the other hand, you can see that fuel cost before hedging rose by a full $1 billion. It was partly offset by an increase in the hedging gain, but nevertheless, nearly an 18% increase in our net fuel costs.

Consequently, I should also linger for just a quick moment on the increase in non-fuel expenditure, $311 million, increase in non-fuel. This is up 3%. This is below the rate of increase in our capacity and our overall traffic. So again, our unit costs at the Group level are also being driven down.

This slide depicts the development of our revenue by quarter, very much led by the strong flown revenue as I've already emphasised. This is as I've mentioned, the highest group revenue that we've ever recorded. I'll give you a little bit of a picture of the revenue growth in the absence of the non-recurring revenue. You can see that the underlying improvement was up $760 million or just under 5%.

The picture is actually quite similar at the Group level compared to the pie chart that I showed a moment ago for the Parent Airline. Passenger flown revenue was higher across all airlines. In fact, passenger traffic it was up 8.5% across the Group, partially offset by a reduction in yield across the Group but the group RASK or our unit revenue measure was flat at 7.7 cents per ASK. Cargo flown revenue, I've already mentioned, very much supported by strong yield performance, offsetting, more than offsetting, the reduction in loads. You'll see the red numbers showing a decline in Other Passenger Revenue in the absence of the non-recurring items from last year.

I hope that this slide enables you to see the development from an operational perspective of the different businesses that we have. Starting from the right-hand side, you can see that the passenger airlines all grew reasonably strongly. In fact, it's been six years or so since SIA grew at this 4-plus per cent rate. Traffic grew much more strongly at 7%, which is the source of the increase in load factor but offset by a small reduction in yield. Nevertheless, RASK was up 1.2%.

Now if I, if we do this calculation, or if we look at our unit revenue on a constant currency basis, actually our RASK for last year was up 3.6%. SilkAir also had strong growth in loads. So again, increasing its load factor, not quite to a record, but close to. On the other hand, the yield reduction, which came about primarily in the first half of the year, and as the situation has been improving in the second half of the year, yields were down 5%, leading to an overall reduction in RASK of 1.2%. It was actually flat on a constant currency basis for SilkAir. Scoot mounted significant amount of additional capacity at around 15%, roughly maintained, not quite, but roughly maintaining its load factor with strong growth in traffic but slightly at the expense of yields. Again, constant currency, yields would have been about flat. SIA Cargo, we told the story there, a slight reduction in loads more than offset by the improvement in yields.

You may recall that we adopted IFRS 1 a year ago and we have restated last year's expenditure numbers to recognise the fact that we actually had a reduction in the depreciation charge as a consequence of adopting IFRS 1. You can see the effect on a quarter by quarter basis. On a like-for-like basis, between prior year and FY18/19, our expenditure was up, just short of $1 billion.

Most of that came from fuel, as we've already talked about, so fuel was up, net fuel was up $688 million. Staff costs are up at around about the same rate as for the Parent Airline. If one looks across the various cost categories, all of the other non-fuel expenditure items are controlled within the rate of growth of our traffic and capacity growth.

To give you a picture of the impact of fuel, first of all, the price -- up $888 million, which I find a little ironic. As a result of the increase in the fuel price, this is the impact on our fuel bill. Also, because we flew more, we consumed more fuel; offset by a higher hedging gain and a very small impact this year from exchange. Overall, the net impact of fuel for the year was $688 million.

This slide provides you a picture of the development of Operating Profit for the Group. As you can see, we were down $482 million, and it came about from the following. We had strong growth particularly from passenger flown revenue, but also cargo flown revenue. We did not enjoy the non-recurring items, by definition. We did suffer from a significant increase in the net fuel cost. Ex-fuel costs, we talked about the cost of ownership or leasing of aircraft and also staff costs. The other ex-fuel costs are really those that are, passenger costs, landing, parking and overflying costs, handling charges which all support the growth in the capacity of the business. This increase of $148 million or $149 million is an increase of 2.6%; well below the growth in capacity and various other items. Overall, those are the main contributors to the reduction in our operating profit for the year.

Now if you then look at the contribution of the different main operating entities within the Group, you can see that SIA dominates with nearly $1 billion of operating profit, but down much more than anybody else. If you take out the non-recurring items, SIA's reduction in operating profit was about $100 million. So, it's still down. For the airlines, amongst these four, the explanation for the deterioration in operating profit is the outsized increase in our fuel bill. For SIA Engineering, it had a reduction in revenue from primarily component and airframe overhauls. That was offset by a reduction in material costs and production costs, but overall slightly negative.

Turning to attributable profit, again, this is telling a story of weaker performance year on year. When we layer on the non-recurring items in FY17/18, and also non-recurring items which were all non-operating this year, the overall reduction was down by $240-odd million. I will explain the non-recurring items that we suffered this year in just a moment. So, looking at the progression from last year's net profit to this year's net profit, primarily driven by the reduction in operating profit. Also, a significant reduction in the contribution from our associates. You may recall from our first quarter results that Virgin Australia took a significant write-down of a number of its assets at the end of its financial year. So, we recorded those in July – actually, in our second quarter, wasn't it? In July/August, and our share of those losses was $116 million. On the face of it, it more than accounts for the reduction. But it's also true that Vistara, our associate in India, had a tough time in a very competitive market with higher fuel prices and a weakening rupee; so its loss also rose. NokScoot flipped from a small profit to a small loss as a consequence of increased competition, particularly into Japan, Korea, and Taiwan. There was also some impact from a softening Chinese demand, China to Thailand demand. SilkAir, in the process of moving from an Airbus fleet to a 737 fleet, also made a provision to recognise costs associated with writing down excess inventory and spares and providing for termination of certain maintenance contracts. A very small amount also in relation to actually restructuring towards integration.

You will be aware that, SIA has been borrowing, and as a consequence our finance charges have risen during the year. The change in our position on aircraft disposals reflects a gain last year, and a very small loss on an A320 this year. Our profit before tax has reduced, we paid lower taxes and then there are very small number of other items. I hope that gives you a good sense of the sources of change in our profit after tax.

We had announced a final dividend which was approved yesterday by the Board of 22 cents. This gives us a total dividend of 30 cents. We had quoted the earnings per share last year at the reported earnings per share at this time last year – so, this is not restated. Investors were looking at, at the time of the dividend declaration, was an EPS of 75.5, and as a consequence the dividend payout ratio last year was 53%. This year, it's 52%. So, looking to maintain a very consistent approach.

As we move to give you a picture of the overall fleet development, you can see at the SIA level, we have a significant number of aircraft movements -- both aircraft coming into the fleet as well as aircraft leaving the fleet. But overall, SIA, the main line operating unit will end up, three aircraft up. SilkAir had expected that it would take delivery of nine 737 MAX 8s. Unfortunately, that's not going to happen or at least we are assuming that is not going to happen in the course of this financial year. But that could, of course, change. As a consequence, SilkAir will hold on to the 737-800 NGs in order to maintain its network. And that means that Scoot, we had planned to actually move the NGs to Scoot. So that means that Scoot's fleet will not increase with that new 737 fleet, and we'll be looking for replacement aircraft that we would probably need to lease. That's not recorded or reflected in here.

We need to recognise that events relating to aircraft are causing our capacity plans to be moderated a little bit; in particular, and most obvious the grounding of the MAX 8s and also challenges with the Trent 1000 TEN engines which are currently fitted to our 787 aircraft in both Scoot as well as SIA. It's clear that developments with both of those aircraft types are causing a moderation in our capacity growth. Nevertheless, with some mitigation through extending leases or looking for new aircraft to lease, we have been able to mitigate a little bit of the effect. As a consequence, the growth currently planned for the Group will be 6% spread, as you can see between the three units.

I would also like to provide you with an update of our capital expenditure. The numbers that I'm showing on the screen here are lower than the numbers that we had previously reported by a few $100 million. That's a consequence of delays in delivery of certain aircraft, and I should also say an adjustment in the exchange rates that we'd used in the forecast. All of these figures are in Singapore dollars. And finally, we have 80% of our fuel requirements, in the current quarter, already hedged at $75. For the full financial year, we have hedged 69% of our fuel requirements, mainly in jet fuel, at $76. And then as you know, we have a program that continues to buy hedges out for the next five years or so, so for the next several years we're in the 45- 46% hedge ratio range.

I would like to take this opportunity if I may just to give you a little bit of an update on another significant accounting standard for the aviation industry. IFRS 16, otherwise known as the leasing standard. What it essentially means is that if you have operating leases that currently don't appear on our balance sheet, we now need to bring those leases on to our balance sheet in the form of a right-of-use asset and recognising the lease liabilities, which would be the present value of the future rentals on our leases. The impact is described here. We will have an increase in our assets. These are almost entirely in the form of, the underlying asset is almost entirely an aircraft, and the lease liabilities are at about $2.2 billion. In order to recognise essentially the timing difference between the rate of depreciation of the right-of-use asset and the consumption of the lease liabilities, we also have a charge to our general reserves which is essentially recognising the fact that we would have had a higher depreciation on these assets if it had begun, if the depreciation had begun at the beginning of the lease.

And I think it might be helpful to just give you a little bit of a picture of the impact on our P&L of bringing the operating leases onboard. Previously, with our operating expenditure which include pretty much a straight-line rental expense, which is the dotted line. What we now recognise are two separate things; the depreciation of the right-of-use assets, which is going to be lower than the lease rental. So that's the blue line. But we also have a finance charge, because embedded in the lease is essentially a finance cost. This is going to decline over time because as the remaining value of the lease declines, essentially the principle is declining, and the interest cost is also declining, so that's the green line. When you add the two together, you'll get the red line. Now you can see that if you're, if in general your leases are at the beginning of their term, the impact of the standard on our P&L would be an increase in expense compared to the rental. If on the other hand, the leases are on average towards the end of their life, the impact on our P&L would be below what we used to enjoy of the rental charge. In our case, the estimated effect on our P&L is positive, by these amounts. What that essentially means is that on average, our leases are beyond their half-life. I know you've had enough of listening to me, so I would like to, if I may hand over to our CEO, Mr Goh Choon Phong.

Mr GOH CHOON PHONG: Good morning ladies and gentlemen. Again, I'd like to add my welcome to everyone for attending this briefing.

This slide is familiar to everyone, and I will go through briefly the developments for this year; and probably the early part of this financial year. Strengthening premium positioning, we continue to invest in our products, so you have seen that. In the prior year, a year prior that we had brought in more of our new aircraft with new products, and we've injected quite a few in the last year, particularly on the medium haul side for the medium operations using 787-10 as well as the A350 medium-haul product. At the same time, we continue to operate the ULR and I'll touch on later on the points that was, that have been covered. Everybody's aware that we have our 777X in the horizon, and we have started looking into the products to be developed; for the 777X particularly in First, Business, and other classes. It is looking very promising, and I think it is products that we believe will lead the industry when they are introduced. These are some of the expansion that happened so far. Seattle, of course, is coming online soon.

On the portfolio side, we mentioned about the integration of SilkAir into SIA. We had previously also mentioned that because of the availability of the product, in particular the full-flat Business Class seat, this integration would only be able to start, rather, the fitting of the product onto SilkAir planes would only be able to start in 2020. We expect that timeline to be continued, to be maintained at this point in time. Of course, one may ask what happened, whether there is any effect resulting from the grounding of the 737 MAX 8 aircraft? At this point in time, that's not something that we can give an assessment on. But on plan, all the integration efforts are progressing.

On the portfolio side, you know how important it is for us to have the portfolio strategy to have flexibility and nimbleness to address both the LCC (Low Cost Carriers) and the full-service market. This particular picture, presented here, are the points as at 31 March 2019. So, we continue to be one of the biggest operations in terms of the number of points to China, we continue to be the biggest international carrier in terms of number of points to India, and also in Southwest Pacific. And you see that as we develop the portfolio, network, we’ll continue to emphasise the growth in the various markets that are important for us.

Multi-hub, Vistara has gotten its approval to operate internationally and it is in the preparation stage of mounting international flights, subject to final approval from the Indian authorities on the traffic rights allocation, et cetera. So, it will be able to announce when it had those plans ironed out. NokScoot will continue to grow with the addition of two more 777 aircraft.

Some updates, this again is not something new. We have announced it before. CAE of course is a joint venture that we have, to address the training needs, simulator training needs for the Boeing aircraft. You would recall that we have AATC before, that was addressing the training needs for all the Airbus planes. We continue to develop KrisShop. KrisShop of course is now an independent company, majority owned by us, 70%.

And we are looking at how to enhance the offerings of KrisShop for our customers, not just on the plane but in a more holistic manner, to passengers who are also not traveling necessarily. So, this part there are further enhancements that we're going to make quite soon, in the second half of the year, whereby passengers traveling on us could actually make the orders, up to one hour before the flight, for delivery at the airport for them to pick up.

There are also other developments that we have announced, in digital transformation; the collaboration with Alibaba, and the launch of KrisPay, which is, as we all know now the first blockchain usage on FFP (Frequent Flyer Programme) program. And in fact, KrisPay had recently applied for a patent for the use of blockchain in FFP programs for parallel transactions.

KrisConnect is an API that we have introduced so that we can better able to collaborate with partners. They can connect with us in a more seamless manner. We have announced a DBS collaboration and that is for us to participate in the DBS marketplace, so that passengers could also get through to us, especially for us to reach the DBS customers with a bigger distribution platform.

We have launched KrisLab in early part of the year. This was, I think well announced and publicised so I wouldn't add on more, except to say that since the launch we have had more than 300 projects initiated by our staff together with external parties, including startups, and many of them have gone through different phases of selections and also going through the review, and many of them are now in the process of being implemented. We also have an accelerator program, which is about working with startups. We started with 60 over different projects and now we have five in the final selections that we'll be working on to look at the next phase, which is producing a more viable prototype.

So, what have we done, and what have we achieved since we announced this transformation two years ago? We have completed two years of our three-year Transformation that we had mentioned earlier. So, we will be, through this transformation, and have been making progress to watch us streamline our offerings and this is about moving from four brands to three now, and eventually to two. It's also about making our product and service offerings in a manner that is even more friendly to our customers. Take for example, refund process that used to take four or five days, and through some of this automation not only have we cut down the manual handling of refund process by 80%, more than 80%. It also reduced the latency of refunds to, from four- or five days to almost instantaneous. Through other enhancements that we have made, we have saved approximately 10 million hours for our customers.

At the same time, we are also looking at how to use some of this, how to develop more digital tools to help our people to better address the concerns of our customers. Take for example, our Customer Affairs department, we now have a tool that will allow an auto-sorting of feedback from customers, prioritised in a way that our people can actually address the most urgent cases, and so the customers can actually get a more immediate reply if their case is urgent.

Of course, we have lifted our customer experience through all kinds of implementations, including particularly personalisation, and we have done that onboard as well as other touchpoints across the service chain.

Revenue generation capability, we have done a lot in terms of introducing a new revenue management system as well as new systems and processes that will allow us to react in a more nimble more dynamic manner to changes in the market. For example, things like our pricing capabilities and also various salesforce automation tools.

Operationally, leveraging data analytics as well as learning tools to automate many of the processes, for example, in terms of predictive maintenance so that we can actually get more efficiency out of the operations. So here are some of the results, 7% productivity gain and the reduction in engineering delay as a result. Of course, we would need to -- a lot of focus is actually on upscaling our people, which is said here that 70% of the ground staff have actually gone through some basic digital training. This year we expect to complete the training for 100% of our staff. And this engagement with our staff has also shown in the staff engagement score that we have done in our survey.

The result of the transformation both on raising the revenue capability and also to make sure that we continue to have a good management of the cost, have shown that if you see the first part before our transformation of this graph, you see that the gap between the RASK and the CASK (ex-fuel), which is really the profitability gap was narrowing and since transformation, you can see that the gap actually has been on the right trend or widening, meaning that the RASK has been on an uptrend and the CASK (ex-fuel) has been on a downtrend.

Of course, we're not stopping here. There's been a lot that we have done but there is much more that we are going to do, and you can see in this chart we kind of give a glimpse of what we intend to do. For example, in the case of the marketing side, we continue to push and invest in NDC, which is a new distribution capability and also to actually push ahead with our various platforms. One order is one of them, merchandising platform is another. This will further enhance our ability to actually generate more revenue. The long and short of this, really is that if you look at an airline operation, there really -- okay, there are two components of any business. There's a revenue side and there's a cost side. But for an airline, you can look at revenue and within cost you can split it between, let's say the biggest chunk, which is the fuel cost and other cost. What we have done in the transformation is to address the revenue potential side, to the revenue capability side and also the non-fuel costs part of the expenditure. So on the revenue side you can see that what we have done in the transformation in making us a lot more nimble and flexible in terms of addressing what the market needs are, has resulted in an uptrend in RASK and the further investment that we're going to make we believe will further enhance this capability. On the cost side, similarly, Stephen has presented on the non-fuel unit cost, it has been well under managed and it will be something that we continue to focus on, pushing productivity and cost efficiency and that again, we believe our transformation effort thus far and more that we will be doing will continue to push that trend. On the fuel side, which is something that is the other big component of an airline operation, as Stephen has pointed out, we have in place a long-term hedging program locking in up to 46%, 45% of long-term needs at a reasonable fuel price relative to what it is today. We're talking about brand crude price of about up to $63 or so, versus today's brand crude which is more like $72, $73. So with all this data and the trend that we're seeing, we do believe that, of course the environment could change, but we do believe that we are in a very good, solid position to actually be able to tap on whatever potential that may come, coming our way in the future. But even if the environment has changed, what we have put in, in our organisation both in terms of capability to address market changes, as well as the portfolio model, which allows us to switch even the model itself, will put us in a good position to address those changes. Thank you.

Q&A

Mr Nicholas Ionides: All right. Thank you, Mr. Goh. We'll now move to the Q&A segment of the morning session and please do bear with us for just a couple of minutes as we move the tables into position. While we're waiting, a few of the usual reminders. Please do direct your questions through me. Just give me a signal that you'd like to ask a question and I'll call upon you. Please also do state your name and the organisation that you are working for and do wait as well if you could for one of the microphones to come to you. We will be recording today's session, or we are recording today's session as usual for a transcript that will go out on SGX on Tuesday morning. Finally, the usual reminder as well, please do limit to two questions each time that I call upon you. That is so that we can give more time to others to ask questions. Of course, if there is time, I can return to you. And with the tables in place, I'll now invite the executives to the stage. I think we're ready. We'll take the first question. The very back row, centre. Thank you.

Mr Shaurya Visen, Goldman Sachs: Hi. This is Shaurya Visen from Goldman Sachs. Thanks for taking my question. I have two quick ones for you. First of all, can you give us some sort of guidance on pricing or yields in the sense what you're seeing in the market now, say the current quarter and how should we think about it going, in the year ahead? And my second question is on your costs. So again, very impressive performance on your ex-fuel cost. How should we think about the ex-fuel cost say maybe CASK going forward? So, two questions there. Thank you.

Mr Mak Swee Wah: I think first of all if you look at what is the demand ahead and what we have seen is that demand for passenger remains fairly strong and this is across all classes and all the major markets. So, pricing is really a function of supply and the capacity, capacity and demand, and as we have seen our yield remains stable now so I think unless there are, of course there are uncertainties in the market and then unless there are major reasons why the demand drops off, I think we are fairly comfortable that the yield situation will remain stable.

Mr Stephen Barnes: From a cost perspective, we are just entering the third year of our transformation effort. It's actually proven to be quite tough to drive cost savings through the organisation. That is largely because some of the initiatives are fairly long gestation. There are things that we need to do to invest in order to actually make change and there are parties, often third parties, with whom we have to negotiate. So, the initiatives that we have been working on in the last couple of years will continue to, we believe, actually bear fruit, as we go forward. But as we go into our third year, we have in excess of 100 other initiatives that are currently being evaluated and developed. So there are, we believe, additional pockets of savings that we can drive.

Mr Nicholas Ionides: We'll stick to the centre section, just one row, and to the second row from the back. Thank you. The gentleman in the middle there.

Mr Aaron Chong, Channel NewsAsia: Hi, it's Aaron from Channel NewsAsia. Can I just get some colour on how many aircraft you will be intending to lease to accommodate for the shortfall in capacity and also following up from that, which airline would those aircraft go to? The second question is on Vistara. Now, we know that Jet Airways has closed down and how confident is the airline on taking advantage of the void left behind by your competitor?

Mr Stephen Barnes: I'll take, if I may, the aircraft leasing question. The shortfall as a consequence of the retention by SilkAir of the 737-800NGs, the shortfall really arises in Scoot. And so we are looking at up to 10 or 12 aircraft to replace the 10 to 14 aircraft that we were going to be transferring across and that's over the course of the next two years. So that's the sort of magnitude of the aircraft that we'll be looking to take in. I think, it's probably for completeness, we are also looking to extend leases on aircraft that are already with us in order to actually meet some shortfalls, so probably in the region of four to six aircraft, both narrow body as well as wide body.

Mr Goh Choon Phong: On the question on Vistara, we have announced, or rather Vistara itself has announced previously that they're looking at getting an injection of about another 50 aircraft. Six of them are looking at the wide body 787s. And also that they are progressively taking in those aircraft. Obviously Vistara is in an expansion mode and it will look into all opportunities to deploy those aircraft using the slots that may be available by whatever situation it might be. So, in this case if Jet has ceased operations and the slots are available, Vistara will certainly be looking at those slots as well.

Mr Nicholas Ionides: Okay. I have two questions lined up both in the third row from the front. The gentleman starting in that black jacket and then over to the aisle seat.

Mr Gregory Waldron, Flight Global: Hi, I'm Greg Waldron from Flight Global. So, I've got two questions, one for Stephen and one for Choon Phong. Stephen, what's the 10 to 12 aircraft you plan to lease? Are you leaning towards A320s or 737s, just to get a flavour on that? And then for Choon Phong, you know, the 737 MAX 8, there's a lot of concerns about the way certification is done in the U.S. and do you see that potentially impacting the delivery schedule for the 777-9?

Mr Stephen Barnes: The answer on the aircraft to bring in will be A320s because Scoot is not bringing in 737s, so for narrow bodies we'll be looking to take in A320 family for Scoot.

Mr Goh Choon Phong: Whether the 737 MAX 8 issue would affect the 777-9 delivery, this is really a question that you should be asking Boeing. As at this point, we have no advice that it will be impacted.

Mr Nicholas Ionides: Okay. The lady on the aisle seat, same row, please. Other side. Third row, third row. Thank you.

Ms Anita Selvaraj, The Business Times: Anita from BT. This would be the first full year since you had revised your fare structure and rewards programme. Wondering if you can give us some colour on how that's trickled down to some of your key airline metrics? That's the first question. Second question, you talked about issues related to grounding of the Boeing and the Rolls-Royce engine and your expectations are set at 6% for capacity growth. I'm wondering if you can tell us what were your expectations prior to these issues and what was your historical average capacity growth if you can do that? Thank you.

Mr Goh Choon Phong: Maybe I'll address the second question first. Well, if you look back at our record and for the last five years we haven't really grown very much. Partly because those new aircraft haven't been ready and not delivered to us. And also at the same time, we were doing quite a bit of retrofitting including the introduction of PEY (Premium Economy) and other changes. And as a result, the capacity hasn't changed and hasn't grown very much prior to the last year or two. Of course, with the new aircraft being delivered, we then are able to inject more capacity into our operations and hence you see that in the last year itself, SIA grew about 4.5%, which is a significant growth for an airline of our size. In terms of whether or not, what was the plan before the grounding of the MAX 8 and the Rolls-Royce Trent 1000 TEN engine issue, we didn't and we have not given prior to this what the capacity growth would have been. But if you were to do a back-of-the-envelope calculation, you can expect that it will be a couple of points.

Mr Mak Swee Wah: You ask about the revision to the fare structure. I think if you recall, we made fairly, significant changes to the way we set our fares and our loyalty reward programme. And this was done to provide more choices to the customers in terms of different price points with different features. And also, different redemption levels. So all these were done in response to what we think will be able to serve the market better and coupled with our revenue management system, which then is able to respond more dynamically to demand at the different price points. I think we are happy with the outcome. As you can see, we have been able to drive stronger revenue growth and our load factor of 83.1% this year is the highest ever that SIA has achieved. And with the yield, which is fairly stable with a small, with a real positive RASK, I think that is a strong indication of the outcome.

Mr Nicholas Ionides: All right. We'll switch to the right side, our right side of the room. The very back row, the gentleman in the jacket there.

Mr Sriskandan Jegarajah, CNBC Asia: Thank you. Sri, CNBC. Are you talking to Boeing about compensation for the grounding of the 737 MAXs?

Mr Goh Choon Phong: Well, you probably would know the answer that we will give, which is, we do not discuss any commercial, we don't disclose any commercial discussion we have with any OEMs.

Mr Nicholas Ionides: All right. We'll go back to the centre. The fourth row, the lady, one over from the aisle there. Thanks. And then we'll go directly across to the gentleman on the right side there. Thank you.

Ms Karamjit Kaur, The Straits Times: Hi, Karam from The Straits Times. Now just going back to the 737 MAX 8. Correct me if I'm wrong but you said earlier that the plan was to actually take nine of the aircraft this financial year, but that's not happening now. So I'm just wondering, is it the plan to still take these airplanes or are you in discussions with Boeing to maybe, you know, revise some of those plans, and maybe not take, you know, any of those planes, because some other airlines are in discussions with regard to that. And the second question, if I may. You mentioned in your release yesterday that traffic for Scoot especially was significantly impacted by a decline in traffic from China. I'm just wondering if that's related to the current, you know, U.S. and China tensions and just with regard to that, what sort of an impact do you expect, you know, that to have on SIA going forward, if at all and is there any upside at all that may happen as far as the airline is concerned with regard to those developments? Thank you.

Mr Goh Choon Phong: So, on the 737 MAX 8 again, whether or not we are having any discussion with Boeing, my answer is still the same. We do have discussions with OEMs all the time. Just that we will never disclose what those content of the discussion is. As of this point, on the decisions on the MAX 8s that are on order, at this point the 31 MAX 8s that are still on order, remain intact. If there is any decision that we have taken that would change that, you'll certainly get to hear about it. On Scoot's performance, it has actually indeed been impacted in last year. A key impact was from the slowdown in the Chinese traffic. Of course, there was also injection of capacity by largely the Chinese carriers to Southeast Asia and Singapore, in particular. So that's one impact. The capacity injections and then also the slowdown in the traffic itself for international, also corresponds to the increase in travel for the Chinese in domestic travel. So, in some sense they are doing a switch somewhat in the last year. Then of course, Scoot was well known for and affected by the Rolls-Royce Trent 1000 issue, which resulted in them having to ground a couple of their planes because of the issues with the Trent 1000 Package C engines. And those combinations affected Scoot's ability in some sense to actually generate those revenue. On the other side, and Stephen has pointed it out, there was a significant increase in fuel costs. So on the cost side too, Scoot was impacted, hence the underlying performance.

Mr Nicholas Ionides: Just directly across the aisle, the gentleman there in the white shirt.

Ms Karamjit Kaur, The Straits Times: Sorry, I don't think you answered my question on the impact of U.S and China tensions.

Mr Goh Choon Phong: Actually we did comment a little in our press release that this is something we're watching very closely. At this point in time, like what Mak say, we are still seeing good demand on all our flights, but we are watching this obviously very closely.

Mr Daniel Lau, Morgan Stanley: Hi, Mr. Goh, this is Daniel from Morgan Stanley. So, I just want to talk about your transformation programme. As you mentioned this is your second out of third year. When you look at the initiatives, a lot of them are still kind of have very long gestation periods, I would say. Of that, of your transformation, we are also seeing cost management which has actually has been your strength. I think as you have been doing quite well on that. But I think topline has always been a problem for SQ coming from competition and I think also of coming from a fairly small market in Singapore, there's really nothing much you can do. So, from that, you know, looking at your transformation programme, you're improving your products. And you're enhancing customer experience. I think that increases the stickiness of your demand. That's true. But to some extent, it only seems like it's just slowing down the decline of your pax RASK, or the passenger yields. And to some extent we have also seen in your results, it's not really able to cover the increase in fuel costs. So just wondering, are there new initiatives that allow you to grow your revenues out of the traditional, you know, just focusing on a passenger business, for example, like I would say a low hanging fruit would be your frequent flyer programme, something that you could perhaps develop a little bit more. But we are not really hearing too much development on that, or perhaps I'm not really understanding what your transformation programme is about. So just want to get some clarity on the frequent flyer programme, if relevant.

Mr Goh Choon Phong: I think we do, we should put this in perspective. The fuel price increase of course is a huge increase for us. But it is also a huge increase for any airline in the world. And the impact, if you really look at the financial performance of major airlines, especially in a similar market as ours, I leave you to do the research. You can see the difference in the performance, underlying performance between us and others. I would say that a lot of it is, of course we have, always have a good discipline in cost management but this goes beyond just cost management. It goes into efforts and initiatives to reduce the unit costs, ex-fuel, in particular. And it's not the same as just maintaining it, right? And all these initiatives, as you say, have a long-term implication. It's not a one-off thing. When we improve the productivity of our staff, when we improve the cost efficiency, let's say of how we operate the planes, it stays with us. This is the cost aspect. The revenue side, we have never depended just on Singapore. In fact, we can never just depend on the Singapore market in order for us to generate revenue. So, we depend on us operating as a hub connecting different parts of the world through Singapore. And as we said before, Southeast Asia, of course clearly is an area we pay a lot of attention to. The growth market in China and in India, we continue to see opportunity and therefore we continue to grow there. Australia - of course we also look at new markets whenever possible, especially if technology allows us to do so, like the nonstop to the U.S., and also nonstop to secondary points in the longer-haul markets such as in Europe. Munich for example, is a market that we're able to serve with that kind of model. And plus, new aircraft types like the A350 long haul planes allow us to open up, again, new markets, secondary points in Europe. So, all these are things that we are doing to enlarge our footprint and markets, so that it's never about Singapore alone. It's about connecting the world through Singapore and that will continue to happen. There are obviously also other revenue opportunities. We are actively looking into those. Some of them we have highlighted. We only highlight them when we kind of know and we're in a position to announce it. AATC is one of them. CAE joint venture is another. KrisShop is another. Introduction of KrisPay as a platform to link up with our customers and our merchants is another. KrisPay started with us enabling micropayment. But now it's not just about converting the points for micropayment at merchants', but also allowing those purchases to be converted into miles. So, all these efforts go beyond I think what you've mentioned, and we will continue to do so.

With regard to FFP programme, I think you have seen how FFP programmes have been in the past privatised or corporatised and then sold off as a separate business. At this point in time, firstly, we don't see the need to do so. We have still a very strong balance sheet. And also, importantly, we find that the FFP programme is such an integral part of our business that we would at this point in time still want to keep it within SIA. But that's not to say that we're not generating revenue from the programme because as you can see, we are actively signing up merchants and partners through the FFP programme. DBS, of course, that's a huge co-operation, so do other merchants and partners such as UOB. We just launched a card with UOB which is, I have to say, very well taken up. So, all of those are opportunities for the programme to earn income that will eventually filter back to the airline.

Mr Nicholas Ionides: All right. We've got time for two to three more and I already have a couple lined up. We're going directly to the centre of the room. That gentleman there with his hand up. Sorry, yes, that hand. Thank you. And then two rows in front to the aisle seat here.

Mr Ang Wei Ming, Macquarie: Good morning, Wei Ming from Macquarie. Two questions. The first one is: can I get a bit more details in terms of the one-off cost for SilkAir. And how much of that pertains to the grounding of the 737 MAX 8. And the second question is: let's say hypothetically if in third quarter, Boeing then lifts, I mean the 737 MAX 8 grounding is lifted, what happens then? Will you look to deploy the expected capacity, or will you look to lease out those planes given that if you guys are already going to lease the A320s for Scoot? Thank you.

Mr Goh Choon Phong: I'll take the second question first, and you can answer the first one, which is talking about what happens when the 737 MAX 8 is lifted. We'll have to see when it is lifted because it involves many civil aviation authorities. For example, just to give you an illustration. If let's say at some point that ban is lifted by the Singapore authorities, CAAS, but if it is not lifted by other authorities in Indonesia or in China, that means we cannot operate the MAX 8 to those destinations, which will severely limit the ability for us to deploy the MAX 8. And in such cases, there's a big question mark, wouldn't you say, on whether or not we should actually therefore operate at that point in time when it is lifted in Singapore. So, there are lots of considerations, so I wouldn't speculate. I would have to watch how it develops and we will then address that issue as it comes along.

Mr Stephen Barnes: The answer to the second question on the cost of the grounding, it's actually quite simple. It happened only in the last two weeks of March. So it's negligible in respect to FY18/19. Clearly the costs are going to be more significant as we progress through this current financial year. We should be able to give you more visibility on that as the year progresses. But the reality is apart from the fact that we shouldn't be saying anything else beyond that at the moment, but the reality is that there are many options to look at ways of mitigating the impact of the grounding, and which ones are ultimately implemented will drive the costs of the grounding. So, it's too early to say yet.

Mr Nicholas Ionides: All right. We have two final questions that I can take. The third row from the front, aisle seat. And then two rows behind, also the aisle seat, please.

Mr Brendan Sobie, Centre for Asia Pacific Aviation: Good morning, Brendon with CAPA, Centre for Aviation. My first question is about the 737NGs. It's kind of a different question. Now that, you know, Scoot is going to be acquiring these 10 to 12 replacement A320s, does that mean these NGs, you know, stay in the full service fleet, you know, which is SilkAir turning into Singapore Airlines and have you looked or made a decision on whether you want to put lie-flat into NGs now. And, or have you conversely, you know, decided maybe that you can, don't need lie-flat on that part of the fleet because it's, you know, two or three hour flights and you could get away with it arguably without lie-flat. That's the first question. And the second question is about the 777 older variants that, you know, your process of phasing out. You've put back in one of those and you put back in one A330. What does that do to the timeline on phasing out the older product? You know, again it's related to this whole strategy of all lie-flat, which is so important in your overall strategy. Do you see that slipping because of these things?

Mr Goh Choon Phong: I'll take those questions because they are indeed related. Lie-flat, yes, we do want to continue with that. I mentioned in my presentation earlier that the integration of SilkAir continues to be something we want to do and that the lie-flat product continues to be a key factor in that decision. The 737 MAX 8 grounding obviously has affected this particular transition and I mentioned also that it is in fact too early to actually assess what that implication is in terms of the timeline for the complete integration of MI back into SQ. What we will have to do is to deploy, to retain firstly the NG because SilkAir obviously doesn't have the capacity without the MAX 8. And to continue to watch the development of the MAX 8, how long it's going to be grounded and whether the other concerns with its putting back into the operations and then make a decision from there. The long and short answer is that we want the lie-flat product. Whether or not we configure it on the NG will be something that we'll make a call on, but it is too early to make that call at this point in time because we don't know how long exactly we will have to retain NG at this point in time. We have flexibility built in, of course in terms of leases as well as some of those that we own. On the older 777 and the A330 decision, it's a combination of both needing some of these aircraft in order to consolidate the services that the MAX was meant to operate and now it's not able to and there's a shortage of capacity. So you consolidate some of the services to be operated by the bigger capacity aircraft. At the same time, you will be aware that the Rolls-Royce TEN engine has also resulted in grounding of the SIA 787-10 aircraft, which means that we also need more capacity on the wide bodies and that also drives some of those decisions to retain these older aircraft.

Mr Nicholas Ionides: Right. Final question, two rows behind the gentleman in the black jacket.

Mr James Teo, JP Morgan: Hi, I'm James Teo from JP Morgan. On the 737 MAX 8 again, there are some views that you know, Boeing will likely fix the issue and the authorities will recertify it and airlines are left with the unenviable task of convincing the public, consumers to fly the 737 MAX 8 again. So how would Singapore Airlines go about doing this in terms of, whether it's marketing, branding or just convincing the consumer that it's safe to fly again. And that's one. And the other one is on SilkAir. I know this is a non-recurring cost and mostly due to the fleet transition, but can we expect more such restructuring costs, as I know that the cabin retrofit will probably be done only in a few years' time. And are there other costs like, you know, staff redundancies or have those already been, you know, are they a step behind us or is there more to come in terms of restructuring costs basically?

Mr Goh Choon Phong: For SilkAir, as far as we can tell at this moment, we have already identified at least all the major costs required in order to do the integration. And we have said so in the past that the whole exercise is not about staff redundancies. It's not a manpower exercise. It is an exercise because we believe that the streamlining of brands would actually better position the Group for us to address the different segments of the market, the LCC and the full service in a much more effective manner. So that really is a driver. And as we have done so and shown in our Transformation programme, the focus has always been about bringing our staff along, giving them the training and the exposure necessary for them to take up new jobs for example. It's the same way that we'll approach the integration exercise. So no major cost item at this point in time that we anticipate that hasn't been announced. On the MAX 8 issue, like I said earlier, it is an evolving situation. Boeing has to address those concerns, not just through the authorities but also to be able to address the concerns of, for example, pilots who are going to fly the plane and certainly the public as well. So, we will -- I can't comment beyond this. We'll have to see how things develop and we'll make a decision accordingly.

Mr Nicholas Ionides: All right, with that we bring the morning session to a close. Thank you all for attending and have a nice weekend.

(ENDS)