

QUESTION & ANSWER TRANSCRIPT
SINGAPORE AIRLINES ANALYST / MEDIA SINGAPORE

Half-Year Results Ended 30 September 2021

Conference Call

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E&OE – may be edited for grammar and clarity

Mr Siva Govindasamy: We will now move to the question and answer segment. For this segment, Mr Goh and Mr Tan will be joined by Mr Mak Swee Wah, Executive Vice President Operations, and Mr Lee Lik Hsin, Executive Vice President Commercial. We have around 30 minutes and we have many participants, so if I could please ask everyone to keep yourself to just one question if possible. Please identify yourself and the organisation you represent before you ask your question. Rishi could I leave it to you for the first question, please.

Ms Rishi: Thank you. We have the first question from Chen Chuanren from Air Transport World. Your line is now open.

Mr Chen Chuanren, Air Transport World: Good morning, Siva and Mr Goh. We see that your freighter cargo revenue has been high, but it seems that you are still maintaining your freighter capabilities. Are there plans to invest further into freight or is your focus still mainly on passenger and ancillary revenue? Thank you.

Mr Lee Lik Hsin: We do not comment on our fleet renewal and expansion plans until we are ready to do so. But clearly, we have been utilising our freighters at a higher level than pre-Covid-19, to take advantage of the strong demand in the freight market. As the passenger capacity ramps up, we will also have the additional bellyhold space to similarly take advantage of the market situation. Thank you.

Ms Rishi: Thank you. The next question is from James Teo, from Bloomberg Intelligence. Your line is now open.

Mr James Teo, Bloomberg Intelligence: Hi, good morning. This is James from Bloomberg Intelligence. My first question is on VTL (Vaccinated Travel Lanes) versus your normal capacity. We have seen very strong bookings for VTL flights that you highlighted just now. So how do you rationalise with the normal capacity that you had before? Did you reduce? Typically, when the VTL opens, how do you balance? I presume the yields would be higher on the VTL, but would you still be operating some of the normal non-VTL flights on the same routes? That is my first question. My second one is on fuel hedging. I think Kai Ping mentioned about a neutral posture. Could you elaborate a bit more on what is meant by a neutral posture? Is there a scenario where, you know, neutral being in line with your

scenario, or 50% international traffic recovery next year? How many per cent for the year after that? Could you elaborate more on the neutral posture please. Thank you.

Mr Goh Choon Phong: I will take the question on the VTL versus normal routes and Kai Ping will elaborate on your other question. As you can see from the presentation earlier, even before VTL was introduced, we have been increasing our network coverage and capacity over time, and there is no intention to reduce our coverage as the result of the VTLs. In fact, we will continue to look for opportunities to increase. Of course, VTL facilitates travel, because it is quarantine-free travel both ways. It facilitates travel between Singapore and the other countries that we have VTL arrangements with. At the same time, there is also 6th freedom traffic, and we will continue to carry that and strengthen our hub through it.

Mr Tan Kai Ping: Thank you James, this is Kai Ping. Let me explain the statement around neutral posture. If I may bring you back to pre-Covid-19, we have never hedged all of our consumption requirements. However, as we went into the Covid-19 situation with big capacity cuts, we found ourselves being more than 100% hedged in respect of our consumption. So simply, what I meant by moving into a neutral posture was just to pare back our fuel hedges, to the left or right of 50%. So a neutral posture means we take no view on price. Left or right of 50% will be neutral. Now, our hedge book is currently on the left side of 50%, simply because if we take a balanced risk view, then with the uncertainty in fuel and the profile of recovery – although we see recovery, the profile is uncertain – so the neutral posture in our view would be on the left hand side of 50%. Now let me just be clear, when I use the term “hedge percentage”, it refers to the quantum that is fully protected under hedge accounting definitions. So, when I say 30% hedged, 40% hedged, these are swaps and give full protection. Now, the so-called unhedged portion, that we have taken sell swaps to close out, they still mature. There is a sell swap and buy swap that still mature during the various quarters, and the gains we expect from that portion is as I have disclosed. So, there is protection there as well.

Mr James Teo, Bloomberg: Thank you.

Ms Rishi: Thank you. Ladies and gentlemen, you may press *1 if you wish to ask a question. The next one we have is from Adrian Schofield from Aviation Week. Your line is now open.

Mr Adrian Schofield, Aviation Week: Hi there, thanks a lot. I just have some questions regarding Scoot. Just wondering if you might be returning more of the Scoot's 787s to service. You could perhaps talk generally about what sort of advantages and disadvantages long-haul LCC services might have during the recovery phase compared to other models.

Mr Goh Choon Phong: Before Covid-19, Scoot's main area of operations were to China, India, South West Pacific, and some long-haul flights to Europe. Scoot had indeed resumed

some of these long-haul flights to Europe. At the moment, much of the regional countries, and also China and India, are limited in the way we can access them. Scoot would have to deploy its aircraft, where the opportunity is there to do so. Of course, we will continue to explore what other ways Scoot can effectively tap into emerging traffic. Scoot is looking at it, and we will be announcing some of this when we are ready to do so. So *akan datang* on the use of 787 and others.

Ms Rishi: The next question is from the line of Ian Wong from UBS. Your line is now open.

Mr Ian Wong, UBS: Thanks for taking my question. I have a question with regard to the cargo outlook. You mentioned that Q4 is traditionally a pretty strong seasonal quarter. Can we get some guidance in terms of whether we are looking for positive sequential yield growth and volume growth, or are we starting to see some signs of competition? Some of the competitors reported recently that there may be signs of competition as well. Just any colour on the cargo outlook. Thank you.

Mr Lee Lik Hsin: We continue to see strong demand for cargo into this upcoming peak season. We obviously do not make any forecasts around our loads and yields, but we do expect that strong demand to materialise. Thank you.

Ms Rishi: The next one is from Tay Peck Gek from the Business Times. Your line is now open.

Ms Tay Peck Gek, The Business Times: Can you hear me?

Mr Siva Govindasamy: I am sorry, Peck Gek, we cannot hear you clearly. If you could send an email to the Public Affairs' email address, we will address your question shortly. Thank you, Peck Gek. In the meantime, shall we move on to the next question, Rishi?

Ms Rishi: The next question is from Patrick Hatch from Sydney Morning Herald. Your line is now open.

Mr Patrick Hatch, Sydney Morning Herald: Hi, Mr Goh. I was hoping you could tell me what your expectations are around capacity into Australia for the first half of 2022, and then through to the end of 2022. Secondly, your air fares are very low in the first quarter of next year. Do you expect that to continue through 2022 as a way of stimulating demand? Thank you.

Mr Goh Choon Phong: I will ask Lik Hsin to answer the question. I just want to state that throughout the pandemic, we have continued to serve Australia, even when the borders were not open.

Mr Lee Lik Hsin: For Australia's operation, we still have to operate under the framework of caps for many of the cities. We would be guided by that in our overall capacity recovery

to Australia. We are very, very happy about the VTL rules that have been put in place for Sydney and Melbourne, and we are obviously looking forward to more. In relation to pricing, obviously that is a function of demand. I would only say that customers should take advantage of whatever low prices there are out there. Thank you.

Ms Rishi: Just to remind everyone, you may press *1 for questions. The next one we have is from Jamie Leah Freed from Reuters News. Your line is now open.

Ms Jamie Freed, Reuters News: Hi, my question is on the Indian market. I was wondering if you could talk a bit about your strategy there, and if it has changed at all with Tata's purchase of Air India, and whether you see any sense in combining Vistara and Air India.

Mr Goh Choon Phong: With respect to Air India, Vistara and all of that, we do not disclose any confidential discussions that we may or may not have with our partners. If there are any aspects that can be announced, we will certainly do so when the time is right. Thank you.

Mr Siva Govindasamy: Thank you, Mr Goh. I will ask Peck Gek's question right now. Peck Gek from the Business Times is checking on our bookings for Business Class travel. How have they been? And any air freight diversion from ocean freight because ocean freight rates have skyrocketed.

Mr Lee Lik Hsin: As part of CEO's presentation, we did say that we are seeing strong demand in the premium cabins. We are seeing strong demand overall on the VTL flights, as we have said. This is across all segments – business, leisure, and family travel. The other question was around ocean freight transferring to air freight. We are seeing strong demand on the air freight side, certainly much of the news around the supply chain disruption around the world may have played a role in that, but we are definitely happy to take advantage of whatever comes our way. Thank you.

Ms Rishi: Next question is from Greg Waldron from FlightGlobal. Your line is now open.

Mr Greg Waldron, FlightGlobal: Choon Phong, China was a crucial part of the SIA network before the Covid-19 crisis. What are the implications of a prolonged absence of the China market for SIA's strategy? How do you go about replacing such a pivotal market?

Mr Goh Choon Phong: China is indeed an important market. Not just for SIA, but by virtue, that it is actually the second biggest travel market in the world. It is important to just about any other country as well. However, China has a very strict operating limit to carriers from any country at the moment. There is not much we can do about that. However, we are seeing that there are many other countries who are recognising that with higher vaccination rates and also the need to stimulate and ensure that economic activities continue, there is a need to open up borders. There is still some time for all of this to happen, and we are quite confident that as that happens, we are in the position to tap on

that. So yes, the opening of China is not likely to happen at the moment, but we are ready to capitalise on any other opportunities that may come our way. Thank you.

Ms Rishi: The next question is from Lorraine Tan from Morningstar. You may proceed with your question.

Ms Lorraine Tan, Morningstar: Hi, good morning. I just wanted to follow up on some views on cargo yield and cargo demand. I noticed that with more passenger flights coming up, and the fact that you are 80% of your passenger capacity, I am curious that globally with more flights coming back, whether you will see social stagnation in cargo yields for the new term? I know that you do not really comment on that, but just an indication on what the industry is expecting perhaps? Structurally, I am also curious whether the changes you are planning, on whether you would continue to have more freight services in the future? Strategically, would that be something you would be adding to in terms of your services? Thank you.

Mr Lee Lik Hsin: Globally speaking, the total availability of air freight is still far below what it was pre-Covid-19. Passenger services, which contribute a huge amount of capacity in the bellyhold, still have not resumed to what it was like pre-Covid-19 at this time. I think the question you are posing as to whether or not we will reach an oversupply, we are certainly not anywhere close to that situation. To your second question of what we are intending to do to increase our capability, I have already answered that question earlier about greater utilisation of our freighters, as well as increasing passenger capacity we are putting in. These would give us more bellyhold capacity. Thank you.

Ms Rishi: The next question is from Divya Gangahar from Morgan Stanley. Please proceed with your question.

Ms Divya Gangahar, Morgan Stanley: Thank you very much, good morning. Just one clarification on the fuel hedging strategy. Just trying to get a sense given that oil prices have been rising the way they are, what prompted the decision to close out the hedge positions now rather than wait for a while and have a more hedged position? Given that we had locked in much lower prices in our previous hedges. The second question is if you can give us some sense on passenger yields, and how to think about that with the mix of VTL and non-VTL flights going into the next quarter. How should we think about passenger yields versus pre-Covid-19 levels, and versus the current levels, with more VTLs and premium cabins being bought? Thank you.

Mr Tan Kai Ping: Hi, this is Kai Ping. Thank you for the question. The purpose of our fuel hedging programme is to manage volatility in a major input cost item. So, we do not take a speculative position when we do hedging. We do not take a particular view on whether oil prices are up or down. Nobody can tell where oil prices are going. Oil prices have gone up in the recent two months. It is pretty elevated now, Brent at 80 plus dollars. Who knows what will happen in the next couple of weeks or months? We just take a posture that we

usually take in respect of how we manage volatility. That is what drove the recalibration of our hedge book. I will pass over to Lik Hsin for the second question.

Mr Lee Lik Hsin: In relation to passenger yields, in the last year when Covid-19 first struck us, the passenger numbers came down to such a small level that the yields were clearly not representative of business-as-usual. With more and more travel coming back via the VTLs, the yields will move towards a more representative state. I would comment that our focus is really on the RASK (Revenue per Available Seat-Kilometre). We have the hope and the confidence that it would improve with more and more VTLs coming into play. Thank you.

Ms Rishi: The next question is from Lisha Ann Rodney from Channel NewsAsia. You may proceed with your question.

Ms Lisha Ann Rodney, Channel NewsAsia: Hi there, thank you for taking my question. I just want to check on jobs. Currently 92% of pilots and 86% of cabin crew have been activated. Can I check on the remaining – when will they be expected to return? When will full staffing be back, if you could share a timeline on that? Will more people, more employees be deployed to the cargo side of the business since it is doing so well? My second question is with the looming threat of the EU border restrictions, how will this impact SIA's forecast?

Mr Goh Choon Phong: I will take the first question, and Lik Hsin will take the second question. We have 92% of pilots and 86% of cabin crew now back with us. At the level we are operating now, which is 37% of pre-Covid-19 capacity at the moment, and going up to 43% in December, we are quite comfortable with this return rate. Some of our cabin crew and pilots are still deployed outside to help out in other organisations. For example, some of our cabin crew are still working as Care Ambassadors in hospitals and so forth. We expect that gradually they will come back. There is no definite timeline at the moment. The current manpower manning level suffices for the operations we have. Similarly, cargo has taken on a lot more in terms of its operations because we now have passenger aircraft for cargo mission. These are also involved in the passenger aircraft operations, and the passenger side will have manpower to supplement it as well.

Mr Lee Lik Hsin: The EU classification is something that is in a state of flux with regard to how it will impact us. You would have seen the news about the new restrictions that are coming into play for Denmark. This is an area that we will be watching. I will not describe it the way you have, which is looming border restrictions. It is a guidance and the EU countries have their capability to make their own call on what new rules they want to put in place. Some may, for example, choose to put in place testing, if there was no testing previously. That does not really impact demand. We will see how it goes. Thank you.

Mr Goh Choon Phong: I will just add that some of these measures are outside the Airline's control. As I pointed out in my presentation, the whole idea is getting the organisation ready, to be very agile, very nimble, such that we can always react at very short notice. Thank you.

Ms Rishi: The next question is from Danny Lee. Your line is now open. He is from South China Morning Post.

Mr Danny Lee, South China Morning Post: Hello, good morning everyone. I hope you can hear me. Do you anticipate a future of operating mostly or only Vaccinated Travel Lane flights? At least one flight to and from Singapore? Do you have a clearer idea on how the rest of Asia Pacific will reopen next year? For example, will Hong Kong and China be the last of your markets to operate and open up in your view? Thank you.

Mr Goh Choon Phong: I think it is probably fair to anticipate that there will be more requirements for vaccinated travel. Whether it will be in the exact form that it currently is, is unclear, and whether which other countries will join is also something beyond our control. As a general trend, we do expect that there will be increasing openings over time, simply because vaccination rates are going up. There is also a realisation, the sentiment that border openings are an important part of creating economic activities for a country. I just want to say that, as we can see what is happening all over the world at this point in time, there are various flare ups in the infection rate. We fully anticipate that during this period, things can still be volatile and that the profile could be patchy, but we are fully prepared for that. Thank you.

Ms Rishi: The next one is from Melissa Leong from Credit Suisse. Please proceed with your question.

Ms Melissa Leong, Credit Suisse: Hi, it seems that the SIA summer schedule is back to pre-Covid-19 levels, based on data. Is it accurate?

Mr Lee Lik Hsin: We publish the schedules based on expectation. As we come closer and we have updates on how we need to adjust, depending on the situation at the time, we will do so. It is not a forward view. It is what we publish so that we have seats available for sale. Thank you.

Ms Rishi: The next one is from Shukor Yusof from Endau Analytics. Your line is now open.

Mr Shukor Yusof, Endau Analytics: Hi Choon Pong, quick question on carbon reduction. Do you support calls to tax frequent flyers to help your case for airlines?

Mr Siva Govindasamy: Sorry, if I may phrase that correctly. Are you asking if we plan to tax frequent flyers?

Mr Shukor Yusof, Endau Analytics: No, I am asking if you are open to ongoing calls. There have been a lot of calls after COP26 for frequent travellers, air flyers, to be taxed. Are you supportive of that?

Mr Siva Govindasamy: So, your question is whether we support calls to tax frequent flyers in order to help sustainability and the environment?

Mr Shukor Yusof, Endau Analytics: That is correct, thank you.

Mr Goh Choon Phong: Currently, there is the CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) scheme, and that is something that was endorsed at ICAO. There is a credit that airlines have to purchase for any growth beyond, in this case, 2019 capacity. That is for the airline side. On the consumer side, we have also offered the ability for customers who are willing to purchase offsets for their own travel. Those are measures that would help to mitigate some of these concerns over carbon emissions as a result of individuals travelling. We do not currently have any support for taxing just a segment of our travellers. Any measures that are to be implemented should be done in an equitable manner. That is our current position. Thank you.

Ms Rishi: The next question is from Mayuko Tani from Nikkei. Please proceed with your question.

Ms Mayuko Tani, Nikkei: I would like to know about the finances, on the second portion of the S\$15 billion that has been raised and are going to use. How long do you think it will last under the current situation where you are approaching the breakeven? Under these circumstances, how long will you not need to go to the markets to raise more money? Another question is about the unit cost. With the old and new measures that have been put in place as a result of the pandemic, how much unit cost has been added compared to pre-Covid-19? Thank you.

Mr Tan Kai Ping: Thank you, Mayuko. Let me just deal with your second question first, which is a shorter one. We do not disclose the breakdown of cost. In any case, I think the measures are extremely dynamic, so not very productive at this point to talk about it. On a quarter-on-quarter basis, you can see our unit cost that we have published, and I think we can just take that at face value for the moment. On funding, we have disclosed our expectations on how long the second tranche of our latest S\$6.2 billion Rights Mandatory Convertible Bonds is expected to last. We guided that it will take us well into financial year 2022/23, and that remains our guidance. Thank you.

Mr Siva Govindasamy: Thank you, Kai Ping, and thank you everyone once again. We have now come to the end of our media and analyst briefing for the half-year. We hope to talk to you again during our full-year results briefing. Till then, have a good day. Stay safe everyone. Thank you again.

(ENDS)