TRANSCRIPT

SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Half-Year Ended 30 September 2011

(Read in conjunction with PowerPoint Presentation)

SIA Training Centre

Friday 4 November 2011, 5:00pm

E&OE – may be edited for grammar

Presentation

Mr. Nicholas Ionides: Good afternoon. Welcome to the media and analyst briefing for Singapore Airlines' second quarter and first half financial results. My name is Nicholas Ionides; I'll be moderating today's session. The format will be as follows: We'll start with a presentation by Mr. Chan Hon Chew, our Senior Vice President Finance. He'll be presenting the Parent Airline Company results. This will be followed by a presentation by Chief Executive Mr. Goh Choon Phong with the SIA Group results. We'll then move to the Q&A segment which will be led by Mr. Goh, involving Mr. Chan as well and including Executive Vice President Commercial, Mr. Mak Swee Wah, and Executive Vice President HR and Operations, Mr. Ng Chin Hwee. Before we begin, just the usual reminder to turn your mobile telephones off or switch them to silent mode. I'll now invite Mr. Chan to the stage. Thank you.

Mr. Chan Hon Chew: Hi. Good evening ladies and gentlemen. Once again welcome to the briefing of the results of Singapore Airlines for the second quarter and first half of financial year 2011/12. The results were announced yesterday so they are available on the SGX website and also on SIA's website. I'm sure by now you have seen the results so I'll just do a quick recap on the numbers and hopefully with some additional analysis will help to add colour to the numbers.

Starting with the Parent Airline, first the top line for the second quarter of financial year 11/12, the Parent earned total revenues of $3.03 billion, that's over $100 million higher than the same quarter last year. That's on the back of growth in passenger carriage by about 4.1%. The increase in fuel surcharge collections also contributed to the revenue growth but it was partially offset by a stronger Sing dollar.

On the cost side, total expenditure, $2.9 billion; that's $256 million or 9.5% higher year-on-year. Again no thanks to high fuel costs. Fuel costs increased by more than $300 million mainly because of fuel price which went up by more than 40% year-on-year. There was partial offset from improvement in fuel hedging loss by

about $23 million, down from $33 million loss last year to $9 million this year. Also with stringent cost discipline, non-fuel cost was also reduced by $24 million or 1.3%. Lower staff costs also contributed to the lower ex-fuel costs mainly because of lower provision for profit sharing bonus arising from the weaker results. Consequently as expenditure grew at a faster pace than revenue, operating profit was down $115 million or 63.5% to $89 million for the second quarter.

Now you might recall in first quarter we made an operating loss at the Parent Airline level of $35 million. That's largely because the first quarter was impacted by the nuclear crisis in Japan following the earthquake and tsunami and at the same time, fuel prices also peaked at $140 per barrel in April during the first quarter. So the results for the second quarter, the $89 million is not just a turnaround, it also reversed the operating loss in the first quarter to give us a first half operating profit of $53 million, albeit by a hair's breadth or an operating profit margin less than 1%.

Next let's take a closer look at the operating statistics. Passenger carriage grew by 4.1% as mentioned earlier, which was short of the capacity growth of 5.4%. Consequently the passenger load factor for the second quarter was down by one percentage point to 79.3%. Looking at the load factor for the various route regions, all route regions registered either flat or lower passenger load factor with the exception of South East Asia, which still managed to improve its load factor by 2.5 percentage points. The weakest regions were Europe and Americas which recorded the biggest drop in passenger load factor. Against the first quarter, 79.3% was an improvement from the 75.6% passenger load factor recorded in the first quarter. So adding up the two quarters, first half, load factor was 77.5%, this was 1.9 percentage points lower than the same period last year.

On the yield side, yields continued to be soft in the second quarter at 11.7 cents/pkm; it is 0.8% lower than same quarter last year. It was also lower than first quarter where we had the yield of 11.8 cents/pkm, which means this is the second consecutive quarter of sequential drop in yields. On the cost side, unit cost was higher by 4.5%, that's again largely because of higher fuel costs. As for ex-fuel passenger unit cost, cost containment efforts did reduce that by 9.1% but it was not enough to completely mitigate the increase in fuel cost. So as a result of the higher unit cost with lower yields, the passenger break even load factor for the second quarter was up by 4.0 percentage points to 78.6%. This is for the first half, the six months; similarly the break even load factor was higher by 2.6 percentage points mainly due to the higher unit costs while we had flat yields.

To recap, the passenger load factor, 79.3%, it was down 1 percentage point year-on-year while the break-even load factor was driven higher by 4.0 percentage points to 78.6% which leaves us with a razor thin passenger load factor margin of just 0.7 percentage point. However, for the first half, for the six months we actually have a negative spread of 0.5 percentage point. That's because the razor thin second quarter passenger load factor margin was not enough to offset the negative margin in the first quarter. As we mentioned earlier, the first quarter was impacted by the nuclear crisis in Japan.

Just to note, you might recall in my first slide, I showed that the Parent Airline did manage to maintain profitability with operating profit of $53 million, notwithstanding the negative spread that we see on this chart. That's because the passenger load factor margin, the calculation does not include indirect revenues such as inflight sales, ticketing fees, admin charges and other incidental revenue. So in other words, including indirect revenues the Parent was profitable at the operating profit level.

In the next slides we will take a closer look at the operating statistics comparing quarter-on-quarter, first starting with unit fuel cost. You can see on this chart, since the third quarter of the previous financial year the unit fuel cost has been increasing quite sharply. In fact for the past three quarters the unit fuel cost has increased by almost 30% from the 3.3 cents/ask in the third quarter to 4.2 cents/ask in the second quarter of the current financial year. Now that translates to higher passenger unit costs and at 9.2 cents/ask in the second quarter, this is the highest passenger unit costs in more than two years. This is going back to the same levels as the first half of 2008 when we saw fuel prices at these high levels.

But unlike in 2008 when we had strong revenue environment, we are now facing a much weaker revenue environment as you can see from the green line, which shows the passenger yield. You would recall in financial year 09/10, we were just emerging from the global financial crisis and in the financial year 10/11 we were working hard to bring our yields back closer to pre-crisis levels. But before even we got there, we once again faced uncertainties in the global economy and since the first quarter, yields have started to decline and that continued into the second quarter ending with 11.7 cents/pkm for the second quarter. You can see here the convergence of the two lines which is bad news for an airline, which means the breakeven load factor approaches 100%. The impact on our breakeven, you can see quite clearly on this chart, the red line you see a very sharp climb in our breakeven load factor over the past three quarters. In the first quarter the breakeven of 78% surpassed our passenger load factor of 75.6%. Our load factor has since improved with the summer peak and also improvement in our demand to and from Japan. So in the second quarter, our load factor of 79.3% is now

above breakeven. However, the margin is razor thin and given the stubbornly high fuel prices and also the weak economic outlook, the remaining six months will be very challenging.

Moving on to cost, this chart shows the top five expenditures. Once again leading the pack here we have fuel cost which makes up more than 40% of the Parent's total expenditure. Comparing the top five expenditure year-on-year, no surprise fuel cost up 29.7%, more than half a billion dollars. In the next chart we'll take a closer look at the increasing fuel cost. Aircraft depreciation and lease rentals was about flat while staff costs were lower by 3.4%, largely because of lower provision for profit sharing bonus arising from the weaker performance. The other two are variable costs; they were higher because of growth in capacity, but the increase is very well contained, within the capacity growth rate of about 6%.

This is my last chart to give you more information on the increase in fuel costs. First the reference point is the fuel bill for the first half of the last financial year. The biggest contributor to increasing cost of course is the increase in fuel price which was higher by more than 40%, from $92 per barrel last year to $134 per barrel this year, which added a massive $842 million to our fuel bill. With the growth in capacity, of course the volume of fuel uplifted was higher, that added $94 million to the fuel bill. A weaker US dollar gave us partial relief of $293 million; an improvement in fuel hedging reduced cost by $97 million which ends up to a first half fuel bill of $2.38 billion, $546 million higher than the same period last year. So on that note I conclude this segment of the presentation and I will hand over to our CEO, Mr. Goh Choon Phong. Thank you.

Mr. Goh Choon Phong: Good afternoon ladies and gentlemen. I'll continue with a presentation on the Group results. The first quarter, this was released in the first quarter results. The revenue went up 3.2%, in the second quarter the revenue actually went up for the group at a lower percentage of 1.9%. For the full half year, the revenue was up 2.5%. You saw earlier in Hon Chew's presentation that the Parent Airline's revenue went up about 4% so you can infer from here that a large part of this increase in revenue came from the Parent Airline's performance.

Expenditure side, this is first quarter, expenditure went up almost 11%; 9% for the second quarter. So for the full half year, expenditure went up almost 10%. Revenue went up by 2.5%; expenditure went up 10%, we can expect that there's a big squeeze on profit. At the operating profit level you can see that for the group first quarter, as we saw in the earlier release, that it is at almost breakeven level, better in the second quarter and for the full year operating profit was down almost 78% at $134 million.

These are the contributions from the major subsidiaries within the group: SIA's performance was provided in some detail by Hon Chew earlier. SIAEC released their results last week and I think had a presentation earlier this week. There was a marginal decline in the operating profit largely a result of lower material revenue as a result of fewer replacement of parts from SIAEC's clients.

SilkAir actually, in the competitive, challenging environment, has done quite well. SilkAir in fact has seen an improvement in its load factor because it carried more than its capacity increase. At the same time SilkAir actually sees an improvement at the same time in its yield. SilkAir's yield went up by almost 5.2%. However, SilkAir costs went up even more and no prize for guessing it's because of fuel. The SilkAir unit cost went up almost 8.4% and as a result you see that SilkAir has a marginal decline in terms of its operating profit.

SIA Cargo for the half year actually carried more in terms of cargo carriage compared to its increase in capacity, so you actually see a marginal improvement in SIA Cargo's load factor. However, the carriage was at the expense of a reduction in yield of almost 6.7% or thereabout. At the same time of course SIA Cargo too suffered a great deal from increase in fuel cost and hence you see the operating loss that they have incurred, $31 million.

Let's see how it arrived then from there to net profit which adds on of course the non-operating revenue and expenses. So this is the first quarter, for the second quarter and for the full year as we have announced at a net level it came down by 62%. We now have an analysis of how the result—how the 62% decline was arrived at from last year's results. So this was last year's half year result, $633 million. There was a lower operating profit. Less surplus from sales of aircraft. There was an increase in terms of other operating income largely from contribution from the return of capital from Virgin in the form of a redemption in preference shares, amounting to about $48 million. Less share of profit from associated companies, relative to last half year. Of course with the lower profit, there was a lower tax and here is the result. Some financial indices, EBITDAR down; earnings per share down; no surprises. And we have announced that we will be giving out an interim dividend of 10 cents, which is about a 50% payout ratio. Net Asset Value per share.

What is the outlook for the following half year? Unfortunately, despite weak economic situations the fuel price remains stubbornly high as you can see here. The last fuel price that we tracked on 31 October, is still US$127 per barrel. That's jet fuel and that's still more than 40% higher than that of last year so fuel prices continue to be high and volatile and a major challenge for us. Of course there is the global economic uncertainty. We can see the saga that is unfolding in Europe,

particularly revolving around what could happen to Greece and its contagion effect. The European unemployment rate is now above 10% and the borrowing costs for European countries especially the southern European countries are very high now. Greece 10 year bond yield is now more than 20%; Italian yield more than 6% so these are very high costs of borrowing. Whether or not that will eventually lead to a major recession is still something that we do not know.

PMI at the same time has fallen. PMI is Purchasing Manager's Index. It measures whether going forward there is expectation that you'll buy more. Let me go to the countries. This is the PMI indexes taken in April. You saw the green here means that they expect to buy more than before. Red means less so in April you see that actually in general most of the major countries are expecting to buy more. What happened next? September is the complete reversal. So that's a concern. It does mean that freight movement trade will slow down and of course the forward bookings are actually showing signs of weakness. Out of concern of the economic weakness that we have seen, and this is actually, as Hon Chew has pointed out, even for the first half year this is particularly so for Europe and USA probably not surprisingly.

Let me touch a bit on the fleet development for the year. At the 30th of September we had 106. We expect for the remaining financial year three more A380s to be delivered. Some returns and sales of aircraft and we should end the financial year at 101. Now although there is a reduction, as you can see here in terms of number of aircraft, actually because of the A380 capacity and also what is not shown here is much of the returns actually taking place at the end of the financial year, so the impact, it doesn't actually lead to any reduction in actual capacity going forward.

This is our capital commitment. Not an issue for us, we still have a very healthy balance sheet. Our cash reserve, it's still in the region of about $6 billion. That was the last slide for me, and Nick will welcome any questions from here. Thank you.

Question & Answer

Mr. Nicholas Ionides: Before we open it up to Q & A just a couple more reminders please. Please direct your questions through me when you have one, just give me a signal that you'd like to ask a question and I'll call upon you. We'll also be recording today's session for the benefit of those who can't be here, so please before you ask a question wait for a microphone to be brought to you. Alright we can now invite the executives to the stage please. Okay we have the first question, the second from the back please, at the edge there, thank you.

Mr Lim Wei Yi, Bloomberg: Thanks. Hi I'm Wei Yi from Bloomberg News. Congratulations on launching Scoot. I'm quite interested in this. When do you think this will become profitable and how long are you prepared to subsidise the losses and also I would be interested to know how the launch of Scoot will affect SIA's full service product? Thank you.

Mr. Goh Choon Phong: Thank you for the question. I think we have explained at the point when we launched Scoot, the mission and also the different segment that Scoot is targeting. So Scoot, as we have mentioned earlier will be targeting largely the medium to long haul routes and particularly targeting traffic which is more budget conscious. So in that sense it is actually going to be a very different proposition from SIA's full service proposition and it will be operated in a low-cost model. We had a launch of Scoot headed by the CEO, Campbell Wilson, earlier this week and he had explained also in some detail about the model so I think it should be quite clear to the market that we are completely different in terms of the value propositions and the target traffic.

On the financial expectation for Scoot, of course, I always tell Campbell that I want it to be at least cash flow positive as soon as possible. Now there isn't a specific target. We do have internal monitoring systems and we'll continue to ensure that Scoot operates in a way that would complement the overall group objectives. Thank you.

Mr. Nicholas Ionides: Yes front centre here. Third row please.

Mr. Robert Bruce, CLSA: Thanks, Robert Bruce from CLSA. I've just got two questions if I may please. First, following on from the first one, with regard to Scoot, it's a long-haul business. My understanding is that typically the long-haul carriers that do exist in the market, such as Jetstar or AirAsia X, do tend to get around 40% of their passenger feed from existing short-haul businesses. It seems a little strange to me that it's going to focus on long-haul without any feed from your existing brand such as SilkAir, SQ or Tiger for that matter. Any thoughts on the eventual sort of linking of the brands to make it a more integrated model? The second question, which is quite separate, is just the outlook you've indicated that yields are weakening, can you give us some indication of the degree of weakness and what particular routes or market segments it's applying to? Thanks.

Mr. Goh Choon Phong: Okay I just—maybe I just answer the first part of your question which is regarding Scoot again. I think we have also stressed in the past that Scoot is going to be independently managed and separately operated, which

means that management of Scoot has complete autonomy in terms of determining how they intend to operate and whom they intend to cooperate with. So I think that what you have just mentioned about how Scoot is going to get their feed and all that is something that the Scoot management is definitely—something they will look into in great detail. I would not comment further, but if Campbell wishes to say something I will leave it to you.

Mr. Campbell Wilson: As our CEO has said, our traffic is going to be driven by the Singapore hub—Singapore's got a fantastic hub. There are many carriers from around the world both long and short-haul and full service and low frills that discharge and exchange passengers here, and so we'll be capitalising and leveraging the Singapore hub. We are completely agnostic as to where it comes from and to whom it goes to. Our mission is just to get whatever business we can to fill the aircraft.

Mr. Goh Choon Phong: I will ask my Commercial Head to answer your second question.

Mr. Mak Swee Wah: Well yield is a function of two things. One is the market situation demand and supply. So not surprisingly, markets which are showing greater weakness and we all know that where the markets are, particularly in Europe and to a certain extent also US now, competition is very fierce. So under such circumstances there's pressure on the fares and therefore the yields.

The other aspect of course is also the currency factor. Again in Europe the currency has been weak and that has also dampened yields when translated back to Singapore dollars. So largely, it follows where the weaknesses in the markets are.

Mr. Nicholas Ionides: Alright. In the back please; second row from the back.

Ms. Yvonne Chan, CNA: Hi, Yvonne Chan from Channel NewsAsia. I just wanted to know what your forecast for crude will be because you said it was like $92 to $134 a barrel right now and it is expected to go up even more in 2012. How is SIA budgeting for this and how are you going to then—are you going to pass on the rise in fuel cost to—as surcharges to your passengers going forward? And the second question would be, we talked about the weak environment right now and we know that SIA makes its highest margin from your business travellers' segment and that has been impacted as well. So how are you going to mitigate losses from this particular segment? Thank you.

Mr. Goh Choon Phong: Okay. We do not forecast oil prices. If we can get it right I think we can be in some other business and making a lot more money. The fact of the matter is it is a huge chunk of our expenditure, as you can see in the earlier presentation, it amounted to slightly over 40% of our total expenditure; it's a huge expenditure. However, we do not have control over the prices. So what we do to mitigate the volatility of the price is a hedging policy which remains consistent even now. So what we do is we hedge between 20% to 60% of our fuel requirement and with fuel instruments, including options, swaps and collars and that sort of helps us to mitigate some of the sudden rise in prices, because we have some protection to a certain volume. So that's what we do; we don't actually project. As to fuel surcharge, we review it regularly and whether or not it's adjusted depends on how the oil prices actually move.

Mr. Mak Swee Wah: On your question on the premium segment, of course that's an important part of our business and something which we watch very carefully especially when circumstances are very uncertain. We are sparing no effort to make sure that we keep this segment of the market. Our people are actively knocking on doors on all the corporates that we have. We are signing up more, but we have to remain competitive as well. So certainly this is one segment of market that we are working doubly hard to make sure that we retain our good share.

Mr. Goh Choon Phong: I will just add one thing to my colleague's comment. A lot of the things that we do, we do from the perspective of a strategic interest for the airline. Take for example the announcement that we have on deepening of cooperation with Virgin Australia and that would include lounge access, that would include FFP and all that, once it has been approved by ACCC in Australia. Those are programmes that will be very appealing to business travellers as well.

Mr. Nicholas Ionides: Alright so we'll go to the front, second row here please.

Mr. Mark Webb, HSBC: Hi I'm Mark Webb from HSBC. Just in terms of the demand outlook, if you had to compare this to the second half of 2008 or the start of 2009, I mean looking at your bookings and looking at how you feel about the market, you know, to what degree are we approaching those levels, or are we still some distance away from the demand weakness we saw there? Secondly, just on Scoot, they say they are going to have ticket prices 40% lower than legacy carriers, is that an all-in price? Or is that sort of prices from unbundling the ticket price to get headline ticket prices 40% lower? If it is an all-in price 40% lower, how does Scoot cut its unit costs on long and medium haul routes by 40% to now retain its margin in that sort of business?

Mr. Chan Hon Chew: Just to clarify your first question. You're asking about the demand outlook, whether there is similarity with 2008?

Mr. Goh Choon Phong: Okay I just want to alert my colleague that the Scoot question, as I mentioned earlier, will be referred to the Scoot management. I will take the part on the demand outlook. I think there are some differences. For one thing, if you could recall that the demand outlook then was precipitated mainly because of the US, the crisis that started in the US. This particular one - and then actually what helped was that immediately after that, with that very weak outlook, you found that the fuel price actually came down drastically to at one point $40 or $50, which is a far cry from today's price.

What we are not seeing today is that kind of reduction in cost that should accompany that kind of weak outlook. At the same time, I think we are looking at a much more protracted type of economic issues now in Europe where we actually do not see any finality at least in how it's going to go. So it is a protracted situation where I think we will—we might have to bear with it for perhaps a longer time than the last one. On Scoot, Campbell?

Mr. Campbell Wilson: We've made no secret of the fact that Scoot's philosophy is very much low frills; that the airfare that we will advertise will be the basic airfare from point A to point B. If people want to customise their experience to add items that they value and not add items that they don't, that is purely their choice. So the around 40% that we said—it could be more, it could be less—refers to the basic Scoot airfare from A to B. Obviously some people will choose to buy some ancillaries and so they will be additional.

As to unit cost, the aircraft that we will take will accommodate around about 25% more people in an equivalent-sized aircraft as the typical legacy configuration and we'll be operating those aircraft fairly hard, operating about 20% more hours per day on average than a legacy airline. So when you factor in both of those elements, the unit cost comes down and allows us to make a profit, or at least a return, on lower airfare.

Mr. Nicholas Ionides: Alright this side of the room please, second row from the front.

Mr. Harry Suhartono, Reuters: Hi I'm Harry from Reuters. One of your main rivals, Qantas, has been a lot in the news lately. I wonder if you can give us some ideas on what sort of opportunities that SIA might see and will—are willing to take from the problem with your rival and will this change your cooperation with Virgin Australia for example because you see this will potentially bring more opportunities for your business and strengthen your market position there. Thank you.

Mr. Goh Choon Phong: I think I would just break your question into two parts because you talk about reaction and also you talk about cooperation with our partner. As you know, the cooperation with our partner, in this case Virgin Australia, was something that we announced way back and it is part of the strategy in some sense for us to extend our reach into Australia. It is a strategy that we would have taken anyway; it's the right thing to do for us. So that is not because of any particular incident or reactions to any particular incident. As for what you refer to, we don't comment on what other airlines have or have not done or what they have gone through, but what we can say is that where there are passengers in areas that we operate to that are experiencing difficulties of any sort, we of course would be very happy to be able to offer assistance to those who are in need. Thank you.

Mr. Nicholas Ionides: This side of the room please. There from the back.

Mr. Chin Lim, Morgan Stanley: Thanks. I'm Chin Lim with Morgan Stanley. I have a two part question. The first is can you help us understand your return of capital from the preference share from Virgin Atlantic? The way I understand return of capital it's not a P&L item so how did that get set? The second question is share buyback, right. When will you stop buying back shares? Is it enough at the 18 million? Or you still want to go more?

Mr. Goh Choon Phong: Okay I'll get my colleague from Finance to answer those questions.

Mr. Chan Hon Chew: Okay the first question, the answer is quite simple. Yes, you are right that typically when you have redemption of preference shares it's a capital item. You wouldn't see that flowing through in the P&L. In this instance, because Virgin Atlantic, as you know when we acquired the stake in Virgin we have written off the goodwill in those years. So when you have an investment that has been written off and you have a return of capital that flows through to the P&L. That has been gone through with our auditors so the treatment has been agreed with our auditors.

Your second question, share buy-back. Well our share buy-back programme basically is to help us to stock up on Treasury shares for us to use to fund our employee share plans. So that's the objective of the share buy-back programme. The mandate that we have from shareholders at the AGM in July is we have a cap of 5%, so that's the cap. But in terms of the decision on the share buy-back that's actually something which is decided by management when we see there is a window of opportunity for us to buy back shares we do so. But again the main objective is to buy only so as we can fund our employee share plans.

Mr. Nicholas Ionides: Over here please.

Mr. K Ajith, UOB Kay Hian: Hi, I'm Ajith from UOB Kay Hian here and I've got three questions. Firstly, on the change in passenger yield, can you give us some colour, what accounted for this change in terms of whether it is currency, change in business loads or so forth. My second question is on passenger capacity. You mentioned earlier that capacity will be relatively unchanged or rather the fleet capacity will be relatively unchanged. Am I to take it that half on half, the capacity will be flat? Is that the second half? Or was that the first half? Okay my third question is on Scoot. Would Scoot interline or codeshare with Tiger Airways in Singapore or in Australia? Thank you.

Mr. Chan Hon Chew: Okay I'll take the first question on the breakdown of the yield year-on-year movement and I presume you're asking for second quarter. Year-on-year yield was down 0.8%. That's largely from lower local currency yields that contributed about -1.4 points and then offsetting against that we have improvement in passenger mix. It's encouraging that even in these difficult times our passenger mix has still improved. In other words, our business class traffic is still quite healthy. That's as of this point in time. So that has contributed positively. So netting that off is about 0.8 points. The other two factors, foreign exchange and also contribution from fuel surcharge, they offset each other basically.

Mr. Goh Choon Phong: To answer your second question, you are correct. The first half and second half capacity is about the same. Campbell, you're very popular.

Mr. Campbell Wilson: I hope our flights are just as popular.

Mr. Goh Choon Phong: So I hope that this is an indication that everybody is interested to fly Scoot right?

Mr. Campbell Wilson: I'd said before that we're agnostic about where the business comes from and with whom we work. We're in the process of engaging with a number of different airlines, many different airlines, but as to which specific airlines we are currently talking to, it's really too early to say.

Mr. Nicholas Ionides: Alright. Any further questions? Okay there's one here in the centre and then we'll go there.

Ms. Karamjit Kaur, The Straits Times: Hi, Karam from The Straits Times. Given that you are in a more challenging environment today than in 2008 and correct me if I am wrong but I believe you made a quarterly loss back then. What is the likelihood that you could go into a loss in the third or fourth quarter given that you know you said it's a more challenging environment and you made a loss back then?

Mr. Goh Choon Phong: Well we are not—we don't give guidelines on profit and loss, but we're certainly not aiming for one so you can be assured that we're doing everything possible both to contain costs further and to be very flexible and nimble in the way we react to the market. So I can't give you a more precise answer than that.

Mr. Nicholas Ionides: Alright we're going to the centre there please. The gentleman in the white shirt.

Mr. Derrick Heng, Philip Securities: Hi I'm Derrick from Philip Securities. Can we just clarify again your fuel hedging situation? How much is hedged and at what price and how flexible are your aircraft deliveries because I was looking at your CAPEX one year out seems like quite a bit coming on, so could you just advise on that? Thanks.

Mr. Goh Choon Phong: I think at this point it would probably be relevant to provide the fuel hedging level for the half—this current half year—it would probably be more relevant since the first half is already gone. So for the remaining half year we're hedged 32% of our requirement at US$124 per barrel. And your second question is on the CAPEX?

Mr. Derrick Heng, Philip Securities: Right.

Mr. Chan Hon Chew: In the presentation, our CEO has given some guidance on CAPEX, again those projections based on the delivery dates of the aircraft. Of course when you order aircraft you agree on a certain delivery date and as you all know, even manufacturers have delays in delivery of aircraft. But of course when

we order an aircraft we usually take delivery based on the agreed timing. But of course if we do need to defer some of the deliveries, we can negotiate for deferment, which we have done before. If you recall, during the global financial crisis we did defer some of the delivery dates of the A380s. So there is some flexibility but that is subject to negotiation and agreement with the aircraft manufacturers.

Nevertheless, looking at the CAPEX numbers you don't really see big lumpy numbers in any particular year, it's pretty well spread out and as Choon Phong has mentioned earlier, we still have a very strong balance sheet so the CAPEX numbers actually are something we are quite comfortable with.

Mr. Goh Choon Phong: And just to add to this, I mean we have announced that we have gone ahead to commit to purchase of eight 777-300ERs and those will also be delivered from 2013 and will add to the CAPEX as well.

Mr. Nicholas Ionides: Alright we've got this side of the room please, third row.

Mr. Gaurav K Singh, Dow Jones: Thanks. Gaurav from Dow Jones. I was just wondering, for Scoot again, by when do you think if at all you will be going for an IPO for the company?

Mr. Goh Choon Phong: By when do you?

Mr. Gaurav K Singh, Dow Jones: Do you think you will go for the IPO for Scoot?

Mr. Goh Choon Phong: Okay this one I think is relevant for the parent company to answer. We never rule out anything but there is no current plan.

Mr. Nicholas Ionides: Down here please. Second row.

Mr. Mark Webb, HSBC: Can I just follow up on sort of the outlook for the next year or so, and really think about capacity. I mean if you're suggesting that there is this risk of protracted weakness in demand from Europe, why aren't any of the airlines pulling capacity out of the market and why aren't you deferring aircraft– you know, why aren't you putting through more measures to try and control the capacity; push out pricing, so on and so forth. Is it that there's a risk and it hasn't really materialised yet? Or are you seeing this and you're hoping it won't go on for the long term?

Mr. Goh Choon Phong: Yeah I can't speak for other airlines. I mean if you look at the industry there are quite a number of aircraft that are going to be delivered

over the next few years as well. So there is a need to look at, in general, how to deploy those aircraft of course. But as far as SIA is concerned, you will probably be aware that we always have some flexibility in the way we manage our aircraft numbers as well. I mean there are some of our aircraft on leases and there are leases that could actually be extended or not and so on, so we do have some flexibility in adjusting capacity from year to year and we will exercise it as I mentioned earlier in a nimble and flexible manner.

Mr. Nicholas Ionides: Alright this one right there please.

Mr. Raymond Yap, CIMB: Hi, Raymond from CIMB. You spoke about the passenger capacity. Could I know what you intend to do for the cargo capacity and how that's looking like for the next six months of the financial year and also just to follow up on Scoot as well, I know that Scoot intends to launch to destinations both new and also the existing destinations that are being served by the Parent Airline. In the event that they serve destinations that are already being served by the group, what is your estimate of the cannibalisation of that? I'm sure you must have modelled it somehow. Also the expansion of the airline, of Scoot, four aircraft by the middle of next year and then six aircraft by the middle of 2013. Are you happy with that pace of expansion? Because it seems to be fairly modest growth and given the fact that you already have the aircraft in your fleet, it's just a matter of converting it, is there perhaps space for you to grow that business a bit faster? And are you afraid perhaps of—are you waiting to see what the cannibalisation effect will be before you expand that business further?

Mr. Goh Choon Phong: Okay I'll take the Scoot question in this case because it does talk about overlap with the Parent Airline and I'll leave my colleague Chin Hwee to take the cargo questions.

So, I have actually mentioned that before, when we talked about the launching of Scoot. Of course at that point we just called it a long haul, low-cost carrier. We don't believe so. I think the cannibalisation if at all will be kept to a minimum, because it is such a different value proposition, even if let's say Scoot and ourselves were to operate on the same route. I've mentioned also earlier that even between us and Scoot, in between these two models, there is a whole range of other carriers that are operating so I leave it to you to deduce how the cannibalisation would work.

That's one. Secondly we are also - at the point when we were talking about launching of this low-cost carrier, I was also making reference to passengers from the region who are actually not coming through Singapore, travelling long-haul nevertheless, but not coming through Singapore, going through other hubs in Asia

and other places to go to where they wanted to go. The reason for that is because the more budget conscious travellers may wish to exploit the cheaper fares that are available through those hubs. Scoot offers this great opportunity for us to bring those passengers through Singapore instead of losing out to other hubs as well. So those are the two things that I was mentioning before and I'll re-emphasise it.

Mr. Ng Chin Hwee: Six months ago, I think the question was asked about the projected capacity growth of cargo and we mentioned the number of 9%. That's obviously, first of all, an aggregated number. In other words it's a combination of both increased capacity as provided for through the passenger aircraft operations as well as the freighter operations.

For the first half, the actual– sorry and I also mentioned too that should the economy remain weak from that point onwards, because there are some indicators already of the trade movements, we will obviously adjust our capacity. So as you can see, for the first half of the year we've only done 1.9% of the growth. For the full year though, our planned capacity is still on the rate of about 7%. That's a 2% markdown but still it's about 7% that we're planning for, only because we will always tend to want to mount more capacity during the year end to cater for the peaks. Now, apart from just a reaction to any trade flows, the other mitigating factors that we would also employ is to move to diversify our deployment to other places where there is still growth potential.

Mr. Nicholas Ionides: Alright. We have time for two more please. We'll take the one over there.

Mr. Chin Lim, Morgan Stanley: Can I follow up on your cargo question? Your planned capacity is from 9% to 7%, that's for this fiscal year. What we understand is most of the carriers are cutting capacity because of very weak demands into the Christmas season. At what point would you say, you know, well this is it, we have to give up and cut capacity? And at what rate would you start thinking about grounding the aircraft if you don't think that the business is there?

Mr. Ng Chin Hwee: Well Chin Lim I don't think we are at the stage where we are pressing the panic button, that's for sure. I don't think the airlines– when they mention they are cutting capacity, quite a number of these airlines what they meant is that they are the cutting of growth in capacity. So in other words there are still growth they are putting in and it's just that they are going to tune down the rate of growth. As I mentioned earlier, apart from being flexible in operations among the key trade routes, we also are deploying where we can find new

growth potential. For this half year for example, we have actually mounted additional capacity into Africa where we see some growth potential out there.

Mr. Nicholas Ionides: Alright we'll take the last one here please. Centre third row please.

Ms. Karamjit Kaur, The Straits Times: Thank you. Hi, with regards to plans by Qantas to set up a new premium carrier, possibly in Singapore, there have been recent reports suggesting that SIA is lobbying very hard against this. Are those reports true?

Mr. Goh Choon Phong: You know, Karamjit, we don't comment on rumours as you know, and I have no further comment on whether or not some other carrier is trying to set up bases anywhere else in the world.

Ms. Karamjit Kaur, The Straits Times: So you wouldn't interfere in the decision by the government whether or not to allow Qantas to set up here? Have they sought your views and have you given–

Mr. Goh Choon Phong: As I said, Karamjit, we don't comment on rumours that you heard of other carriers' activities.

Ms. Karamjit Kaur, The Straits Times: Okay.

Mr. Nicholas Ionides: Alright. With that we'll bring this afternoon's session to a close. Thank you all for attending.

(ENDS)