TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

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E&OE – may be edited for grammar

Presentation

Mr Nicholas Ionides: 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 the session this morning. We'll follow the usual programme. It will begin with a presentation by our Senior Vice President Finance, Mr Stephen Barnes. He'll be presenting the Parent Airline Company results. We'll then move to a presentation by our CEO, Mr Goh Choon Phong. He'll be presenting the Group results. The Q&A will follow. Joining Mr Goh and Mr Barnes on the panel will be our two Executive Vice Presidents, Mr Mak Swee Wah and Mr Ng Chin Hwee. I'll now invite Mr Barnes to the stage for his presentation.

Mr Stephen Barnes: Thanks Nick. Good morning everyone. Good morning CEO, EVPs. I'll be presenting the Parent Airline's operating results as opposed to the full results. Going straight into some of the operating statistics for the second quarter, you can see that capacity, measured by ASKs, was reduced by 1.1%. Traffic declined, but not by as much, by 0.2%. When you look at the full half, essentially capacity, traffic, load factors, were nearly flat. Looking at both the second quarter and the first half together, the market really has been characterised by the injection of capacity by competitors, and significant promotional fare activity. Yields were therefore softer overall. Well one of the major contributors to this has been weaker exchange rates in respect of our receivables currencies. Particularly the Australian dollar, yen and US dollar, which more than offset the benefit we got from improved exchange rates on the Euro and the Sterling.

Turning to costs, last year passenger unit costs were essentially 9.1 cents per ASK throughout the half. In the second quarter, they were down by 0.1 cents. And in the half overall, we were down 0.3 cents, from 9.1 to 8.8 cents per ASK. As a consequence, the breakeven load factor for the second quarter was down a little bit, to 82.6%. But we were down a full 2 percentage points for the full half. Second quarter revenue was essentially unchanged. There was a small decline in passenger flown revenue arising from the change in yield. But it was offset by slightly higher other revenue. The operating profit, however, rose by $41 million in the second quarter, entirely - or almost entirely - due to reduction in fuel costs. And we'll discuss fuel costs a little bit later. The operating profit margin, at 4.3%, well you have to go back a few years before you achieve a similar quarter-two result. So that's marginally encouraging from our perspective. Looking at the full half, revenue fell by about $151 million. You can break that down into $53 million, attributable to lower passenger-flown revenue. And the balance is attributed to other sources of revenue.

In the first quarter of the last financial year, FY13/14, we received approximately $79 million in settlement payments from Boeing and Koito. We've talked about those in the past, but of course those didn't come through in our results this time around. We'd also had aircraft on lease to Royal Brunei, which have now been returned. And so that's the explanation for the reduction in other sources of revenue. The reduction in revenue was not quite offset by reduced expenditure. In this case fuel accounted for $99 million, and non-fuel $49 million. The operating profit was down by 3 to $183 million. And the operating profit margin was at 2.9%. The same as last year.

When you look back over the last five years at our first-half load factors, you can see that they're pretty stable. However, when you then load on the breakeven load factor, you can see that it has increased in each of the last three years, from 75.4% in FY10/11 to a high of 82.7% last year. The lower costs in this current financial year have caused breakeven load factor to reduce to 80.7%. And of course the gap has narrowed.

This next slide charts the progression of yields over the last 2-1/2 years. In the first half of FY12/13, yields were at 11.4 cents. Last year in the first half they were at 11 cents. And this year they're tracking lower, at 10.9 cents per PKM. This familiar pie chart reminds us that fuel is of course our major cost item, although its share has reduced. We'll come back to fuel.

I'd just like to linger a little bit on aircraft depreciation and lease rentals. Really there's two things going on here. Depreciation costs reduced. They're reduced partly because we withdrew the A340-500s in the course of the last year, really from this quarter onwards. We also had changed our depreciation policy on the A380s. Our useful life is now assumed to be 20 years for the A380s. So the A380s contributed about $22 million in reduced depreciation. Of course we acquired new aircraft in the form of new 777-300s. So that somewhat offset the reduction in depreciation. Lease rentals increased. We have five more A330s in the fleet on lease. And towards the end of the quarter, in August, we completed sale and lease-backs on three 777-300ERs. So overall, the effect of the depreciation on rental charge for SIA was essentially flat for the half.

Turning to major expenditure items, we've already remarked that fuel reduced by $99 million. Staff costs also were down. Partly because of reduced staff strength in SIA. And partly because there were certain staff expense items that we were able to reduce. Aircraft maintenance and operating costs were also down. Passenger costs were up. And we also suffered a slightly higher revaluation and exchange loss.

The $34.6 million reduction in other expenses really come from many different expenditure items. And they contributed to the overall reduction in expenditure. So broadly speaking, two thirds of the reduction in expenditure is fuel; one third is non-fuel. You'll be familiar with this graphic. The bars represent the actual expenditure on fuel. The green line represents our post-hedging fuel prices. And you can see that really, very stable over the last several quarters. When you layer on the price of fuel before hedging, you can see that it began to trend down in the last couple of quarters, but only by a little.

So taking a closer look at fuel. The bulk of the reduction in our fuel cost came because we consumed less. This is a 3.1% reduction in volume consumed. I think it's worth contrasting that with just a 0.2% reduction in our ASK. There are initiatives across the company to reduce weight, improve fuel consumption efficiency, but the major contributor to this reduction is the removal of the ultra-long-haul non-stop services to the USA, much lamented though they may be. And then if I click through, really you can see that everything else was in our favour. Favourable exchange rate movement, favourable fuel prices, and on balance, favourable hedging.

You may wonder why the fuel price effects is so small. A couple of reasons. The first is that prices were actually rising through to June. They peaked in the third week of June, and since then have been slowly declining. The pace of change - the pace of fuel price reduction - picked up in September. That's going to feed through because of the way our contracts are actually negotiated. That will feed through into the price of our consumed fuel from October and onwards. I think it's also worth noting that we do have hedges in place. And that's going to mute the effect of lower fuel prices. But on the other hand it will protect our earnings from the full effects of a bounce if that were to happen.

Well that concludes my slides. I'd be very pleased to invite our CEO, Mr Goh Choon Phong, to present the Group's financial results. Thank you.

Mr Goh Choon Phong: Good morning ladies and gentlemen. A very big welcome to this briefing that we have. Let me go through the Group results. Revenue came down in the first quarter by $158 million. A large part of it is attributed to the reduction in passenger revenue. And Stephen has mentioned about the difference between last year and this year in those one-offs associated with compensation for delays in aircraft, etc. So that accounted for most of it, about, you know, that together with some reductions in flown revenue, accounted for about $144 million. And there was also a reduction in cargo revenue of about $13 million, largely associated with the reduction in capacity mounted by SIA Cargo. And you may recall that we have taken out four freighters from the operating fleet.

In Q2 there was a slight improvement in revenue for the Group. It's largely a result of an increase in passenger revenue of about $20 million. But that is somewhat offset by a reduction in revenue associated with engineering services. And I will touch a little bit on Engineering Company later. The outcome is a 2% reduction in group revenue - $154 million. On the expenditure side, we saw a $115 million reduction in the first quarter. Much of it is actually associated with fuel. And Stephen has explained that much of that fuel cost reduction is associated with reduction in fuel volume.

Similarly, in the second quarter, a $41 million reduction. Again, much - in fact most of it - of the $41 million, $39 million was associated with reduction in fuel costs. Again, largely associated with the reduction in volume. Hence, for the full half-year, there's a reduction of $156 million in expenditure. If you put the two together, in the first quarter as you have seen a quarter ago, there was a reduction in operating profit of $43 million. In the second quarter it was the reverse. There was an increase in operating profit of $45 million, resulting in a $2 million marginal increase in operating profit at the half-year point.

This gives an outline of the major contributions by the key components of the Group. Stephen had touched on the SIA Parent Company. Engineering have done its briefing, but the reduction of $19 million in operating profit was largely due to two reasons. One is the reduction in revenue of $4 million. And that's associated with the fewer heavy checks that they have done. There was also an increase in component overhead cost, associated largely with subcontract services. And that was an increase of about $16 million, hence the decline of about $19 million.

SilkAir saw a decline too. SilkAir has seen its revenue come down by about $5.5 million during the half-year. And the reason for that was really a decline in yield of about 5%. At the same time, SilkAir also saw some cost increase, about $11 million or so, for two reasons. One, SilkAir is of course, as you know, transitioning from A320s to the 737 fleet. And there are transition costs associated with that, largely in the form of pilots′ training. At the same time, SilkAir is also seeing larger costs associated with its operation itself.

SIA Cargo saw improvement in terms of a reduction in its loss. And that's largely associated with lower fuel costs. And that is because of the reduction in its operations. And the other component is a reduction in its depreciation costs associated with the removal of the four freighters.

At the net level you see that there's a significant reduction, 55% or so. And let me just go right away into explaining why that has been such a big reduction. Last year we achieved at half-year point a $283 million net profit. There was a major impact from the share of losses of associated companies - $154 million. I think everybody is aware of this, a big part of that being contributed from losses associated with Tiger Airways. For the half-year we accounted for a $129 million loss associated with Tiger Airways. We have also started our equity accounting for Virgin Australia, starting in July, since I got onto the Board. And that contributed about $15 million to the loss here.

Exceptional items was lower. Last year we have a $20 million positive contribution from exceptionals. And this year, you may recall the announcement that we had on us making a provision, about $11 million or so, from the settlement of the passenger anti-trust case in the transpacific case in the US for this half-year.

Operating profit, we saw earlier, it went up by $2 million. They were more sales and lease-backs. Parent Company level - Stephen has mentioned - there were three sales and lease-backs of 777-300ERs. SilkAir did some sales and lease-backs as well for the 737 - five of them - and that contributed to the increase in sales and lease-back surplus. Contribution - lower contribution from interest, hence the 55.5% decline in net profit.

With the reduction in the Group net profit, you will see the reduction in those indicators on a per-share value. Interim dividend, the Board has approved the award of 5 cents per share for the interim dividend. The last I checked, our share price was about $10.10, so it's still a very good buy given that it's way below that of our NTA.

Fleet-wise, for the Parent Company, essentially the new aircraft delivered were used to replace and renew the exiting aircraft, so the fleet remains the same at the end of this financial year. There is a marginal increase for the second half for SilkAir, from 26 to 27 aircraft. Scoot is looking forward to its delivery of new 787s to replace its existing 777-200s, and at the end of the financial year, it will have two 787-9s and then the remaining four being 777-200s.

Here is the capital commitment for the Group over the next 5 years.

Stephen mentioned about fuel price, so we do see a reprieve in terms of lower fuel price, at least in these immediate months. But we need to bear in mind that, you know, SIA adopts a hedging policy of consistently hedging for our fuel, and therefore the purpose, of course, is not to speculate in the market, but to ensure that we reduce the volatility of fuel price movements on our earnings. Hence for this second half we're hedged 65.3% at $116 per barrel.

Outlook-wise, I don't think I need to touch too much on these three factors. Intense competition is well known, especially in this part of the world. Geopolitical factors, we have seen what recently has happened in Thailand. We have also seen what happened in Hong Kong. There was also a period of uncertainty on travel associated with the Indonesian election recently. So those factors continue to be something that we can't predict, but we need to bear in mind that we need to be able to react to them in a nimble manner. Economic risks, well the US recovery, whether it will sustain, this is a question mark. Europe, there were already talks about slowdown, and so is China. And all this will have an impact on future travel.

We have mentioned about our approach to meeting the challenges, especially about putting the Group in a stronger foundation for future challenges. And I wouldn't go through that again, but to point out some of the updates from all the major strategies that we have adopted. Network connectivity continues to be very important to us, hence you see that in this part of the world, SilkAir will continue to grow to secondary points that will connect well with SIA, the mainline, for long and medium-haul services.

Beyond SilkAir, our fully-owned subsidiary, we continue to build on partnerships. These are the two major ones that we have announced in recent months. Air New Zealand, of course you are well aware, and the actual operation to start from January next year. Turkish Airlines, we struck the agreement in May, and in the four months after that, we have seen very significant improvement in terms of connecting traffic between the two airlines - 13,000 in four months. And we will continue to build on that relationship, and to tap the connectivity beyond Istanbul.

Of course we have done more than these two, just that the rest are smaller deals. But on the whole, you'll find that at this point, we go beyond our own network organic points. We have added 208 codeshare points. And that is about a 25% increase from March of this year - the end of the last financial year. So it's a significant increase as we continue to build on partnerships.

FFP is an important part of our business, and we continue to enhance the FFP programme for our customers. In the announcement that was not too long ago, we have announced that we have this conversion programme with Virgin Australia. The first of its kind in the industry. We believe that it will be very beneficial for both airlines, as loyal passengers in both airlines, the members in both programmes, will be able to essentially enjoy the full benefit of each other's programme. Of course within KrisFlyer we continue to enhance its offerings and benefits that we can bring to members. So KrisFlyer Spree, for example, we allow over 2,000 local and international brands, when our members shop on them, they will be able to accumulate KrisFlyer points as well. And we also add more to the pay with miles programme, where we allow more features and more things that our members can use miles to pay for. I need not say very much on this as we continue to build our brand internationally, we have sponsored of course F1 and the recent WTA.

Portfolio approach. I have touched on this many times, and this will continue again to be strengthened. I've mentioned about SilkAir and SIA. And I've also mentioned about Scoot and Tiger before. And I think together, it will be able to allow us to extend market reach. Essentially these four components in the portfolio would allow us to tap traffic virtually in any segment of the travel market. So the whole idea is that we would like passengers – whatever needs they have, wherever they want to travel to, whether it is medium, long-haul, whether it is short-haul, whether they want to travel on budget, whether they want to enjoy a little bit more comfort on full service, they can choose any of the airlines within the portfolio, so they can keep all the travel within the portfolio within the Group. Of course we recognise that the LCC segment, it's a growing segment and you can see in the statistics here. And it will have potential to grow further, especially in this part of the world.

If you just look at SIA and SilkAir itself, since we started focusing on greater integration and cross selling, we have seen an increase in terms of the connecting traffic by 50% since three years ago. That's a significant increase. And today, 60% of MI's traffic are actually connecting onto SQ or vice versa.

In the case of Tiger and Scoot, as what Campbell has mentioned some time back, the connecting traffic between the two is less than 5% at this point in time. I would say significantly less than 5%. So there's a huge potential that we can tap here that is totally untapped at this point in time. But we can only do so if the two work together closely. Of course with ATI they are now able to do so in a closer manner, but I think there's much more than we can achieve. So for us to have a portfolio and for the portfolio to work well, we need all four components. And Tiger Airways will be an integral part of this component by offering short-haul LCC services.

Tiger has been doing - from our perspective as a major shareholder - doing all the right things in positioning itself for the future. So it has cut down on its overseas joint ventures, which are not profitable and really have very little hope of making any success out of it. So they have withdrawn from the Philippines, from Indonesia, and the last was Australia where they sold the remaining 40% to Virgin Australia. But in the case of Australia, Tiger continues to keep the brand there, Tiger Australia. And Tiger itself would enjoy some payment for the brand.

The other major issue Tiger had was capacity - too many aircraft. And the overhang is really quite significant. But Tiger again here has taken very decisive steps to address that issue. You may recall in March this year, that they have cancelled nine aircraft deliveries for the 14/15 year, for delivery in 2014/2015. So that's part of that. And then the recent announcements that they have of the sublease of 12 aircraft to Indigo. Plus also two aircraft to the Tiger Taiwan venture. So all these are significant steps to address the overcapacity issues of too many aircraft with Tiger right now. And refocusing their efforts, instead of being distracted by all these other issues and other markets - refocus the efforts to focus on Singapore, which is really where their base is. And Tiger right now will be really looking at how to improve the Singapore operations and return Tiger to health.

The co-operation - the stepped-up co-operation with Scoot - will be a significant step in that direction. As you can see earlier, there's much opportunity for Scoot and Tiger to work together. And that co-operation will enhance Tiger's ability to tap into traffic beyond their own network.

If you look around the world - I mean if you look, just maybe four, five years back - it is actually rare to see full-service carriers getting into the LCC space. But today, if you look around the world, the situation is actually quite different. Look at Europe. How many full-service carriers have their own LCCs? And look around North Asia, similarly, whether it is Japan, Korea. So LCCs I think we have to recognise that it is something that is present and will continue to be here. The question is, do we want to be part of it? SIA's stake in Tiger, as I mentioned earlier - given the portfolio strategy that we have adopted - Tiger is an integral part of that strategy. And SIA's stake is actually our way of supporting Tiger to actually make it successful. And in this case, you see that, the question is of course, why do we need to increase our stake to controlling interest, which we intend to do, subject of course to the approval of the Competition Commission of Singapore, to have merger control. We believe that the SIA Group itself will bring benefits to Tiger beyond just the ATI co-operation between Scoot and Tiger, which is commercial. With the scale that SIA has, with the connectivity distribution network that SIA has, Tiger will be able to benefit much more beyond just Scoot. And for us to be effective in doing all that, we need to actually achieve control, and have the merger control approval.

At this point in time, perhaps it's useful to address a question that I'm sure is on many of our analyst and journalist friends' minds, which is whether SIA will be making a takeover bid for Tiger Airways. I think I should address the question right now. So it's fair to say that at this point in time, a takeover offer for Tiger Airways is not under consideration. So it's not under consideration. The focus now for SIA is really to see in what manner, subject again to the merger control approval, in what manner can we as a group help Tiger back to financial health. So that will be the focus.

I'll just touch on Scoot. Scoot have passed its three-million-passenger milestone. I think the most exciting thing that will happen for Scoot this year is really the arrival of the 787, and from that on, the renewal of the fleet. We mentioned earlier that there will be two 787s to be delivered by the end of this financial year. By August or so next year, we expect that most, if not all, the 777s will be replaced, and Scoot will be operating with a much more fuel-efficient fleet. And in a configuration that even better matches the demand patterns of the destinations they serve.

Of course Scoot has a joint venture in Bangkok. And it has already been announced that the air operator certificate was approved just not too long ago, 30th October. And preparations are now underway to operate its international sectors. And the announcement has identified Japan as one of the early destinations they are targeting. So that's a good, positive development.

In the case of the Tata-SIA joint venture, Vistara, we were of course - or rather Vistara was originally targeting to launch the first flights sometime in October. That has since been delayed, in part because the Indian DGCA has been busy preparing for the FAA inspection relating to the classification of category for the Indian aviation. You may recall that in the early part of the year, in January of 2015, FAA downgraded India from CAT 1 to CAT 2 and now there's a review to see whether that is going to be reversed. So that has caused some delay. But our team on the ground are working very hard to meet all the requirements. And we're hopeful that approvals will be coming in due time. So this is very much a work in progress, and we continue to push hard on it.

And the last part was also a new venture that we have announced before. This is the training centre set up with Airbus for exclusive training in this part of the world. And again, it provides training from the smallest Airbus aircraft, the A320s, all the way to the A380s. The joint venture agreement has been signed in August, and we are preparing for launch by either end of the year or early next year. It is heartening to note that there has already been strong interest expressed to send pilots to the centre for training. That's my last slide. Thank you for your attention.

Q&A

Mr Nicholas Ionides: We'll now move to the Q&A segment of this morning's session. As the tables are being moved into position, a couple of the usual reminders. Please direct your questions through me by giving me a signal and I will call upon you. We'll also be recording this morning's session for a transcript that will go out to SGX on Monday morning. So please wait for a microphone to come to you, and please identify yourself as well, and state the name of the organisation that you're representing. Thank you. I'll now invite the executives to the stage please. Alright, we'll now take the first question. The gentleman there in the dark suit.

Mr Eric Lin, UBS: Thank you. Good morning. Eric Lin from UBS. Thank you for seeing us today. Two questions. The first one is in relation to earlier Stephen introduced the yield. Just want a bit of clarification. You mentioned about FX impact. Is it fair to say that scraping out the FX, underlying airfares is probably flat or even up in the past quarter? And if possible, if you can also elaborate your passenger revenue mix in terms of the key currencies, like yen, Euro, Aussie dollar etc. And then my second question is, on Tiger - thanks Choon Phong for explaining - seems a lot of the work, like capacity cut, like dumping the loss-making associates, pretty much done. Tiger's still a loss-making company. My question is, in addition to that, say assuming you have a say when you become a controlling stakeholder in a company, what exactly in addition you are going to do, you know, from SIA point of view to make this company accretive to SIA. Thanks.

Mr Goh Choon Phong: Let me take your second question first, so Stephen can search for the right statistics. Unfortunately there's not much we can share at this point in time because Tiger is a separately listed entity. We can't impose our views on them at this point. However, once the merger control approval is given - if and when it's given - we will then I think be able to articulate more about what we can do together. Because it's not just what we want, it's got to be also what Tiger is able to do as well. So it's going to be a collaborative discussion, as opposed to something that we want, this and that. Now we are supportive as a shareholder, but we're very well aware that Tiger too has to make sure that its own operation makes sense with respect to its own mission.

Mr Stephen Barnes: Thank you. Okay to the first question as to the effect of exchange on yields. Across the first half, yields contributed just over one third of the decline. So the balance really came from underlying yields. There was a bit of a difference though in Q2. In Q2 if you look at the underlying local currency yields, they actually stepped up marginally, which was encouraging internally. But it was overwhelmed by the change in the exchange effect. But for the half it's about a one-third effect. When we look at the currency mix, the major receivable currency is Singapore dollars. That still accounts for just under half of our receivables. The other major currencies would be US dollar, is the largest. Australian dollar, 8%. Euro, a little under 6%. Yen, about 4%.

Mr Eric Lin, UBS: And for the US dollar?

Mr Stephen Barnes: The US dollar depends actually how you measure it. But if you include fuel surcharge, it's up around 26% or 27%. But if you exclude fuel surcharge, it's still in the 12% range.

Mr Nicholas Ionides: We'll move to the second row, middle please. And then we'll move over there to the right, right next to you. The gentleman in the yellow tie in the second row. Thank you.

Mr Mark Webb, HSBC: Hello, Mark Webb, HSBC. Just a question about your low-cost carrier strategy. Your strategy is to have a portfolio of companies including long and short-haul low-cost carriers. If you contrast that to Cathay Pacific, their strategy is to use a portion of their Economy Class inventory and sell it like an LCC, and have that rather than setting up their own businesses. And obviously there's different circumstances, different capacity constraints at the airports and so on and so forth. What do you think are the pros and cons of those two approaches?

Mr Goh Choon Phong: I can't comment to what other airlines have done, but maybe in response to your questions, I could offer a few questions that you might be able to derive your own conclusion. And actually you have alluded to it, because you say, you know, different circumstances and all that. I suppose one question is to us, in the case of Hong Kong, whether there has been a strong, big LCC presence there. And then you look at this part of the world, whether there has been big, strong, LCCs. The second question you may ask is whether the experience of those countries or places where there's big, strong LCCs, whether they have actually, ones have taken root, what were those impacts on the corresponding full-service carriers in that country. Maybe by answering some of these questions, you might be able to derive some answers from there as well. But I really do not want to comment, you know, directly on what other airlines have done.

Mr Nicholas Ionides: Okay. Just next to you there, thank you.

Mr Timothy Ross, Credit Suisse: Good morning gentlemen, Timothy Ross from Credit Suisse. A couple of questions. One fairly plain vanilla. You've been kind enough to give us some growth guidance on SilkAir, could you perhaps give us some guidance on the cargo business and on the Parent for the balance of this year. And my second question again, gets you to look into your crystal ball, but again not too far away. Obviously Tiger anticipates to lose money second half. Scoot continues to lose money in the second half. Vistara likely to chew up cash in the second half, and I'd imagine the same for the pilot training base. How much should we be thinking about in terms of those four businesses, and the negatives that they're likely to throw in your way in the second half of this financial year?

Mr Goh Choon Phong: Okay, I'll answer your later questions, and I'll get my colleague, Chin Hwee, to answer the cargo questions, and Mak maybe you can answer the Parent growth questions.

I think you are right, that when you start a venture, you would have to expect that there will be a stage of growth, and during that growth stage you probably could expect that it will not perform as well as you want it to. Well, let me take that back. It can perform as per planned, but it may not be contributing profit. And that is the growing stage. And you are right to point out that we have started all these, almost at the same time, because we think it's opportune to do so. Take the example of Vistara. I think if we have not seized the opportunity to go in and set it up, it may be more difficult now to do so. It's not to say that whatever we set up will be successful. What we're saying is that we see the opportunity. We see the long-term potential of those joint ventures. And we say that we should be in there, set it up and grow it, and of course in the future, for the long term we want it to contribute positively back to the Group.

I suppose one way to look at it is that the SIA Group is in a somewhat privileged position in that we have a very strong balance sheet that allows us to engage ourselves in such long-term projects that will position the Group for a much stronger foundation in the future. So the portfolio virtually allows us to react in a very nimble way to any market changes in terms of demand for different types of travels. And at the same time, we can actually keep our passengers' needs, whatever their requirements are, within the Group. So I think many of you might have experienced that. For some of your travel, you travel on the full service. For others, like short vacations and all that, you perhaps don't mind travelling on the LCCs. For the case of the SIA Group, we will be able to cater to all your needs within the Group. So that is it.

Mr Timothy Ross, Credit Suisse: Yes, so Mr Goh do you actually have a number though. That's what I'm actually after.

Mr Goh Choon Phong: Sorry?

Mr Timothy Ross, Credit Suisse: Do you have a number?

Mr Goh Choon Phong: For?

Mr Timothy Ross, Credit Suisse: For the next six months in terms of what those things might contribute in terms of losses?

Mr Goh Choon Phong: No, we don't provide numbers for, you know, obviously Vistara and all that is just setting up. And then Scoot, we're not at a point where we are providing financial numbers. Tiger is published of course.

Mr Ng Chin Hwee: I'll speak on behalf of Cargo. As you're aware, Tim, we were operating with 13 aircraft last year. We've since cut it down to about eight now. So technically that's a 40% reduction in terms of aircraft numbers. Notwithstanding that, for the first half at least our capacity for freighters alone, came down by 11.5%. So all-in, our capacity came down by 4%. So it does show that the cutting back capacity was right, the aligning and trying to adjust the capacity of demand was also right. For all indicators, I can tell you for the first half, the yields have been up, or rather flat - well flat, but the load factor's up as well. And unit cost has come down. Now as for going forward, I can also state that after a hiatus of two years, we are going to finally get a Christmas for the cargo industry, for this year at least. So demand is good. Yields are definitely a lot more healthy for this Christmas quarter. So we are a bit more sanguine about the forward market for this quarter. I've been long enough in this cargo industry to tell you that I cannot predict for anything beyond three months. Given this current economic situation, you know, as you can see there is sort of a mixed report card for the world's economy right now. Thank you.

Mr Nicholas Ionides: Okay. And we'll stay to that same side of the room, and just one row behind please -- oh, sorry, apologies.

Mr Mak Swee Wah: You asked about SilkAir. This year, I think as the number was shown, capacity growth is at 7%. It's a little bit lower than planned. As you know, SilkAir has been hit quite badly as Mr Goh alluded to earlier, by the situation in Thailand and Indonesia, which affects SilkAir proportionately more than the mainline carrier because we are Southeast Asia and regional base. Going forward, we will continue to plan for growth. As you know, barring unforeseen, any other geopolitical shocks, and with a bit of consolidation in the Southeast Asia capacity scene, I think we are seeing fairly encouraging bookings, especially for the end of this year. So I think we are hopeful that we will be able to overcome the big slump that we saw in the first quarter.

Mr Goh Choon Phong: The quick answer to the Parent Airline capacity is that it will remain flat for the rest of the six months.

Mr Nicholas Ionides: Okay. Now we'll stick to one row behind please. The lady in the red dress. Thank you.

Ms Azita Abul As, Macquarie Securities: Hi, this is Azita from Macquarie. I have three questions. Firstly, at what levels would you consider reducing your fuel surcharge? Second is, in your view do you see other airlines already dropping their fares, taking advantage of the lower fuel price? And lastly is, I understand you said that on cargo you only have a three-month view, but do you think the cargo yield increase is sustainable, given that most cargo has reduced capacity. And in an environment where demand is improving, most of the other cargo will add back their capacity? Thank you.

Mr Goh Choon Phong: Okay. Maybe just a quick response on the fuel surcharge. Of course we have internal reviews, and as and when there is anything to announce we will do so. But perhaps it's good for me to point out that the fuel surcharge has always been and continues to be only a partial relief to the increase in fuel price.

Mr Ng Chin Hwee: Well the thing about cargo yield is that it is really - the demand for cargo typically comes fairly late, right. Just to give an example, the launch of the iPhone 6 for example. No one really knows when the actual launch date is. All we hear is that there is demand, there's going to be a request for charters for example. And you know, at that point in time when you find that whatever capacity's available, then that is where the yield kind of finds its level based on the balance of capacity and demand. Not that I can't give you a forecast for yield, and also the demand, but the last few years I always got it wrong every time beyond the first quarter. Only because it is, if anything at all, it is a reflection of the delicate balance between capacity and demand in the cargo industry right now. Yes, I would agree with you that there's been some rationalisation of capacity.

It's a bit more disciplined in the cargo market right now. But you know, never say never for all these other airlines. Thank you.

Mr Mak Swee Wah: You asked a question about fares, whether because of the lower fuel price, we have seen a drop in fares. Fares are driven largely by supply and demand. As you know, in the market now, people talk about all-in fares, and people don't really ask how much is the fare and how much is the fuel surcharges, it's all-in. So that is driven largely by the supply and demand. And I suppose you also know that in this region at least, airlines operating with either razor thin margins, or in fact no margins at all.

Mr Nicholas Ionides: Alright, we'll move to the centre of the room, the fourth row from the front. The gentleman in the white shirt. And then we'll move to this side of the room; second row. Fourth row. Thank you.

Mr Daniel Lau, Morgan Stanley: Hi, good morning. This is Daniel Lau from Morgan Stanley. Just four quick questions from me. The first being passenger yields. Just wondering, you know, this quarter, what has been the passenger mix between Business and Economy? As well as in particular which regions are we seeing stronger Business traffic versus Economy traffic? Second, what's the outlook for the passenger mix going forward? Another question will be on dividend payments. Is there a reason why there's a decline in dividend this quarter on a year-on-year basis? Next, on capex, is there a breakdown in terms of your capex expenditure? And will we see more sales and lease-backs on your aircraft going forward? And lastly, it's related to Vistara. Assuming that the 5/20 rule is abolished, how will Vistara's international operations help SIA Group in terms of connecting flights, particularly to Europe? I'll stop here, thank you.

Mr Goh Choon Phong: Okay I will take some of the questions, the dividend and the Vistara questions. I'll get Stephen to address the capex question and Mak can address the yield question.

Okay. Why has the dividend come down? Well the net profit has dropped 55%. So I think that's a quick answer to you. Vistara, 5/20 rule. Of course we would like the 5/20 rule to be repealed as soon as possible, because eventually we would like Vistara to actually serve the international routes. Vistara themselves would like to serve the international routes. When that will be repealed, we don't know. But we are certainly engaging the Indian authorities to present our view on why that is beneficial to Indian carriers. Because really you look at it, an airline that is based out of India, anywhere in the world, if the airline starts today can operate to India tomorrow. Why would the Indian Government want to disadvantage an Indian carrier, based in India, by restricting it from not being able to operate the same routes until five years later? So that, you know, to Vistara, wouldn't make sense. And it also doesn't make sense to the Indian economy. So that's what it is.

Mr Stephen Barnes: To pick up the capex comments, essentially all of our expenditure is to do with aircraft, except for the small line item you'll see. You'll see that this year and next year, even going through into 16/17, we have a relatively modest level of capital expenditure, which may seem odd, because we are still receiving A330s, but remember those are all on lease. We do have another five 777-300ERs to deliver this year and next year. For SilkAir, there's a continuing delivery stream in our 737-800s, and that will continue at a fairly steady pace I think it's fair to say, over the next 3-4 years. As has been talked about earlier, Scoot is embarking on transitioning into the 787s. And the ramp-up in 787s is relatively rapid really between now and the end of the next financial year, there'll be nearly a doubling in the size of the fleet. And then it sort of begins to tail off. Where you see the ramp-up in capex from 17/18 onwards, this essentially is the beginning of the delivery of the A350-900 fleet for which we have a 70-aircraft order. And then that will be followed a couple of years later by 787-10s. So we are within sight of a fairly significant increase in capital expenditure.

Mr Mak Swee Wah: You asked about yield mix and yield outlook. Actually our yield mix has been quite stable for a long time in terms of the mix between the front end and the back end, the premium and the economy. So we expect that to continue. As for the outlook, of course competition, overcapacity, will continue to weigh down on it, but as Stephen mentioned just now, in the second quarter we see yield holding and we are cautiously optimistic that that will carry on. But the other big element, which is forex, that one has a path of his own.

Mr Stephen Barnes: Could I just take the sale and lease-back question. I think it's been mentioned we've had, in the last quarter, we've completed eight sale and lease-backs. We do expect that there will be more sale and lease-backs, and we haven't committed to any at this point, nor have we firmed up exactly what our plans might be, but I think it is fair to say that we see opportunities for the 737 fleet in particular within SilkAir. So I think over the next year or two we will see more sale and lease-backs beginning to come through. Perhaps not at the rate over the last quarter though. Definitely not at that rate.

Mr Goh Choon Phong: I'd just like to add, on sales and lease-backs, the principle we go by is really to use it as a mechanism to help us manage the residual value risk of the aircraft.

Mr Nicholas Ionides: Okay, we'll move to the second row on this side, and then we'll move over there to the middle. Sorry, second row. Brendan, in front of you please. Thank you.

Mr Aaron Chong, Flightglobal: Hi, Aaron from Flightglobal. Two questions on Tiger Air. Now can we get some more reasons as to the Group not wanting to make the takeover?

That's the first one. And the second one, with Tiger Air haemorrhaging, its problems being well reported, is there a timeframe that the Group has given for the help given to the LCC? I have another question on Vistara. Can we also get more reasons for the delay for the launch of the airline rather than just the usual, oh the Indian DGCA is holding them up?

Mr Goh Choon Phong: Okay, Vistara I think I have provided the reason. It's also associated with the inspection - the FAA inspection - that is going to take place very soon. So obviously there are lots of activities during this period with the DGCA. But we are working very closely with them to try to facilitate the application process as much as possible. Of course on our part we do the utmost to prepare all the documentations and necessary steps for the approval. So I think that's quite clear.

Okay Tiger takeover offer and all that. I think I have said all that I want to say on that point in the presentation earlier so I won't touch more on that. And you mentioned about whether there's a timeframe for how long we?

Mr Aaron Chong, Flightglobal: (Inaudible)

Mr Nicholas Ionides: Sorry, can you pass him the microphone please? Thank you.

Mr Aaron Chong, Flightglobal: Because essentially the LCC, as you said, it's still a component of the Group. And you guys are not going to make the takeover. So if they are still going to be bleeding, how long then will you see yourself helping them? Because essentially if –

Mr Goh Choon Phong: I think I sort of addressed that question earlier when I talked about what steps Tiger has taken. And if you look at all those steps, they are all very significant steps. And that's why there is such big impact on its P&L with the write-off. And we believe that with those steps taken, Tiger is well positioned with a much leaner and also cleaner set-up to actually capitalise on the growth in this part of the world for LCCs. It's probably useful to - I mean I will leave you to engage Tiger management on what plan they have and all that. That's for them to answer.

Mr Nicholas Ionides: Okay we'll take two more. To this side of the room please? Third row, yes.

Ms Karamjit Kaur, The Straits-Times: Hi, Karam from Straits-Times. I'm sorry, still on Tiger Air and Scoot. I don't mean to keep harping on it, but why do you think the two airlines have not been able to work effectively together so far? And do you think that with you coming in and taking the controlling stake in Tiger Air, will that change things overnight? Because you're also talking about two airlines with two separate managements.

Mr Goh Choon Phong: I think I also tried to address that in the presentation. Perhaps it wasn't clear enough. Firstly, of course the ATI approval was quite recent. And Scoot and Tiger cannot commence any such co-operation discussions until the ATI was approved. And from the point it was approved, really we are talking about steep co-operation and all that. There's a lot of things involved. You know, the system integration, and all sorts of things. You know, discussions on how to ensure the interlines are well and so forth. So all those need time to put in place. So many a time we talk about partnerships, those that we launched, prior to the announcement there was a long period where they actually thrash out all these details so that at the point of launch it will be successful, and a good experience for customers. And that is important. And that's precisely what Scoot and Tiger is going through right now.

I've also mentioned that through this exercise that we have about getting control of Tiger, we will bring to bear not just the advantage of co-operating commercially with Scoot, but the ability for the SIA Group itself to bring in things that would help Tiger from the economies of scale that we can bring. And there are other things that we could do together. Procurement and all that. Because we are a much bigger entity with a lot more of this ability to influence some of these contracts.

Ms Karamjit Kaur, The Straits-Times: So are you potentially looking at sharing of resources and all that, for example, within the Group to kind of help Tiger?

Mr Goh Choon Phong: Yeah I think in a back room where there are things that we can streamline better, we can actually make things more cost effective, of course.

Mr Ng Chin Hwee: Maybe Karam I can add a bit more colour to the extent of co-operation. I believe Campbell has also made equal statements out to the press on this as well. Ever since the CCS has given ATI clearance to us, both teams have worked quite frantically to strengthen the co-operation. Certainly, you'll be hearing, you know, plans to go to look at possibilities of joint ventures on common routes. That is one area. We're also trying to align right now all our ground procedures as well as our products. And the whole objective of course is to be able to have ability to buy through fares. So any points let's say on Scoot's destinations, say from Sydney going out to Malaysia for example, or to, you know, Bangkok for example, it's the ability to allow passengers to buy a through ticket all the way from Sydney to Bangkok, or any points on Tiger. So all these are all in the works. Of course as highlighted by CEO, this is not something that we are going to do manually. There's quite a bit of work involved in aligning our reservation systems and our processes, and our revenue management system. So I believe Campbell has alluded to this in some of his interviews, and watch this space basically.

Ms Karamjit Kaur, The Straits-Times: Actually I'm just trying to understand why this step that you've taken to seek approval for, you know, closer co-operation, why was it not done earlier? I mean I would assume that when Scoot was launched, that was the thinking that the whole idea is for the two carriers to work together. So why has it taken -

Mr Goh Choon Phong: I think the first step of course is for Tiger and Scoot, they are most relevant. As you can see, the potential for interconnectivities and for both of them to enhance each other's network is actually, we barely scratched the surface. So that is the first thing that should get approval for, because it has the most impact on the commercial. But beyond that, as I say, you know, the other things, the Group could actually help out.

Mr Nicholas Ionides: Alright we have time for one last one. Back to this side of the room. Third row please. Gentleman in the blue shirt.

Mr Brendan Sobie, CAPA: Thank you. Brendan with Centre for Aviation. I had a question about your strategy for transit traffic, generally. I was intrigued with the growth in MI-SQ to 60% and I'm curious about whether you've seen increase in SQ-SQ, or just overall SQ transit traffic, particularly as the inbound market here in Singapore has gone down this year. What your figure now is at SQ for transit traffic in relation to just overall. And whether you see that going up this year. And also just general thoughts on if you share the prevailing wisdom here in Singapore, that transit is the way to grow the market, that this is a relatively mature market, you know, given the inbound and outbound situation, that transit is really where you want to go for both LCC and full-service.

Mr Goh Choon Phong: In the presentation I had this slide on the transit being higher growth and the, of course the end-to-end. And that's true. And that's the reason why we are building up all this connectivity. I don't, however, have the specific numbers you've asked for, which is the transit within the airline and all that. Because actually the connectivity within SQ has always been planned that way. And every time when we increase any SQ frequency long-haul, short-haul, we'll always plan with in mind how to connect it to the destinations of relevance. So that has always been the planning parameter.

Mr Brendan Sobie, CAPA: You said MI was 60% of the passengers, MI will connect. But how about for SQ overall? I think historically it's been about 50% is that right? I was just curious if you've seen an increase in that this year because of the decline in inbound and so forth?

Mr Mak Swee Wah: Overall it's not 50%, it's slightly lower than 50%. I think the 60% was just talking about MI to SQ. Of course SQ to SQ itself is a different number altogether.

Mr Brendan Sobie, CAPA: Yeah I know. But you don't have a figure for that?

Mr Mak Swee Wah: No. I don't have the figure off hand.

Mr Nicholas Ionides: Alright thank you. With that we will bring the morning's session to a close. Thank you all for attending.

(ENDS)