TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Half-Year Ended 30 September 2016

(Read in conjunction with PowerPoint Presentation)

SIA Training Centre

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E&OE – may be edited for grammar

Presentations

Mr Nicholas Ionides: Good morning and welcome to the analyst and media briefing for Singapore Airlines' second quarter and first-half financial results. My name is Nicholas Ionides. I'll be moderating this session again. We'll begin with a presentation by our Divisional Vice President Finance, Ms Chia Siok Hua. She will be presenting the Parent Airline Company results. Our CEO, Mr Goh Choon Phong, will follow with a presentation on the SIA Group results. We'll then have a Q&A session. Joining Mr Goh and Ms Chia on the panel will be Executive Vice President Commercial, Mr Mak Swee Wah, and Executive Vice President for HR and Operations, Mr Ng Chin Hwee. I'll now invite Ms Chia to the stage for her presentation.

Ms Chia Siok Hua: Thanks Nick. Good morning ladies and gentlemen. This morning I will run through the Parent Airline's first half results. Let's start with the operating statistics.

This set of operating statistics reflects the challenges in our revenue environment, a sluggish global economy and competitive pressures. These have impacted both traffic and yields. Traffic for the second quarter declined 4.6% year-on-year, and 3.2% for the first half. Against moderate decline in capacity, pax load factor declined 1.9 percentage points to 78.1% for the first half.

Moving on to yields, yield for the second quarter is lower by 3.8% year-on-year and 2.9% for the first half. And the monthly yield trend continued to see year-on-year decline. Looking at the first six months is approximately 0.4 cents per PKM below that of last year. Some relief from lower fuel prices. Pax unit cost came down 6.9% for the second quarter and 7% for the first half. With the reduction in pax unit cost greater than the reduction in yield, pax breakeven load factor came down by 3.5 percentage points to 78.4% for the first half.

This is a five year series, achieved load factor for the five years, fairly flat, except this current financial year. Compared against pax breakeven load factor, a bit more varied but consistently in the negative. It has been a challenging five years and it will continue to be challenging.

Let's look at the numbers. Total revenue for the second quarter declined by $232 million on a combination of lower carriage and lower yields. Total expenditure declined by $213 million, mainly due to reduction in fuel costs partially mitigated by increase in non-fuel expenditure.

Operating profit for the second quarter declined by $19 million to $79 million. Together with an operating profit for the first quarter of $197 million, it adds up to $276 million for the first half, $70 million better year-on- year.

Looking at the first half revenue, $343 million decline. This is mainly due to lower pax flown revenue and bellyhold revenue from SIA Cargo. Lower bellyhold revenue mainly due to lower fuel prices. If you look at the two other revenue, it shows an increase of $45 million, and this is really due to one-off items in the two financial years.

Expenditure items, lower year-on-year mainly driven by lower fuel costs, partially mitigated by increase in almost all the other expenditure items. Let's take a look at the $525 million decline in fuel cost, largely driven by a 21% decline in fuel prices. Lower hedging loss as the more expensive hedges have tapered off, a weaker US dollar partially offset by higher volume uplifted, $525 million reduction in fuel expenditure. Pax unit costs reduced from 8.6 cents per ASK to 8 cents per ASK, largely due to a lower unit fuel cost, partially offset by the other non-fuel expenditure items.

That's my last slide. I would now like to invite Mr Goh to present the Group results.

Mr Goh Choon Phong: Good morning ladies and gentlemen. Welcome again to our briefing. Thanks for making time to come to STC. This is the Group result at half-year point. You saw the quarter 1 and quarter 2 revenue for the Group. If you add the two together, it comes out to about $7.3 billion, and that represents a decline of $273 million, or 3.6%. As you saw earlier in Siok Hua's presentation, you can expect that a significant part is due to a decline in the passenger revenue.

The passenger revenue for the Group itself came down about $180 million, and added to that is also a decline in cargo and mail revenue for the Group, which came down about $99 million. So that accounts for the most part of the decline.

Expenditure also came down largely because of fuel. It's at $7 billion, and that represents a decline of $335 million. Again, as I said earlier, it's largely because of a drop in fuel price. In fact, if you look at the combination of fuel price and the volume, comparing the two halves of the financial years, that drop in fuel cost came down to about $340 million.

Group operating profit, as expenditure declined more than the decline in revenue, we have an increase in the Group operating profit of $62 million.

Here is the summary of the performance by the various units, the key units under the Singapore Airlines Group. Siok Hua explained the performance of Singapore Airlines. SilkAir has seen an improvement, a significant improvement in the half year, $18 million, $8 million of which is due to an increase in revenue, and a significant part of that is as a result of the recognition or breakage of the unutilised tickets.

At the same time, of course, SilkAir too benefited from the decline in costs especially from fuel. So the combination of that, the increase in revenue of $8 million, the decline in costs of about $10 million, hence the difference of $18 million.

Scoot in the half year has grown significantly. It added capacity to the tune of 56%. Carriage too went up, a 53% carriage increase. As a result of that, you'll find that the revenue has gone up about 45%. Of course as a result of the rapid expansion, there was some yield decline, about 5.7%. Nevertheless, the revenue went up significantly, more than the cost increase. Cost increase of course, is intended with capacity increase, but the fuel price decline, too, benefited Scoot, so cost increase amounted to about 29%. Hence you see the swing of $28 million for Scoot's operating result.

Tiger, too, has done well in its restructuring, and therefore the improvement. Tiger actually is the only airline that managed to maintain its yield in the half year. In fact, the second quarter of the financial year, Tiger actually saw a marginal improvement in its yield.

Engineering Company, actually the result was separately announced, so I won't go into too much detail, but a significant part of that decline is a result of the provision for the profit sharing bonus with the Engineering staff because of the gain from the sale of the stake in the venture in Hong Kong, HAESL.

Cargo had a challenging time. Cargo's decline is largely because of the significant drop in the revenue. In the half year, the revenue came down by slightly over $100 million. Outstripped the benefit brought about by the decline in fuel cost, Cargo's revenue decline despite efforts to boost its carriage, a significant part of it is as a result of the decline in yield. Cargo saw a yield decline of 16.6% in the half year.

In terms of the net profit for the Group, we saw the announcement, it is $322 million for the half year. And that represents an improvement at the half year point of 5.6%. This is how we get from the $305 million the year before, to the $322 million this half year. The divestment by Engineering Company, I mentioned earlier, that they sold their stake in HAESL, and that brought about an improvement in the bottom line of just over $140 million.

Operating profit we saw earlier, went up by $62 million. Last year there was a dividend from our sale of our stake in Abacus, and that was to Sabre. And that brought about dividend income of $90-over million. This year we don't have that so that was a relative difference.

Associates, higher share of losses primarily from Virgin Australia. You saw the results from Virgin Australia. That is largely because of the restructuring exercise that Virgin Australia has gone through.

There was an impairment of two Scoot aircraft, the 777-200 aircraft, that comes up to $21 million, and also SilkAir's loss from sale of one A319 aircraft. So you combine all that, you get the results that we have announced.

Because of the positive net profit, of course, all these metrics, you see improvement in metrics, the Board has declared to issue an interim dividend of 9 cents at this point in time. You can see that even though the net profit is higher than the corresponding time last year, the dividend is slightly lower than that of last year. It reflects the uncertain outlook, and challenging outlook that we anticipate in the coming half year.

So we have a NAV of $11.20. This, last I looked our share price is at $9.95. I think it represents an excellent value for everyone, so spread the news.

Fleet development, we continue at SIA level, no surprise we continue to take delivery of the A350s as we modernise our fleet and give us again opportunities to go to places we couldn't mount commercially before. So SIA will end the financial year with 109 aircraft. A minimum change for the rest. SilkAir will take one more. Scoot and Tiger for the rest of the financial year remain the same. So if you add all of it together, you will see that by the end of year, the Group will have 175 aircraft.

Cargo continues to see rationalisation of its fleet, so two more freighters will leave the fleet, returning to lessors. So, it will end the financial year with two fewer freighters, seven in total.

This is again, no surprise to everyone. It has always been presented and this reflects the aircraft delivery that we expect over the next five years.

The hedge position, we are at a lower hedge level right now, as what Siok Hua mentioned earlier. The earlier hedges have tapered off.

Strategic developments. Now these four factors are not new, and we all know what it is. Of course, item 2, geopolitical, we are all I'm sure anticipating what will happen on the 8th of November. But really some of it we have always mentioned in the past that we have recognised some of this to be structural in nature, and hence we have taken proactive actions to put in place longer-term strategies to address these issues.

Particularly the part on competition, because if you see the way how LCCs have proliferated in this part of the world, how capacity injection from the stream of aircraft coming in for both the Middle Eastern and also the Chinese carriers, one cannot expect that to just go away. And I think we have shared that in the past.

And that's the reason why we have taken deliberate steps to take on these four key strategies for the Group. These are not things that we decided in a casual manner. These are a recognition that the environment has totally changed and we have to be prepared for those changes. And I think many of you are aware that all of these have actually been put in place over the last five to six years, and it's not something that is new. And we continue to have to enforce and strengthen each of these strategies.

Let me go through each of them in turn, but you will see that all these strategies are now taking shape, and I think it augurs well for the Group in terms of positioning the Group in a strong foundation for the future.

Strengthening our premium positioning is something that SIA has always done to ensure that we continue to be the foremost of carriers in the world. And that touches all aspects of our service and product offerings. So for example we continue to implement the new concept lounge, to better serve our customers across the world. Bangkok, which is the latest that will be ready next year, earlier next year, it will be our sixth and we are not stopping there. We'll continue to provide a better lounge experience for our customers. And all those places that we have new lounges, we have gotten great customer feedback and response. And of course, for areas where we think we can improve further, we use those experiences to improve for the following lounges that we build.

Premium Economy is again something that we introduced and we have taken an aggressive schedule to actually implement it on our major newer aircraft. So all the A350s come with Premium Economy. We have retrofitted Premium Economy on all our A380 planes and we have retrofitted 10 777-300ERs so far. There will be 17 more that will be retrofitted by the end of next calendar year.

And the rest, food, we continue to innovate. We have introduced healthier choices. We have also introduced recently, not too long ago, our Nyonya Peranakan cuisine to the delight of many of our customers, and now we're introducing Teochew food. Again, something that we believe our customers will appreciate. Of course some of these cuisines that have been introduced, if they prove to be very popular with our customers, will then make it to our regular menu as well.

We continue to innovate and push the boundary on in-flight entertainment. We were the first to launch the companion app, and we continue to improve the user interface between our customers and the system to make it much easier. And this again will be progressively retrofitted on our fleet.

We have always said the A350s will be a game changer for us, and that is the reason why we've ordered 67 of them - 67 A350-900s, which make us the biggest customer for Airbus for this aircraft type - of which seven of them will be in the ultra-long-range variant of this aircraft.

We will be the launch customer for this ultra-long-range aircraft. It reflects that we are not just looking at what is available in the market and take it when the manufacturers manufacture it. But a conscious effort by us to actually work with the manufacturers to push the boundaries of what they can do in terms of enhancing aircraft capabilities to best suit the commercial needs.

So therefore, that's the reason why we're the launch customer for the A350-900ULR in 2018, and in 2018, we will also be the launch customer for the 787-10. Again, it's a result of us working with the manufacturers in a very conscious effort to actually push the boundaries of what they can offer, so that we can better meet the customers′ needs and commercial requirements.

As a result of the A350 capability, both in terms of its range and also its fuel efficiency, we are able to also launch destinations that we couldn't possibly serve in a commercially viable manner before. And some of it because of the launch and replacement of aircraft, the aircraft is then available for other flights. So there are consequential impacts as well.

So these are some of the new routes that SIA itself has launched, has mounted. And the latest being the San Francisco flight, which was a nonstop flight between Singapore and San Francisco, in late October. So far it has been very well received and we are confident that this will be a good flight to meet our customers′ needs.

At the same time, we continue to expand partnerships. Partnerships is something that we have put a lot of attention in, about five, six years ago, and this continues to be the case, and you can see in the slide that we have increased our codeshare frequencies to almost 10,000 now from a fairly modest 2,000-plus back six years ago. And this will again continue because we are still, as you know, we have announced the joint venture plan with Lufthansa, but we are still awaiting final clearance from antitrust authorities to actually materialise those plans.

So if you look at just SIA itself, there has been a lot of development in terms of our routes. I think many of you previously have asked, you know, what is happening to SIA? Are we seeing growth? Is it going to be a concern for the future? This is what we can show you. With the new aircraft type, we are able to now again grow in a manner that is commercially feasible for the Airline.

But it's not just SIA. We have a portfolio of carriers now, which we will touch on a little bit more later. And the portfolio allows us to have the nimbleness and flexibility to grow to places where we couldn't do so previously, or that it would be better served with the right vehicle, and therefore, bring about accretive returns for the Group.

So these are just some examples of the growth that you can see from the Group, including the four airlines, that has been announced. So by the end of this financial year - within this financial year - the SIA Group actually would have added 12 new destinations, and that is not a small feat, especially given the kind of environment that we are having. And we wouldn't have been able to do so, had we not had this push to go on the portfolio model, and we had not actually taken a decisive step to acquire those new aircraft.

Athens is here. Athens of course will not be in this financial year. It will be next year, but it was announced by Scoot so as to allow early sales. So if you add Athens, all those announced, we're talking about 13 new points. So if you consider all these new points, then the Group now would serve 132 destinations. And like I said, by the end of the financial year, it would have 175 aircraft in the fleet in total.

Scoot and Tiger, well, by now, I think all of you would have received the news release about the efforts, not just bringing together some of the integration that we have started when BAH was formed, but going a step further to establish one single AOC and one single brand, which we believe will bring about the ultimate benefit of a full integration in all aspects of the budget side of the business.

And you can see that, you know, actually if you look at the result earlier, you see that all four airlines in the Group are actually profitable. And if you just even look at just the second quarter result, it's the same picture.

Then we talk about investment in strategic markets. Again, this is a long-term vision and objective to actually establish a significant presence outside Singapore for the reasons that I have articulated all the time. And Vistara is now operating with 13 aircraft, 18 destinations, 10 of which are actually not served by any of the SIA Group portfolio airlines.

The next aircraft that Vistara will take, the 14th aircraft, will be the 'neo' version of the A320, and the Vistara Board is actively looking at what is the future plan for Vistara.

NokScoot, too, a vision that we have on expanding the LCC side of the business. Of course, we all know that Thailand's tourism, tourist trade, is now under some pressure, but we believe that to be temporary, that the recovery will come. Thailand, no matter how you look at it, will continue to be an attractive destination, especially for the budget side of the business.

And new revenue opportunities, we continue to push that. A key part of it of course will be KrisFlyer. You can see that it has been expanding its engagement and partnership with both air and non-air partners. At the same time, it will continue to look at opportunities to actually work with partners to see how we can perhaps get more insight from each other's data. Those are things that are being looked at, and when there are concrete outcomes, we will certainly announce them.

We continue to push for adjacent business. One example that we can talk about is the AATC, and you actually can see that each time we announce it, AATC has more customers. I can say that rate at which AATC has been acquiring customers is actually better than what we have anticipated in our business case, so it's actually doing very well. And AATC has room for growth. It now has five simulators and it expects to go up to eight.

This is actually my last slide. But I just wanted to end by putting things in perspective, that this very difficult environment, this environment whereby we see structural changes - some of them of course are not structural, I mean the economy being tepid and all that, we expect that to go away at some point in time, that there will be some growth, we don't know how long, but we don't expect, you know, the gloom to be forever - but some others are structural, the competitive landscape and so on. I think all of you would know that the steps we have taken in the five, six years, especially given the changes that have been happening in the environment, has been something that we took both seriously and also steps that we believe will put the Group in good foundation for the future.

And these are things that are still work in progress. The merger of the brand and AOC into Scoot, is one latest example of such development. Between Scoot and Tiger, we have announced before and it continues to be the case whereby the connectivity is still very low, below 5%. And I think there is much opportunity that we can actually grow, as a result of this merger, of this integration.

And of course, we'll continue to have to work on our ventures overseas and new business, and very importantly, not to forget that we have to invest and be the leader in products, in services, in network, for the SIA mainline itself. With that, thank you.

Q&A

Mr Nicholas Ionides: Thank you Mr Goh. We'll now move to the Q&A segment of this morning's session. As the tables are being moved into position allow me to make a few requests. Please direct your questions through me by giving me a signal that you'd like to ask a question, and I will call upon you. Please also wait for one of the microphones to be brought to you, as we will be recording the session for a transcript that will go up to SGX on Monday morning. Please also state your name and the company that you are representing. One final request please. Kindly limit your questions to two each time, to allow more people to ask questions. Of course if there is time I can always return to you again later. I'll now invite the panellists to the stage. I'll now take the first question, in the centre section, the third row from the front, please.

Mr Jack Y Xu, HSBC: Hi, this is Jack from HSBC. I have two questions. First question, second quarter passenger yield is pretty weak. I want to, if you guys can share some colour on which markets are doing well, which markets, you know, deteriorated further, and where the competition is coming from, the excess capacity?

My second question is on the capacity growth. As you know, we have a number of A350 aircraft delivery in the first half, yet we see the capacity growth being largely flat for the first half. Is this trend going to continue in the second half or possibly into next year? Thank you.

Mr Goh Choon Phong: Let me address the capacity growth. I think of course, you would realise that some of those aircraft that were delivered were also for replacement. You saw the aircraft that have been released back - the three aircraft that have been released back to lessor. But the other aspect is also this continued effort that we are doing in retrofitting the aircraft to bring in - to actually accommodate the Premium Economy seats.

So that means that as you retrofit, of course you then reduce the number of the Economy Class and you rightsize also - we took the opportunity to rightsize also the First Class. So, that actually brought about a reduction in the number of seats as you retrofit overall. So we expect that - at this point in time for the second half to be the - in terms of ASK, to be roughly flat, as well.

Mr Mak Swee Wah: On the question of yields, I think if you have followed the news from the other major carriers also, I think all of them have reported pressure on yields. And there are three main factors which are causing this. One of course is the very soft demand, which is not confined to just a specific area. I think generally, I think there are weak economic conditions, and of course Europe has its particular issues with Brexit and all that.

Secondly, there's a lot of capacity, and airlines continue to take delivery and all the widebodies are coming in. And thirdly, it's also due to the low fuel price. The fact that fuel price has dropped means that people have the margin, and in order to fill up the flights, they have engaged in discounting. So I think airlines are all, major carriers are all suffering from this trinity of factors and we are no different.

So, so long as this continues to be, these conditions continue to prevail, I think we will continue to see pressure on yields in the short term at least. Yes, so it's quite a general phenomenon driven by these factors. Thanks.

Mr Nicholas Ionides: All right, we'll go one row behind, stick to the centre section. Could you put your hand up, please? Yes. Thank you.

Mr Daniel Lau, Morgan Stanley: Hi, good morning. This is Daniel from Morgan Stanley. Two questions as well. Just the first one is on fuel hedging. Just wanted to get some colour. It seems like your fuel hedging profile has been declining over the past few quarters. Last quarter it was about 38% for next, until March '17. Now we're looking about 32% including Brent. So has there been any changes in your fuel hedging policy? That's the first question. The second question is more on the Scoot and Tigerair merger into BAH. So what are the internal plans or targets that you have or the internal timelines, and what do you eventually hope, you know, or plan to have the combined entity contribute in terms of growth, profitability?

Mr Goh Choon Phong: I will take your first question on fuel hedging, and I'll invite my colleague in the seat, Lik Hsin, who is the CEO for BAH, to take the second question. So fuel hedging, we have in the past stated that it is between 20% and 60%. And that remains.

This is actually in the ballpark, as well. So in that sense, we have not deviated from that range. So I think that's a quick answer your question.

Mr Nicholas Ionides: We're getting a microphone down. Thank you.

Mr Lee Lik Hsin: In terms of the targets for the full integration, which we have just publicised this morning, we have said that we are intending to do so by the second half of next calendar year. So between July and December of 2017. As to when the budget airlines might start help to contribute to the Group's growth and profitability, I think that is actually ongoing. You would have seen it from the numbers that profitability on the budget side of the business has already been improving in the last six months. And also growth, in terms of the new points, as Choon Phong had described in his slides, with points in India, as well as in China. Thank you.

Mr Nicholas Ionides: All right, the aisle seat here, please. Where is the microphone? Yes, okay, fourth row from the front, please, aisle seat. Thank you.

Mr Raymond Yap, CIMB: Hi there, Raymond from CIMB. Just a follow-up on the fuel question. Given that fuel prices are now very, very low, and there's a potential for OPEC to take some action on supply, would it not be possible, you might consider pushing up the hedging up to 60%, just to be able to take advantage of the current lower price environment? And the second question is on the partnerships. You have an amazing number of partnerships, five times the amount of frequencies that you actually operate on your own. If you didn't have these partnerships, and I'm sure you have the number, I'm not sure you want to share it with me, but what would your load factor actually be, without all these partnerships?

Mr Goh Choon Phong: Okay, on the fuel, we do look at it continuously, and we then take action accordingly. So I can only tell you, this is the outcome, at this point in time. How that will change, I guess you'll have to wait for further announcements in terms of the changes in the hedge level.

On the partnerships, yes, you are perfectly correct, we were - we can't disclose what that number is, but you can be assured that it is something that obviously is significant for us, and that's the reason why we continue to push. And I mentioned before that this is actually part of a strategic direction that we wanted to do as an organisation, because obviously, being based in Asia, that is where our strength is. And you can see that we have been continuing to strengthen, particularly to Southeast Asia, and also Southwest Pacific routing. Further out, we will definitely need partners to help us distribute the traffic and feed the traffic from the smaller points we didn't reach. I mean, of course, if you look at China, you look at Europe, particularly you look at, you know, the places that are further away, and therefore, you can imagine that, that is also an important competitive advantage for us, versus anyone that requires to stop in between those two destinations.

Mr Nicholas Ionides: All right, the second row from the front, please. The lady in black there.

Ms Mayuko Tani, Nikkei: Morning. Thank you very much. This is Mayuko from Nikkei. I have two questions. One is on cargo operation. The situation has been quite weak for quite some time. Do you have - but it seems that volume has picked up and it seems to be the regional phenomena. So, do you see this volume pick up as a good sign, or is it just a result of yield decline, that you are selling very hard with a lower price. So what's the - what's the outlook? And in a short-term, is there - do you see any impact from the Hanjin - the shipping - the situation in the shipping lines, do you see any increase in the demand? And in Cargo, do you have any plan to do anything, like a partnership with other airlines or any strategy to tackle this long-running situation?

Second question is about the - sorry - about the premium class. Sorry. You have been focusing on the investment in the premium classes in the passenger part, but what's the market now? Have you seen a pick-up in the demand? Thank you.

Mr Ng Chin Hwee: Okay, I'll take the cargo question. Maybe to add some colour to the results for the quarter, yes, I think if you look at the IATA and AAPA statistics, they show that the trade flows, air trade flows have improved. Not uniformly across all regions. Certainly in some areas there are some improvements.

The issue as we have - as the CEO has highlighted, instead of over-capacity, resulting in the yield decline, this will again - if you were to break down the quarter, the quarter shows a - suggests stabilisation of the yield, but not recovery, let me just stress. And the figures, the numbers coming out for this coming quarter, suggest still a fairly stable market for us, and also a pick-up in volume. So if anything, at this point in time, we can say that we are anticipating a mild Christmas for us.

The fourth quarter is always a bit hard to tell. It is traditionally a weak quarter for us, so the capacity continues being an issue for the whole air freight industry, as reflected, as you can see from the rather weak results from most of the other carriers, like Lufthansa and KLM and Air France. It is still hard to tell what the fourth quarter will portend.

Hanjin - Hanjin has given us a small blip, hardly noticeable, quite frankly, the numbers in terms of short-term uplift. But that's very much over. It hasn't - it's not a sustained kind of improvement for all of us. As for what we intend to do with the current state of a weak market in the cargo, I think again as the CEO has mentioned, that by end of this year, past the peak, we would actually be bringing our fleet down from nine to seven aircraft. So that's a way of consolidating and to help us manage our costs better.

The other thing of course, is that we have been, like most airlines actually, looking at building up competencies in the higher yielding type of cargo, and that would include pharmaceutical, the e-commerce trade, movement of, you know, livestock, and all that. Those are sectors which require certain qualities, competencies in handling them, and I think we've been, we've demonstrated that we can do it, and we are getting pretty good traction in those segments and also including that of aerospace, as well, carriage.

Partnership is something that we constantly look at. It is true that we do not have any headline kind of news about alliance or massive - or major partnership, but we do have bilateral partnership with some carriers, in fact around the world. We have a partnership with a Japanese carrier. We have a partnership with a Middle Eastern carrier as well. Sharing of space, we have a partnership with a Chinese carrier as well. They're fairly narrow in terms of scope on main, certain trunk routes, only. Yes, so for that reason, we do not make, you know, a big announcement out of this.

Mr Mak Swee Wah: Your question on premium class. Premium class of course is quite a broad category, as well, I mean we talk about First, Business, and maybe to a certain extent, Premium Economy. The soft global market conditions have put a dampener on some segments of corporate travel. For example, obviously, oil and gas, and banking. But compensated in part by, we see some growth in other segments for example, consultancy. But there's also a growing element of what we call premium leisure, which is also quite healthy. So on the whole, our premium class bookings are steady, but this is in the market where there is a lot of capacity. So while the bookings are holding steady, there is a bit of pressure on premium class yields.

Mr Nicholas Ionides: Okay, we'll go to - stick to that same side of the room, please, two rows behind the gentleman in the aisle. Thank you.

Mr Brendan Sobie, Centre for Aviation: Thank you. Brendan Sobie with CAPA. I have two questions. The first one is on pricing strategy, probably for Mak Swee Wah. Have you implemented any changes to your pricing strategy? The background here would be that several airlines have come out and said that they have new pricing strategies in response to the current conditions. And in the last quarter, I think we've seen some very low fares from Singapore Airlines, particularly in the overseas markets like the US. Obviously, you've had promotional fares before, but what we've seen in the last quarter, I think have reached new lows in terms of fares, like US$600 all-in. And, you know, perhaps there is some, also, more - these fares are more common or more frequent than before. So, has there been any changes to the kind of permanent or structural change in the industry?

And the second question is about actually Jakarta-Sydney, which wasn't in Mr Goh's slide of new routes, interestingly, but I think it's one of the more interesting strategically important routes that SIA has added to the portfolio. And I'm just wondering if you could talk about that route and what other fifth freedom opportunities there might be?

Mr Goh Choon Phong: I think just a general comment on pricing strategy, we mentioned that as an organisation, we are moving towards being more nimble, more flexible. So obviously that is - that also extends to the way we deal with the market and pricing is certainly one lever. And, given the kind of market we are looking at, at the kind of weak demand, excess capacity in some markets. We obviously have to react fast, and some of it resulted in what you see in the market. Yes, that's a general answer to your question. Pricing strategy would evolve over time, and as the market evolves, we hope to be able to stay ahead of it and you can bet that that's something we look at very seriously.

The other part, which is on - you're very astute, you noticed I didn't put Sydney-Jakarta. There's a reason. There's a simple reason, that we have not secured final approval for it, so as you know, we don't put it on until we are very sure. So that's the reason why. Until we are completely sure, then you will see that. We talk about it, but for me to confirm it, it has to be 100% sure. Thanks.

Mr Nicholas Ionides: We'll stick to the same row, please. Five seats down. The lady in the middle. Thank you.

Mr Goh Choon Phong: Sorry, Brendan, just add to one point, which is we look at all opportunities. And so you look at, if you asked whether there are other opportunities, we are certainly looking at it all the time. So it may not necessarily be just SQ. It's actually the mindset, the mentality of such, to actually explore and do new routing and so on, extends to the Group. So you might hear something.

Ms Azita Nazrene, Macquarie Securities: Hi, this is Azita from Macquarie. Mr Goh, you mentioned that the, besides the soft demand, the competitive landscape, there are structural changes in the long term, and the need to be nimble to address the change. So could you provide insights? What are the two main structural changes that are on top of your mind at the moment?

Mr Goh Choon Phong: Actually, I shared, I put the context and then I shared the changes that we have actually taken. I mentioned also, in the past that SIA, and all of us know, SIA has been – has always been a very premium carrier, focusing on just premium traffic, focusing on the Singapore hub and also the core business of running an airline, deriving revenue from ticket sales.

And the market has changed so much out there, that we see that coming, and therefore, some six years ago, we decided that we have to relook at how we can position the organisation for the future. And that's when you see that besides just focusing on ensuring that SIA continues to be the foremost of carriers, and you saw the investment that we - I just articulated earlier about product, lounges, in-flight, about our network expansion and so forth, and about our service. So that continues, and we want to make sure that SIA continues to be up there. But at the same time, we have actually moved.

I would say, we have taken quite bold steps in moving to quite different areas of growth, to look at new engines that could support the Group. So LCC is certainly one aspect you could – 10 years ago, you'd probably not expect us to go that way, in such a decisive step. And now it is very much part of the Group's portfolio. And really establishing joint ventures, you know, in a manner that we have done so, in both Bangkok and India, is the other thing that we have done.

And also, leveraging some of our skillsets. In the case I've highlighted, is of course, in terms of our pilot training capabilities, to actually set up ventures, and capitalise on the market demand for such services is another example.

So we actually move, now away from just being Singapore-focused, to now having ventures overseas, to - from having only the premium segment, to now having a very strong portfolio in also the LCC segment to, from focusing only on core ticket revenue to now looking at revenue, adjacent businesses, that we can tap, leveraging also the brand equity of SIA. So all these are actually very – I would say, they are actually very, very, big changes in terms of organisation, and they are quite fundamental.

Mr Nicholas Ionides: Right, I do have a few sets of questions lined up. The gentleman here in the second row first. And then we'll go one row behind to the gentleman, three from the aisle. Thank you.

Mr Mohshin Aziz, Maybank: Thank you. Mohshin Aziz from Maybank. I just want to ask one question on strategic direction. If I look back into what the Management have done for the past four or five years, I can sum it down to product enhancement, how you spend on Premium Economy, made your seats better, so on, so forth. And then partnerships, and then finally of late, streamlining operations to gain efficiency.

But yet, to your admission, the results have been so so. And then if I look into the future, and looking at your presentation, it seems to be a repeat. You're still spending a lot of money on lounges, so on, and so forth. So it's another extension of that product development. So I'm looking in the past four or five years, your yield decline is consistent with industry. No better, no worse. So fair. But unfortunately, you spend a whole lot more on your costs. Your cost decline is actually less compared to what the industry has achieved. So with all that investment, with all that work, you're no better than the industry, but yet you're continuing the same thing. Surely at the boardroom level, you must ask, we must do something different. Is something different really happening?

Mr Goh Choon Phong: I think as I mentioned earlier, you cannot look at SIA now in isolation as being just the Parent Airline. It is the Group that we are looking at. And if you look at the Group level, the strategy has been quite drastically different from what it was before. And even for SIA, itself, you see that there's a lot of emphasis on looking at how we can derive efficiency.

And so, yes, the fundamental philosophy that we still want to be the forefront of carriers to lead in service, in product, and also providing the best network connectivity for passengers remains. I don't think those key pillars we have deviated. But the way we have done it, is also taking on innovative steps, such as leveraging more in technology, such as actually working. The example that we are - that we are going to launch our new products on the A380s, and when that's launched, you'll then find, when we are able to describe more, you will then find some of the innovative solutions that we have in those products that we are going to launch for the customers. So we are not, to your question, yes, we are not moving away from this premium positioning for the SIA Parent Company, itself. But that doesn't mean that we've not changed and adapted to the market. Like I said, we now have a full portfolio and that portfolio allows us to very nimbly, move routes around. If those routes, the demand on those routes, the nature of demand changes, whether it has now become more premium, or less premium. The way we co-operate with partners is very different. The joint ventures we've set up is very different. So I beg to differ from your view that, that's not a change, but you - what I say, is that we have to take everything in totality.

Mr Mohshin Aziz, Maybank: If I expand further, I think the methodology probably changes a bit, tweak, but it's still on the same front that you're going to grow on existing market platforms, and you're just going to probably - and you're big in Australia, let's try Canberra and do a fifth freedom to New Zealand. That's similar to what you've done in the past. It's just a minor tweaking. And the number of seat density continues to be very, very rich, compared to the competitors. It's probably another reason why your cost is not going down as much as others. So I think it's still the same. The thinking is still the same. I would like to hear, maybe Singapore Airlines goes smaller rather than bigger. You don't have to expand. Just optimise and focus where you're strong and not grow.

Mr Goh Choon Phong: So we have a difference in view. We don't think that growing smaller is the solution. We don't also believe to - in terms of mindless expansion, expansion just for the sake of being bigger, and that's the reason why you can see that much of SIA, the mainline expansion, didn't happen until we got the A350, the right aircraft type to enable us to expand in a meaningful manner. You also see that we have given up long-haul routes, for reasons that we think the market is no longer sustainable. So I don't think - I think that there's a difference in view, but we believe that this is the way we could bring about a better foundation for the Group, as a whole, like I say. And I also invite you to look carefully in the way we have done our reconfiguration on the aircraft, and then to decide for yourself, whether or not we have indeed done the rightsizing of aircraft. Look at B777-300ERs. Look at the way we've configured, and see how we have provided more density, not at - but not at the expense of customer comfort. I also invite you to analyse the yield decline of major carriers, we have reported at 2.9% for the mainline. I invite you to do your analysis. We don't - we don't want to compare. But you can do the comparison.

Mr Mohshin Aziz, Maybank: Thank you, sir.

Mr Nicholas Ionides: Thank you. Can we go to the third row from the front, please. Three in. Thank you. And we have only time for two more, and I do have two already lined up.

Mr Christopher Siow, Credit Suisse: Hi, good morning. I just have one question. This is Christopher from Credit Suisse. On the Tigerair and Scoot merger, has it always been in the plan, sir, from end 2017 merger or has something triggered it to be a fast forwarded, and also, in terms of cost and revenue synergies, how much more upside do you see from the merger? And if I may, which one would be - do you see more from cost or more from revenue synergies? Thanks.

Mr Goh Choon Phong: So there are actually two key questions. I will touch on the higher level which the decision of merger. And I will let Lik Hsin take the other - the other part. I would say that, you may recall that when we made a general offer to buy Tigerair, we have stated quite clearly, that at that point in time, we see that it makes sense for both entities to exist. And that was the case.

But of course - but soon after that, of course, we established BAH to ensure that we have an integrated approach to commercial and to operations and so forth. But it soon became very clear that, that is not good enough because there are a lot of synergies that we cannot fully exploit because they are still two different entities, not sharing the same brand, and there are still two different AOCs, and therefore, different regulatory and so forth, requirements. So that's the reason why subsequent to that we decided that the best way, is to go with one brand, and go with one AOC. Lik Hsin.

Mr Lee Lik Hsin: You asked about cost and revenue synergies. Obviously there will be both. In terms of cost synergies for example, we - after the integration, we then came together at T2 - at Terminal 2 where we started sharing check-in counters, where the passenger now checks in at the same counter for either a Scoot or a Tigerair flight. And that gave us something to the tune of over $2 million a year. And so there will be more of these. But at the same time, both Scoot and Tigerair, being budget airlines, are actually fairly lean in nature, with a lot of outsourced operations. And economies of scale, yes, you get some when you go to a supplier and say, now my volume is double of what it was before. So you get some from there was well. But there's a limit to what that can bring.

On the revenue synergy side, however, I think it is fair to say that we are a lot more optimistic about what we can gain from the single brand, from the synergy of single marketing, as well as communicating what we believe to be the stronger brand benefits to a larger pool of customers, and therefore, getting more customers overall. So, synergies on both sides, benefits on both cost and revenue, but on balance, probably we feel stronger on the revenue side.

Mr Nicholas Ionides: Okay, we've got two more. Right in the centre, the fourth row from the front, please. The gentleman in the black top. And then the lady in the second row, aisle seat, please.

Mr James Teo, BNP Paribas: Morning. James from BNP. I just want to see what Management thinks about the LCC versus the premium or the traditional legacy market, at least in Asia and this part of the world. I mean, you've talked about how the A350 is a game changer for SIA especially, and that will bring down your operating cost, allow you to grow again, and with new routes. So I think, you know, there is that side of the story, and at the same time, LCCs, do you still see faster growth in this region, despite the proliferation you - we already see, and you know, and of course, how does that reflect into your capacity growth for these two segments going forward? And then also, in terms of profitability, you know, is that - is that - I'm sure both segments are important, but how do you see these two, and how do you see them in terms of profitability and in terms of growth, and to fit into your entire portfolio? Thank you.

Mr Goh Choon Phong: At a Group level, we obviously have some level of co-ordination on guidelines, on which - giving guidance on which vehicle is best to serve what market. And that is the reason why you see that there are, from time to time some reallocation and rationalisation of those routes to make sure that it is being served with the right vehicle. And we know that markets can change and therefore, we have to be nimble, to be able to do this allocation or redeployment of the right model.

You will see that for the remaining half year - because of the aircraft that Scoot has taken, they will be continue to be deployed for the rest of the half year. Scoot will see very high growth, and relatively small base. Right, SIA is a much bigger base of fleet. So in terms of percentage growth and all that, certainly the LCC segment, particularly Scoot would continue to see that kind of growth as they take on more aircraft. It's going to reach 20 aircraft.

SIA's growth will be focusing more on the - to cities and to places where premium demand warrants it. And that's why we have this non-stop to San Francisco, we launched Düsseldorf, and so forth. Scoot will also look for opportunities to grow its long haul, and in due time, Scoot will be able to share with you more on what plans they have on the long haul. So I would say that each of them have different opportunities for growth, but where it makes sense, at the Group level, we'll look at it and make sure that it is rational, both sides are actually taking routes that make sense for the whole Group. So that's I suppose a general answer to your questions.

Mr Nicholas Ionides: Right, we'll take the final one in the second row, aisle seat, please.

Ms Kyunghee Park, Bloomberg: Hi, Kyunghee from Bloomberg. I have two questions. One, you touched on Vistara earlier. You mentioned that the Board is looking closely at what they are planning for the future. Can you share with us what those plans are, and when can we expect them to fly international flights from India? My second question is, you've already announced that your first A380 will be returned to the lessor next year. What are your plans for your next four that you are still considering? Thank you.

Mr Goh Choon Phong: Thank you. So the A380s, we will announce at the point when each of the due date for the decision is made because we want to retain maximum flexibility on whether we think there is a need to extend.

On Vistara, the longer-term plan and so forth, that is something that the Vistara Board, which is really chaired by our partner in India, Tata, would have to drive. So they would have to make the decisions, and Vistara, themselves, will make the announcement. Of course, as a partner, we give input, but the decision on where Vistara is heading has to be something that the Vistara Board has to make, including its international operations. I think that previously Vistara has said that they do intend to go international. As to what that plan is, we would have to await the Vistara Board's decision, and Vistara's own announcement, with of course our inputs.

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

(ENDS)