TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Full Year Ended 31 March 2012
(Read in conjunction with PowerPoint Presentation)
SIA Training Centre
Thursday 10 May 2012, 10:00am

E&OE – may be edited for grammar

Presentation

Mr. Nicholas Ionides: Welcome to the media and analysts briefing for Singapore Airlines fourth quarter and full year financial results. My name's Nicholas Ionides and I'll be moderating today's session. We'll begin with Mr. Chan Hon Chew, Senior Vice President Finance, who will be presenting the Parent Airline Company results. That will be followed by a presentation by our CEO, Mr. Goh Choon Phong with the SIA Group results. We'll then move to the Q & A segment, which will be led by Mr. Goh. Joining him will be Mr. Chan as well as our Executive Vice President, Commercial, Mr. Mak Swee Wah and Executive Vice President for HR and Operations, Mr. Ng Chin Hwee. The usual reminder, please before we begin. Please turn your mobile telephones off or switch them to silent mode. I'll now invite Mr. Chan to the podium please.

Mr. Chan Hon Chew: Thanks Nick. Good morning ladies and gentlemen, once again welcome to the briefing on the financial results of Singapore Airlines for the financial year, 2011/2012. I'll go straight to the Parent Airline starting with the fourth quarter. For the fourth quarter of financial year 2011/2012, the parent earned total revenues of $3 billion; that's $90 million higher than the same quarter last year. This is on the back of 6.9% growth in passenger carriage, but this was partially offset by lower yields.

Given the uncertain global economy coupled with intense competition, promotional fares were necessary to maintain loads. This resulted in yields going down by 3.3% - we'll take a closer look at yields in a moment. In addition, revenue growth has to be seen in the context of natural disasters last year in the fourth quarter. You might recall, at the beginning of 2011 it started with the snow storms in the US and also in Europe and then we had the floods in Australia. And in February 2011 we also had the earthquake in New Zealand, and in the later part of March we had the earthquake in Japan. So the passenger carriage last year, in fourth quarter was affected by these natural disasters.

On the cost side, we can see on the chart total expenditure has gone up by $193 million to $3.026 billion. And the main driver for the increase in cost is fuel cost due to the increase in jet fuel price from $119 per barrel last year to $134 per barrel in the fourth quarter this year.

We do have some hedging gains of $20 million, however that gain is about $13 million lower than the gain in fourth quarter last year. Ex-fuel cost was higher by $5 million or about 0.3%, largely driven by a higher variable costs as capacity grew by 4% in the fourth quarter year-on-year and partially offset by some of the fixed costs like staff costs.

Consequently, as total revenues could not cover total expenditure, the parent made a loss of $10 million in the fourth quarter. On the bright side, for the full year the parent remained profitable at operating level, earning an operating profit of $181 million. As you can see in the chart, the increase in fuel costs is a very painful $1.1 billion. Therefore, if you look at our operating margin, it's a paper thin 1.5% operating margin.

Let's take a closer look at the operating statistics. Firstly, capacity grew by 4% while passenger carriage grew at a higher pace of 6.9%, giving us a load factor for fourth quarter of 77.6% which is maintained at similar levels as the third quarter, compared against the same quarter last year is 2.1 points higher. As mentioned earlier, we have to look at this in the context of the natural disasters in the fourth quarter last year. For the full year, capacity growth of 5% outpaced the growth in passenger carriage of 3.6% which drove passenger load factor down by 1.1 points to 77.4%.

Moving on to yields. As you can see for the fourth quarter, yields were at 11.7 cents. It was 3.3% lower year-on-year. As we mentioned earlier, we had to introduce promotional fares in order to maintain loads, given the uncertain economy coupled with intense competition.

Unit costs gone up 3.3%, no thanks to higher fuel costs. While cost containment efforts managed to reduce passenger unit cost excluding fuel by 3.8%, however that's not sufficient to fully mitigate the increase in fuel cost. As a result, the breakeven load factor was driven higher by 5.1 points to 80.3%. That's a very high break-even load factor in comparing against our passenger load factor of 77.6% that has exceeded our actual load factor resulting in a negative load factor spread of 2.7%. Consequently we made an operating loss in the fourth quarter.

For the full year, yield was also down by close to 1% while passenger unit costs was higher by 3.4%, giving us a breakeven load factor for a full year of 78% which was 3.2 points higher than the full year last year. Compare that against the passenger load factor for a full year of 77.4%, there is actually a small negative spread of 0.6 percentage point.

While you might recall in the earlier slide for the full year we still managed to have an operating profit of $181 million, not withstanding that we have a negative spread here. Now just to explain, this analysis does not include indirect revenues like aircraft lease rental income, or incidental revenue like in-flight sales, ticketing fees; booking fees. So what this analysis tells us is that without those indirect revenues or incidental revenues, we could have made a loss in the full year.

This chart compares the load factor against the last four years and the breakeven, which we mentioned earlier was driven higher by 3.2 points to 78%, resulting in a negative spread of 0.6 percentage point. And as you can see in these five-year series, this is the second lowest - second only to 2009/2010 when we were in the depth of the Global Financial Crisis.

Next we take a closer look at the yields on the monthly basis; this will interest some of you. The green graph - line graph - shows the monthly yields for financial year 2011/2012, while the blue line graph shows the monthly yields of the same month in 2010/2011. You can see here in the first half of the financial year, the green line graph here, our yields track very, very closely to the same month last year. In fact, higher than the same month last year, only exception for the month of August. But from October onwards you can see here six consecutive months of decline in yields.

As we mentioned earlier, because of the uncertain global economy, coupled with intense competition, we had to introduce promotional fares to maintain loads and that's the result where we have downward pressure on our yields for six months. As you can see, for the three months in the fourth quarter, from January to March, yields were lower than the same month last year.

We've also often been asked how do the challenges we face today compare against the global financial crisis. Here you are, the orange line graph shows the monthly yields for the financial year, 2008/2009. You might recall September 2008, that's when Lehman Brothers collapsed and immediate aftermath of the Lehman Brothers collapse, here you see also six consecutive months of decline in yields. One observation too is that while that is the case, our yields for almost every month except March of 2012, our yields were lower than FY2008/2009 by about 5% to 6%.

On the other hand looking at fuel costs, this red line graph here shows the trend of jet fuel price and you can see very clearly from the third quarter onwards there was a very sharp correction in jet fuel price. However, you can see here that is not the case today. That really shows the severity of the challenges we face today. On one hand our yields were lower than in the immediate aftermath of the Lehman Brothers collapse. Fuel price did not correct in 3Q and 4Q of this financial year. So we did not have lower fuel costs to mitigate the decline in yields.

Moving on to costs, this pie chart I'm sure you're familiar with shows the top five expenditure of the Parent Airline; no surprise fuel cost is more than 40% of our total expenditure. As we mentioned earlier, year-on-year fuel cost was a painful $1.1 billion higher than the same period last year. While we had reduction in aircraft depreciation and lease rentals and also in staff cost, our variable costs such as handling costs and passenger costs were higher driven mainly by the higher capacity this year.

Let's take a closer look at the increase in fuel costs. Fuel price for the full year was higher by over 30% from $100 per barrel to $133 per barrel this year and that added a whopping $1.25 billion to our fuel bill. In terms of the volume of fuel uplifted it was higher by about 4%, very much in line with the 5% capacity growth for the full year. That added $169 million to our fuel bill. We had partial relief from a weaker US dollar and also a hedging gain. That translates to a full year fuel bill of $4.86 billion; over a billion higher as we mentioned.

This is my last slide, I will hand over to our CEO, Mr. Goh Choon Phong to continue with the presentation of the group results. Thank you.

Mr. Goh Choon Phong: Good morning ladies and gentlemen, welcome again. This is Group results revenue-wise. The latest financial year just over, at FY 2011/2012, $14.8 billion. This is a marginal increase compared to the previous year of 2.3%; that's the revenue side. On a cost side a huge increase to $14.5 billion; a 10% increase. As a result of that combination, a 77% drop in operating profit.

If you look at it by quarter, that's last year, the year before and the year just past, you can see that there is a negative operating profit for the Group. This is really the second time the Group has seen an operating profit loss. The last time we saw that was in the second quarter of 2009/2010 in the midst of the financial crisis where we saw a $181 million loss for the group during that quarter.

Hon Chew has explained that it's largely due to fuel. Revenue did increase by about $100 million but fuel expenditure went up almost $200 million and that's still largely why Q4 has saw the loss. The various companies, Hon Chew have gone through Singapore Airlines performance, the parent airline. SIA Engineering has released its result and has it's own media briefing.

You see that there is a slight drop in the operating profit for SIA Engineering while the revenue has increased largely due to the FMP Program, the Fleet Management Program, as well as revenue from components services - Air Frame Services - by about 6%. The cost from contract labour as well as staff costs gone up 7%. As a result, you see a slight drop in operating profit for SIA Engineering.

SilkAir have done relatively better in our portfolio of airline. It saw a drop of $16 million. SilkAir has had an increase in capacity in terms of CTK by about 10% during the year. It's also saw an improvement in yield of about 4%. Overall it's revenue went up about 12%. However, SilkAir too had its share of problem with high fuel cost and as a result the expenditure went up 18% and that's why SilkAir saw a decline in operating profit of 13%. But on a whole, SilkAir is in a region of growth; a relatively good demand and therefore it has done relatively well compared to the rest of the Group.

SIA Cargo had a very tough year last year. The traditional year-end peak for cargo didn't come about at all. SIA Cargo's capacity last year was almost flat, 0.7%. However, it did see, because of competition – intense competitions and dismal demand in the market, it saw a decline in its revenue of 4%. On the other hand fuel cost continue to be a concern; a problem for SIA Cargo and the cost overall went up 6%, hence you see this result.

Group net operating profit, the various years you saw earlier in Hon Chew's charts that there was a peak in fuel cost in 2008/2009, I think in July of 2008 when fuel costs went up to $160 per barrel. But equally, you also saw in Hon Chew's slide that during that period the yield was relatively higher. In fact, during that brief year in July, the yield was almost 10% for that month. So in a high fuel cost environment where you still have very good business environment, you could still extract the yield to address some of these cost concerns; not quite the case today.

This is analysis of net profit from last year to this year. We saw this operating profit loss - operating profit lowering by $985 million earlier. There was also a lower gain from disposal. The last B744 that left the fleet had the loss from sales of about $50 million and of course within these is also the share of loss of Tiger Airways last year.

Exceptional items. The year before 2010/2011, we of course saw the payment of administrative fines in the US and Europe and that's why you see this positive change here. Taxes, less profit, therefore lower taxes; the result is here. A 70% decline; earnings is down and we recall that the dividend in the interim was $0.10. The Board has proposed $0.10 final dividend, so total dividend $0.20 - it's about a 70% payout ratio.

Now what's the outlook? I think the outlook is quite clear. The industry, various airlines and IATA has been providing it, but let me just go through it nevertheless. Of high immediate concern is the fuel price. You saw these charts, a variation of this in Hon Chew's presentation earlier. Basically you see that for the whole of last year, of the fuel prices basically range bound on a high side. Between $120 to $140 USD/BBL - it went up to $138 USD/BBL at one point. Now, over the last few days it came down somewhat to $126 USD/BBL thereabout.

Economic outlook: Well the global growth for cost has come down. The forecasted growth has been reduced from 4% to 3.5%. US economy continues to be a concern. There's recent concern, for example, of the job creation in the US. Of course the Presidential election is coming and what is the impact. In Europe there's been a lot of discussions on the papers about what's going to happen in Europe, whether or not Greece will continue to be part of Europe and what then is the consequential impact to the rest of Europe and to the rest of the world. I think there's a lot of uncertainty there and of course the projected growth in China and India are slower. China has projected its growth by 8%; India 7%. Not quite what it was before, but still relative to the rest of the world, good numbers.

I just want to point out also that the high fuel price and the weak economic environment in the US and Europe are particularly challenging for airlines to operate long-haul into these two regions; airlines such as SIA.

Europe - we have significant operations into Europe of course. When you operate long-haul, you would expect that because the planes of course fly longer distance and therefore fuel costs associated with operating the route will correspondingly be higher. That, combined with the fact that the local economic conditions in those markets are not strong, and therefore yield is a concern. That kind of combination will make such operations obviously more challenging and in general it will be more challenging for any airlines to operating long-haul to those markets.

Global PMI indicates expansion, but at a slower pace you see this contrast, not very much changed. As far as Cargo is concerned, as we've stated in our release, we do expect and hope that the recovery will begin to show itself from the second half of this year.

Forward bookings for the airlines, in terms of forward bookings, it looks positive. The forward booking over the next three months are higher than that of corresponding time last year. However, I think it's important to point out the context. One is that there has been promotion to build the base load, and secondly we are comparing with last year during a period when our bookings were affected by the issues; the problems in Japan. It was the aftermath of the Tsunami.

In terms of fleet development, we have taken one A380 in April; two more are coming the later part of the year. And in the current financial year, FY2012/2013, we are expecting the first of the 15 A330 that we've ordered, actually on lease to us, to come into the fleet and we'll be retiring two - sorry, we'll also be taking in two B777-200ERs. Those are the end of the lease with the Royal Brunei Airways, (RBA). Going out 3 B777, one of them is to return to lessor; the other two aircraft will be released for use by Scoot. And of course we decommissioned the last of our B744s. So we saw a net increase of two aircraft during the year. You can see that in terms of group capital expenditure there is somewhat higher in 2014/2015 and 2015/2016 and that's associated with payments relating to delivery of the A350 and B787.

What do we do to meet those challenges? I think we have always emphasized the need to be flexible and nimble in a market that is ever changing. We have done that all the time throughout our operations; throughout the whole year. In fact, when we're adjust capacities, we don't - maybe it's not visible to everyone, but if you were to trace the year, last year, you'll see how capacities are adjusted for example to US and to Europe, and how we cut down, for example, our flights to Los Angeles, the non-stop flights from seven to five. How we reduce our capacity in to Houston.

So there is always a constant look at how we can be nimble in response to changes in the market and that will continue. Of course we're always looking for new points and new markets segments to tap. In the context of the SIA operation, we should always be looking at SIA together with SilkAir because SilkAir is very much the regional arm of SIA providing feed into and from SIA's long-haul operations. Because of the consistent model, which is both are full-service carrier.

Beyond being flexible and nimble, at the most basic level, the three key pillars that underpin our operating philosophy continue to be relevant. And they are: Service excellence. We'll continue to invest in training. We'll continue to invest in improving our service, procedures, in-flight meals, in-flight entertainment systems. At the same time, we have embarked on an ambitious project to look at how we can bring our service level to the next quantum leap. Those have to do with being able to provide more personalized, more proactive service to our customers based on the customer's profile. We'll have more to release as we roll out the projects, but this is very much something that the airline's focus is on.

Product leadership, improve our in-flight products to provide even better comforts for our customers. We've gone through a whole series of cabin retrofit program which may or may not be obvious to everybody because they are plying on different routes. For example, all the B777-300s on the medium haul routes have been - all those aircraft have been upgraded. You can see the picture, the older First Class to the new First Class and Business Class as well. That has been completed. So you find that all the regional routes that we ply will now be served with aircraft with the new products so there's consistency across.

Similarly, for the long-haul routes the remaining product difference is with the B777-200ERs. The project is underway to retrofit those aircraft and you can see that those are two class aircraft to serve the thinner routes - thinner long-haul routes like Amsterdam, Copenhagen, etc. So you can see that we too have commenced a project to upgrade them and that should be completed in July of next year.

Beyond that, and as you would expect, we are already looking at what then is the next generation of First and Business Class products to improve upon what we currently offer even though they are already industry leading and provide better comfort for our customers.

Then there is the third pillar which is connectivity and network. In this particular area, we have to look in the context of SIA and SilkAir being one integrated entity. As I said, SilkAir is very much a part of SIA and we will have to leverage SIA's long haul to connect into SilkAir's regional routes and vice versa. Therefore you see that

SilkAir, as a result is now growing at a very fast pace, and we'll touch on that further later.

At this point the route network development for both SIA and SilkAir are actually integrated and planned centrally. Beyond that, we have of course the revenue management side, which is allocation of seats between the two carriers. It is also now seamlessly integrated.

If you look at the growth of SIA and SilkAir combined, relative to the rest of the airlines in Asia Pacific you'll find that it has been pretty much in line in the last twelve months or so. And this of course ASK growth, we can't really compare the number of seats or number of passengers, ex-Singapore for example, because that will be equating one passenger from Singapore to KL for example, as the same weightage of Singapore/London or Singapore/New York, which of course in the airline industry is not quite the same.

Beyond SIA and SilkAir integration in the core SIA Group itself, we are also leveraging on partnerships. There are quite a few that has been announced. The most prominent and most extensive of which is probably Virgin Australia. Here's a case where you can really see the reason for doing it. SIA and SilkAir together operates to six points in Australia. And that is about 105 services a week. With the cooperation with Virgin, right away we would have access to another 22 points that is not online in Australia for SIA. So, the connectivity have increased tremendously and that is the way we want to provide further comfort and further convenience for customers who are travelling to Australia.

I just - incidentally, just going back to SIA and MI, the synergy I have also seen, for example that together Singapore Airlines and SilkAir now operate 10 points in India - 10 points; 86 services a week, 10 points to China, 109 services a week. So you can see that the synergy and the combination is actually quite significant.

Then there's growth. We do not just pursue growth for the sake of growth. We want sustainable growth. So for this year, for example, for the current year, 2012/2013, SIA growth is 3%, but SilkAir's growth is going to be in the region of 23%. This is both in response to the fact that the region is growing and is doing well, and also that SilkAir have right aircraft type to serve many secondary points that are better suited for that kind of aircraft, plus adding additional capacity as in the case of frequency - as in the case of Hanoi, to open out new windows of connectivity for the Parent Airline as well.

Of course the growth will be supported by new aircraft, which are going to be more efficient. We touch on the A380s. In 2013 we will begin to have delivery starting - not all in the same year - starting the delivery of the 8 B777-300ERs that we have ordered. This is a very good, fuel efficient aircraft; and also the 15 A330s. And then from 2014 onwards you will see the commencement of the deliveries of the B787s as well as the A350s.

These have the combination of providing growth as well as renewal, and that means we can keep our fleet as fuel efficient as possible. As you know, we have retired our last B744s, so we have a very good, modern fleet.

Cost management is something - is what we do all the time and Hon Chew, in his presentation earlier have shown how the fuel cost has gone up, but other costs has come down. In fact, if you were to put aside fuel costs and staff costs - by the way, staff costs - unit costs have also come down. For last year, if you look at all the other component and lump it together and take the unit cost for it, that means unit cost, ex-fuel and ex-staff, that component actually came down by more than 7% and that's no mean feat to actually bring down unit cost by that percentage.

But we're not stopping there. There are initiatives - the ongoing initiatives that have been identified - that will bring this cost down further. That was my last slide. Thank you very much.

[Q & A]

Mr. Nicholas Ionides: We can take the first question in the second row, middle here please. I'm sorry, one more thing, if you could please identify yourself and the organization that you're representing.

Mr. Eric Lin, UBS: Okay, thank you. Eric Lin from UBS. Thanks for seeing us today. I have two questions, the first one is about yield. The -3.3% for the Q4, if possible can you break it up between your premium class and your economy class? I just want to see the performance between the two. And looking ahead, with only 3% capacity growth for SIA this year, is there a chance for promotional fares being less aggressive going forward because you have less aggressive capacity. That's the first one.

The second one is Scoot. When it was first introduced, my understanding is it was going to be a medium, long-haul LCC. But I've seen recently it's going to start Bangkok, short haul. So I just wanted to see whether there's a change in strategy.

Mr. Goh Choon Phong: Okay, on the breakdown between Business Class and Economy Class you're saying for the yield. We don't give specific numbers or guidance on that, but suffice to say that there are also declines in yield that we saw in the Business Class segment. I will leave my colleague to comment on the promotional fares and all that, but let me touch first on the Scoot issue. I will touch on it at the airline portfolio level.

Basically, Scoot, as you know, when we launched Scoot it was meant to be an additional engine of growth and we consider Scoot to be able to tap a new segment of the more cost-conscious travellers, and that's not just in Singapore, but also in the region connecting through Singapore on Scoot. So in that context, when Scoot - of course Scoot as you know have launched flights to Sydney as well as the Gold Coast, and also have announced flights launched to Tianjin. Scoot also operates the B777 aircraft as you know.

Now two things, one is when you operate the aircraft, for aircraft efficiency and utilisation, you can't really operate aircraft only on long, medium-haul routes. There will always be spare aircraft. So to optimize utilisation of your aircraft, you really need to also have some short-hauls to complement the route network.

The other thing is, if you look at Australia and look at where Australians are travelling to in Southeast Asia, you'll find that Australia and Thailand is a huge market, so why shouldn't Scoot be able to operate and schedule its flights in a way that will tap that market, rather than let somebody else tap it.

So the Scoot connectivity to Bangkok is beyond the third/fourth freedoms, it's also for Scoot's internal connections.

Mr. Eric Lin, UBS: If you don't mind if I ask a follow-up on that one. So how do you assess the impact on SIA itself and also Tiger?

Mr. Goh Choon Phong: Well of course Tiger is a listed entity, but in the context of what Scoot has done, the capacity increase, as a result of Scoot, even if you assume that it's purely third/fourth, it's 6 over percent, but really if you were to look at the route network and the connectivity, you know how it connects with the Australian services. Really the impact on the third/fourth is really not quite significant. So as far as SIA is concerned, we don't see Scoot's operation having an impact on our forward bookings.

Mr. Eric Lin, UBS: Just the one about yield - the Business Class and the Economy Class both declined, right? Do you mind if you can tell me which one declined more?

Mr. Goh Choon Phong: No we don't give any guidance.

Mr. Mak Swee Wah: You asked about yield and with our capacity growth of 3% what are the prospects. I think the key point here is finding the right balance between load and yields to achieve the best revenue outcome. So in a very competitive market, we have to remain competitive and our field officers are judicious in their pricing, when on flights which are slower we will be launching a lot of promotions in order to get our share. But where demand is high we charge according to demand. This is not just from the pricing angle but also from our revenue management. So I think efforts are there, we continue our efforts to see how to get the right balance, and certainly we hope that we get the right mix both in the economy as well as in the premium classes.

Mr. Nicholas Ionides: Just across the row there please.

Mr Kelvin Lau, Daiwa: Thank you, I'm Kelvin Lau from Daiwa. I've got one broad question. Yesterday, Cathay Pacific got an announcement, quite bearish on the outlook going forward in the first half, meaning that second quarter seems not very good. But I see from your statement that you see year-on-year growth on the traffic side, even though yields are still under pressure. Can management just give me some guidance on traffic yields on passenger and cargo. What are you looking? Are you looking at further deterioration, or actually we should be seeing some year-on-year improvement based on a very low base of last year? Thank you.

Mr. Goh Choon Phong: We don't generally give guidance on yield movement and all that, but I think the general statement that we have made in the news release remains valid, which is that we do continue to see yield under pressure. In fact, if you were to look at last year, the last quarter of last year was the quarter that you see the most yield impact of -3.3% as you expect. So I would say that for the immediate months you would expect the yield to be in the similar environment. Whether going forward, it will be, as what Mr. Mak has mentioned, we manage our capacity judiciously. There is a very dynamic system for us to match demand versus what kind of pricing we can actually have in the market, and therefore that would be the outcome of what actually happened in the economy itself. But you can expect that Asia Pacific will be better - Asia in general.

Mr. Kelvin Lau, Daiwa: How about the cargo side?

Mr. Ng Chin Hwee: Well I think Mr. Goh has already indicated to you that the PMI are showing some improvements. We hope that this will not be tentative, so if the PMI does improve, we should see a pick-up in demand. Hopefully the launches of new electronic products will also help in that score. But certainly for the immediate quarter, we're not seeing that robust pickup whatsoever. So yields would probably remain where it is, at least for the immediate quarter. What we are counting on hopefully is a pick-up - a general pick-up -in the trade movements in the second half of the financial year.

Mr. Nicholas Ionides: Okay we'll switch to this side of the room please, third row in please, black jacket.

Mr. Siva Govindasamy, Flightglobal: Good morning, a few questions, firstly - I'm sorry, I'm Siva from Flightglobal. You talked about Australia and the partnerships, Virgin Australia. I'd like to get an understanding on where things are and how do you expect that to help you in your bottom line going forward? You mentioned India and China, specifically looking at those two markets, are you looking for partnerships similar to what you have in Australia there? Because it seems to be the two big markets where you could do with more feed to boost your long-haul traffic.

Finally, using your cash position are you looking at potential investments? And is there a change from the previous CEO in terms of how you want to go about when you invest in a new airline, for example. Previously SIA would say that you want a certain degree of control over any airline that you invest in. Is there any change in that? Do you see any investment opportunities out there, especially in India and maybe even in China? Thank you.

Mr. Goh Choon Phong: I'll take your second and third question first and I'll leave Mr. Mak to respond to your first question. India and China, it's not just India and China. I highlighted those two because those are the obvious big economies in Asia. But we are pursuing co-operation with partners or identifying partners and trying to deepen our partnership from across the world. I mean Europe, USA, we have some announcements, in the US where we are working closer on new interlines with US Air, for example, Virgin America.

But specifically for China and India, we continue to be working closely with airlines there, especially those that are in the same alliance and the discussions are always ongoing on how we can deepen cooperation. So I mean in the sense we are pursuing it. When and at what point can we make any announcements, significant in changes in the way we work with them? We would have to announce it when it's ready. But we are always pursuing partnership discussions with relevant partners or relevant airlines in the key regions.

Mr. Siva Govindasamy: But would they be as extensive as the one with Virgin Australia?

Mr. Goh Choon Phong: We don't know what the final outcome is. It will depend on, for example, the synergies between the two carriers. For Virgin Australia, the synergy is really quite obvious. Virgin's focus was largely on domestic operations, while we do all the international and we have all the key Australian points covered, so that it was in that context that we could actually do something very extensive.

Now no single partnership is going to be the same as another. It all depends on the needs and the particular situation of operations between the two carriers involved.

So that's the part - on investment, we have always been open to investments. I mean if there are good opportunities, we'll certainly like to consider, whether control is an absolute requirement, even previously it has been articulated as something that will be good to have, but I don't think we really have a statement that says we want absolute control.

Mr. Mak Swee Wah: Now you asked about the progress of the alliance with Virgin Australia. That is going well. Since we received regulatory approval at the end of last year, both sides have got down to work and I think almost every month we have been rolling out initiatives jointly. For example the codeshare has already started for SIA onto Virgin, and Virgin is also progressively building up their codeshare on SIA.

Very recently we also launched an Airpass which will facilitate intra-Australian travel for our long-haul feed. On the ground in Australia we have also begun joint sales and joint corporate contracting. So good progress is being made. More to come. I also forgot to mention about frequent flyer and lounge cooperation.

How does this benefit us? Clearly Australia is a huge market; it's very strategic and as Mr. Goh said just now, this co-operation gives us access to 20 more points which means that we can sell deeper and further into Australia more effectively than we could on our own just to the gateways, and by allowing intra-Australian travel that gives us also a very attractive product both on tourism as well as for other sorts of leisure travel. And on a corporate contracted front, we'll be able to penetrate deeper into that business in Australia.

Mr. Nicholas Ionides: Okay, we'll go back to the centre section; the second row from the back. Thank you.

Mr. Timothy Ross, Credit Suisse: Hi, Timothy Ross from Credit Suisse. Just referring to your $50 million loss on the sale of this last B747-400, does that have any implications for any other aircraft models in your fleet? Could we see any other losses on sales going forward? Or perhaps impairments in residual values?

Mr. Goh Choon Phong: I think the $50 million loss associated with the last B744 should be taken in the context that it was the last aircraft that left our fleet and it actually left the fleet ahead of its plan, the usual planned retirement, of 15 years. It left at about 10 years so it's an earlier retirement for this particular aircraft and the fact that it was the last aircraft actually, it doesn't make sense for us to keep one aircraft for another five years, obviously.

So that's one aspect of it. The other aspect I maybe would like to point out is that this particular sale was something that was in a sense negotiated more than a year ago and that was because we already sort of identified that this could be potentially the last aircraft to leave and we tried to minimise the impact. Had we sold it today the loss would be even more significant.

Mr. Timothy Ross, Credit Suisse: And the impact on other aircraft models that you operate?

Mr. Goh Choon Phong: No, it has no impact. I mean the other aircraft, in terms of the planned retirement and all that would still go along our lines of 15 years useful age.

Mr. Nicholas Ionides: Alright we'll go to the second row from the front here, and then back to near there. Thank you.

Mr. Ramthan Hussain, Platts: Good morning, my name is Ramthan Hussain, I'm from Platts. My question is on fuel cost. Can you give us - in your analysis your outlook for fuel cost this year, you mentioned that actually prices have started to ease off a bit over the past week but it's still above $120.

Now in that regard, and considering the fact that you mentioned the problem of volatility of fuel prices, my question assimilates to how you intend to manage or mitigate the high cost of fuel. Do you intend to be more active in hedging? And can you give us a breakdown of what your hedging activity is?

The other issue related to managing fuel cost is whether or not you intend to diversify your fuel intake, would you look into renewable alternative fuels like biofuels.

And my third question is kind of out of the box. Recently Delta has bought a refinery in the US which is quite unusual. Now thinking out of the box, does SIA in terms of its investment portfolio, intend to take better control of fuel supply by looking into buying a stake - not a controlling stake - in a refinery.

Mr. Goh Choon Phong: Thank you for the questions. First fuel price. I wish I know where it's going. I think if I know where it's going I think we will do very well. I can't give you guidance on how fuel price is. All we can say is that it looks like it has been range bound for a while, $120 to $140 USD/BBL, so that should be our expectation and certainly that would be how we are going to ensure that we continue to operate effectively in such kind of high fuel environment.

Fuel, in terms of the impact on SIA, maybe some numbers would help. For SIA Group, we expect in the financial year 2012/13 to consume about 37 million barrels of fuel for the group and in terms of hedging, at the current moment we are hedged about a quarter of that requirement at $126 per barrel. So that is our current hedging and current requirement for fuel.

Alternative fuels is something that we are very actively engaged in participating in relevant industry bodies. We of course would be very interested to see the introduction of alternative fuels and we are - it is something that is part of the industry. We are active in actually working with the relevant groups.

And of course where there are opportunities to participate further we'll certainly look into them. Then you asked about whether or not we're going to buy a refinery. No, we don't have such plans, but one has to also put in the context that if you do get to buy a refinery, of course you will only be addressing the issue of the crack, and not the base price for your crude. So unless you go further back and buy an oil well.

Mr. Nicholas Ionides: Alright. Third row from the back please. Aisle seat.

Mr. Brendan Sobie, Capa: Hi, good morning this is Brendan with Capa. Two questions, one regarding SilkAir, the 23% capacity growth this year, how is that being driven? Have you advanced deliveries at least in aircraft? Or are you increasing utilisation by perhaps doing some more night flying in medium-haul markets like India? And also if there's any breakdown on kind of new markets for supplementary with SIA? Is that kind of an even mix or is it leaning one more than the other?

The other question would be Japan, you mentioned the numbers year-on-year obviously are better, but have you - is it a full recovery? Are we back to pre-tsunami kind of 2010 levels yet or not?

Mr. Goh Choon Phong: Okay I'll take the second question and Mr. Mak is the Chairman for SilkAir so he will address your first question. The second question is really quite easy. Yes. The answer is yes, it has recovered to pre-crisis levels.

Mr. Mak Swee Wah: On SilkAir the growth will be - we have a couple of aircraft deliveries this year, so there will be additions to the fleet that will be driving the growth. The markets that we're looking at are all the key markets in this region. We will continue to push ahead our expansion into China and India and Indonesia, and also there are also - because of the joint planning with SIA we also are looking at developing points jointly. For example, there are certain routes which need an extra window so our recent expansion to Hanoi is a good example where we add an additional bank of frequency. You find quite a few of these happening already. Some of the Indian points also have this, like Calcutta is another. So that is the mode of growth.

Mr. Brenden Sobie, Capa: I was asking about utilisation, if you're pushing up utilisation as well? And also like in terms of medium - over the medium range, do you continue to look at similar growth rates for SilkAir? And are you looking at adjusting the fleet plan accordingly because there's not many orders there?

Mr. Mak Swee Wah: In terms of utilisation, obviously we are also trying to extract more hours. I mean a good example is our flights to Darwin which uses the night hours, so the fleet utilisation will go up. That will also add the capacity required for the existing fleet.

I think it's already in the news that we have sent out an RFP for the next generation of small planes – small, relatively, you're talking about the B737 and A320 class of planes, and as you all know those planes in the latest mode would have a better range than the current generation. So that will allow SilkAir to expand the envelope a bit beyond the current four to four and a half hours. So that will give us even more opportunities within the sphere covering deeper into China and deeper into India.

Mr. Nicholas Ionides: We'll move to the other side of the room please. The first row there, and then we'll go to the middle.

Mr. Harry Suhartono, Thomson Reuters: Hi, I'm Harry from Reuters. We're already halfway through the current quarter, do you expect the quarter to be as bad as what we've seen in the previous one? And then can I get something more specific - are you reviewing the operation of your non-stop flights to the US? I mean is that route operating profitably? And are you looking to make some changes on that particular route, the A340-500?

Mr. Goh Choon Phong: The rest of the quarter - this particular quarter, the first quarter of the financial year, I mentioned, you sort of could compute what the fuel price is - and the fuel price - basically you've got two things, fuel price and yield. You sort of can conclude what the fuel price is from the movement so that's easy. The other part is, of course the yield, and I think we mentioned earlier that you can expect the yield to be fairly flat compared to let's say the preceding quarter.

On your second question, A345, we always review our operations. The A345 is one of them. It is challenging because the A345 is non-stop long-haul, and as I mentioned earlier, when you operate longer haul you do consume more fuel. It's just physics. And USA is one of the markets where the yield is challenging and therefore, you saw as a result of those combinations we actually have adjusted our frequency downward. Whether or not we'll continue to do so, we might, it depends on how the operating situation is. But as at this point, it still makes sense for us to operate the current frequency that we do.

Mr. Nicholas Ionides: Okay the centre of the room, third row please and then we'll move over to here and then back to there.

Mr. Tim Bacchus, China Construction Bank: Hi, it's Tim Bacchus from China Construction Bank. Two questions, actually and they're follow-ups to ones previously asked. On the question of the disposal, the $50 million loss, can I just get a clarification, that was just for one aircraft? One B747-400? And we ended the year with one still in the fleet which was decommissioned this quarter. So was that sale booked in the previous financial year even though the aircraft was still on the books?

Mr. Chan Hon Chew: Yes that is correct. Physically the aircraft is still with us. It has been decommissioned in preparation for the delivery. But the sale and purchase agreement was actually signed in the first few days of April so we actually have to book the loss in the fourth quarter of the financial year.

Mr. Tim Bacchus, China Construction Bank: Okay so there will be no B747 sales or losses in the current fiscal year then. Okay. And the second follow-up question is on strategic investments. I wanted to ask specifically about China Eastern. Obviously this is an old story from four years ago. The reason I ask is because there were comments by the chairman of China Eastern back in March I think that they're still potentially looking for a strategic investor and obviously it needs to make sense for both sides, for SIA and for China Eastern, but I'm just going to ask for your side does an investment in China still make sense? Does China Eastern make sense? If it works, what would you say about the current state of the situation there?

Mr. Goh Choon Phong: I wouldn't comment on specific airlines because if there is ongoing serious discussion of course we would make the appropriate disclosure. But I would say that, yes, we remain interested in China, for that matter in any other areas of growth countries for potential investment possibilities. So we are open to that.

Mr. Nicholas Ionides: To the third row on this side please.

Mr. K. Ajith, UOB Kay Hian: Hi, I'm Ajith. Can you give us a breakdown on the passenger yield in terms of what accounted for the 3% changes, for example, between base fares and so forth. My next question is on SilkAir, can you give us some colour in terms of the change in revenue on a quarterly basis and annual basis?

Mr. Chan Hon Chew: Okay, for the fourth quarter, as we mentioned, yields were lower by 3.3% year-on-year and we have also mentioned that because of the very weak revenue environment we had to introduce promotional fares. So obviously local currency yields are lower.

On the other hand, passenger mix was slightly improved so there was some partial offset, but the net of the two is still about 8 percentage point drop. Offsetting that we have fuel surcharge. As you know, fuel prices have gone up by 30 over percent year-on-year. So there was a recent round of change, or rather revision, in the fuel surcharge and the last round was actually made at the beginning of the calendar year, so as a result of that there is also some positive impact from the fuel surcharge. So that's a plus 5 percentage point. So net of that is about 3 percentage points or so.

Of course we have some impact from foreign exchange, so the net difference between that and 3.3% is the FX impact.

Mr. Nicholas Ionides: Okay, we're going to the second row from the front please and then over to the right side here you got a question.

Mr. Chan Hon Chew: Sorry, can you ask your question on SilkAir?

Mr. K. Ajith, UOB Kay Hian: (Off microphone).

Mr. Chan Hon Chew: Oh okay. I see, for SilkAir for the full year, revenue grew by about 12% for the full year. That's really on the back of passenger carriage growth of about 9% with also a yield improvement by about 4%. So that's the 12% growth in terms of the revenues for SilkAir.

But of course, I mean SilkAir is also affected by high fuel costs so as a result their total expenditure has gone up as well by a higher percentage, about 18%. So as you can see from the news release, SilkAir's operating profit has also gone down.

As for quarter-to-quarter, I'm afraid I don't have the numbers, but I'm sure you can refer back to our previous quarters' announcements and you can do the comparison.

Mr. Nicholas Ionides: Okay second row from the front please?

Mr. Paul Dewberry, Merrill Lynch: Paul Dewberry here, Merrill Lynch. A question for you on the provisions to vary staff pay in the event of an adverse financial result. Does the fourth quarter operating loss trigger those provisions? And if it doesn't, can you remind us what the conditions are that would result in the variation of employee pay?

Mr. Chan Hon Chew: If you are referring to our monthly variable component, there is no trigger as a result of the fourth quarter results.

Mr. Paul Dewberry, Merrill Lynch: I remember in the GFC there was a downward adjustment made to employee compensation.

Mr. Chan Hon Chew: That's correct. So that's the monthly variable component that we are talking about. That makes up about 10% of the basic pay of all the employees. So under the collective agreement with the respective unions, any adjustment downwards would depend on the performance of the parent company and that trigger would only happen if there's a loss. And when we said the loss is actually for the whole financial year. So as you can see in the chart, the whole financial year we are still in the black.

Mr. Goh Choon Phong: It's on a cumulative basis, so let's say after the first quarter result, whether or not the MVC cut gets triggered depends on the first quarter, and when the second quarter comes about it'll be the half year and then the third quarter will be a full three quarter results, etc.

Mr. Paul Dewberry, Merrill Lynch: Okay thanks for clarifying.

Mr. Nicholas Ionides: Alright we have time for two more. I'll take one here and one over there please.

Ms. Corrine Png, JP Morgan: Thanks. Good morning, I'm Corrine from JP Morgan. I have two questions. The first one is can you please give us an update on your planned capacity for cargo? Ever since your capacity cuts by 20% for freighter capacity, has there been any change for the new financial year?

My second question is a broader one. What are your thoughts on the premium economy class product? What has held you back from introducing such a product up to now? Thanks.

Mr. Goh Choon Phong: I'll take the second question first, and then I'll allow my colleague Mr. Ng to take the first question on cargo.

Premium economy class. As an airline, Singapore Airlines evaluates different models of operations all the time and premium economy class is one of those that we have a continuous review of. In fact the last review was only a few months back. From our study of the market as well as the traffic that we have, we do not at this point in time see a case for us to get into premium economy class still.

Mr. Ng Chin Hwee: Okay. As far as the plans for growth for cargo this new financial year, we're looking about 3% growth and that's largely coming from the bellyhold capacity of the passenger airline. So as far as the freighters are concerned, there's no growth planned for this year despite the two additional aircraft we had from last year.

That said, we remain fairly flexible and if the economy doesn't pick up, again then we might have to further reduce capacity and vice versa. And then obviously if the economy picks ups, obviously we would mount, we have the flex in terms of capacity to mount additional flights if we need to.

Mr. Nicholas Ionides: We'll take the last one here, fourth row please, aisle seat.

Ms. Kyung-Hee Park, Bloomberg: Hi, Kyung-Hee Park from Bloomberg. You earlier announced that you would be giving unpaid leave for some of your junior cadets. Cathay yesterday came out and said they're going to do unpaid leave for their cabin crew. Are there any similar plans SIA is looking at right now? Thank you.

Mr. Ng Chin Hwee: I think the circumstances of Cathay and ours are quite different obviously. The voluntary no pay leave that we have undertook for our first officers, as you explained earlier, was actually an outcome of the excess that came about from the global financial crisis, and obviously the - this year, rather the year just past wasn't a very strong one, so we couldn't grow as high as we had planned. It doesn't mean that there will be no plans to increase capacity going forward. So as a result there is a temporary excess of first officers for a time being.

This should not be seen really as a retrenchment exercise of any sort. First of all it's voluntary. Secondly it's only for a brief period of time and indeed going forward we may have to continue to recruit more potential cadet pilots to plan for the operating plans three years ahead. That's the kind of lead time we are talking about. So to put the record straight, there's no plans at all to do at this point in time, to have any form of no pay leave for the cabin crew, nor for the captains of the cockpit crew.

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

(END OF RECORDING)