TRANSCRIPT

SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

Full Year Ended 31 March 2016

(Read in conjunction with PowerPoint Presentation)

SIA Training Centre

Friday 13 May 2016, 10:00am

E&OE – may be edited for grammar

Presentation

Mr Nicholas Ionides: Good morning and welcome to the analyst and media briefing for Singapore Airlines' fourth quarter and full year financial results. I'm Nicholas Ionides. I'll be moderating this session today. Those of you who have been here before, you'll be familiar with the format. We'll begin with a presentation by our Senior Vice President Finance, Mr Stephen Barnes. He'll be presenting the Parent Airline company results. Our CEO, Mr Goh Choon Phong, will then come next. He will be presenting the SIA Group results. I'd now like to invite Mr Barnes to the stage. Thank you.

Mr Stephen Barnes: Thank you Nick. Good morning friends, colleagues. I'm very pleased that we are able to report a decent improvement in the operating results for the Parent Airline. I'll say up front that it's really characterised by lower yields in what's been a very competitive and challenging market environment. On the other hand that has stimulated stronger loads. And it's really been enabled by much lower fuel prices during the year. So, those are really the key themes I think which everyone is going to be very familiar with.

So let's take a look at the operating stats. Capacity as measured by ASKs, in the fourth quarter was pretty flat. Down slightly 0.2%. For the year on the other hand, we were down by 1.4%. I think you'll be familiar that this is not because we were flying less. We actually flew more. But the gradual retrofit of the A380s and the 777-300ERs with, to include a PEY cabin, has reduced the number of seats. So that tends to be a drag on the total ASKs.

Traffic on the other hand has been, at least in the fourth quarter was strongly up, and for the year, was flat. So overall, that means our load factors grew, both for the quarter, as well as for the full year. That was very much at the expense of yield. So we were down 7.0% in the fourth quarter, 5.4% for the full year. You can draw your own conclusions on that, but I believe that, that's not completely out of line with peers across the globe.

So we take a look at the progression of yields. This is two years ago. So in FY13/14 we saw actually slightly rising yields through the year. And then in FY14/15, we had a reasonably strong yield, and end to the year in Q4, though that was at the expense you may recall of loads. And then this happened in FY15/16. The gap between the prior year and FY15/16, was particularly marked in the fourth quarter.

So if you actually sort of then look for some good news, it is that passenger unit costs, particularly in the fourth quarter, were down. Oil prices in January and February were at multi-year lows and so we had, drove, which drove the lower passenger unit cost.

Unit costs were also down for the full year, but by less than the reduction in yields. Although if you were to adjust for the reduction in capacity, that reduction in unit cost would have been greater. Anyway, over the full year, the breakeven load factor rose a little to 80.2%.

So if you then look across at the last five years, achieved load factor, you can see at 79.6% for the year, we were at a relatively high point. When you layer on the breakeven load factor, in all five years, the breakeven load factor has exceeded the achieved load factor. But the gap in FY15/16 at 0.6 percentage points is the same as we achieved in financial year 11/12.

So the question is, what does this mean for the dollars? So, revenue for SIA, the Parent Airline was down $213 million, that's 7.1%, very much in line with the reduction in yields. On the other hand, expenditure was down by a greater amount, by $241 million, driven as you can see, by fuel. So the reduction in the fuel bill was $290 million. You might want to note, we have noted, that, this is the first time for a number of quarters that we actually had a reduction in the hedging loss.

The story for the full year is really very much the same. So revenue down over $700 million, that's 5.9% down. But the expenditure bill came out at $877 million down, which drove a 43% increase in the operating profit to $485 million.

So if I move to, just a breakdown of the revenue. Really a reduction in revenue came from a number of different sources. If you look at passenger flown revenue, down

$486 or $487 million. This was yield driven. The reduction in the bellyhold revenue, which is essentially a cost recovery from Cargo was down. The reason being, our costs were down. The reduction in the other sources of income, if you look at passenger other revenue and others together, we had an absence of revenue in which we enjoyed in the prior year, which related to the write-back of unclaimed credits on fuel surcharge, which you may recall. And that was somewhat offset by other sources of revenue, in particular an increase in service fees, KrisFlyer revenue, inflight sales and so on.

And then if you look at, okay, unfortunately this is a very crowded slide, and I apologise for that. We're going to turn to fuel, fuel costs in a moment. So the only, the only two items I want to focus on would be staff costs and AMO costs. So staff costs were up, completely explained by an increase in the profit sharing bonus for staff.

AMO costs were up for three primary reasons. About half of that increase is attributed to just more work being done on the aircraft, more C-checks, more component overhauls. The, another quarter of the increase is attributed to the provision we need to make for the return cost at the end of a lease. We have more aircraft on lease, so the provisions rose. And the final quarter is attributed to the strong dollar. Most of the AMO costs are driven by the US dollar. The US dollar has been stronger, hence an increase in overall expenditure.

You are familiar with this slide, it shows the progression of our fuel bill, quarter on quarter. We're at an unusually low level at this point. This represents the price that we pay to our suppliers. At US$45 for jet fuel, I think you'll appreciate that, that's an unusually low level. And the hedge, after the post-hedging price that we pay, has also been coming down following essentially the trajectory of the underlying fuel cost.

So then if you actually do, we look through the waterfall, as we typically do, a significant benefit from the lower fuel price, offset by a stronger dollar, obviously we pay in, in US dollars. Higher hedging loss compared to FY14/15, I think is no surprise. And a slightly higher uplift, overall leading to a total reduction in the fuel bill of $973 million.

And finally we look at passenger unit costs. They're down from 8.9 cents per ASK, to 8.5 cents per ASK. And no surprise, the bulk of that reduction has come from fuel costs, reduction in the unit fuel cost. So I think it's a fairly simple, straightforward story for

SIA this time round. If I could perhaps hand over to my CEO, Goh Choon Phong, who will present the Group results.

Mr Goh Choon Phong: Good morning ladies and gentlemen. Again, welcome to our training centre for this briefing. I will start straight away with the Group results. You see the revenue for the Group, and you can see that at each and every quarter, the revenue number is lower than the corresponding quarter last year. And for the full year, revenue for the Group is down 2.2%, $338 million.

As you probably have noted from Stephen's presentation earlier, much of the revenue decline is really arising from the decline in the Parent Airline's passenger revenue, and much of that is as a result of the decline in yield. At the same time, there are also declines in revenue from cargo and mail, to a tune of about $200 million.

Costs too, have come down, largely a result of fuel price reduction. And the good news is that costs have come down by a bigger margin, 4%, $609 million, and the outcome of the combination of those two, is an increase in operating profit of $271 million, 66%, at the operating level.

Stephen has mentioned that the environment was challenging and a lot of the revenue decline, in fact the revenue decline are all due to the decline in the yield. And I just wanted to also say that that is indeed what we see across the industry, and I think you'll be hard pressed to find any big international airline without seeing some revenue pressure on their performance.

Here are the various contributions from the major components of the Group. And at a glance you can see that Cargo is the only one that had a deterioration. SIA Engineering has announced its results. It was up at an operating level, $20 million. SIA Engineering too saw a revenue decline of about $6 million and that is largely a result of a reduction in the revenue from the heavy maintenance side of the business. The component and airframe overhaul business. Compensated in part by increase in revenue from line as well as FMP, the Fleet Management Programme. However, for SIA Engineering too, the cost came down more, about $26 million. So the net of it is $20 million. And large part of the cost reduction came from the reduction in the contract costs, as well as costs associated with staff, staff costs.

SIA Cargo, it's, all of us know, it's a very, very difficult environment for cargo. The year-end rush that we usually expect for cargo, didn't actually come about in 2015. And SIA Cargo in the year, during the year, grew about 5%, 4.9% in capacity. It increased its carriage by about 2.6% so you can, the combination of that is a reduction in the load factor for Cargo, by about 1.4 percentage points. But what really depressed SIA Cargo's performance is that in getting those increases in carriage, it had to actually discount quite heavily in the market. So the yield came down in excess of 11% and hence you see this result. But just to put it in context, SIA Cargo's performance relative to other cargo operators, especially in the region, you can draw your own conclusion that it is actually, relatively speaking, delivering a fairly good result.

SilkAir has done very well. SilkAir has more than doubled its profit. SilkAir during the year grew in capacity about 9%, carriage more than 11%. It did, it did also suffer some yield decline but much lower extent than SIA, 2.9%, 2.9% in yield decline hence the revenue actually went up for the year, about 7%. However, it did benefit also from the lower fuel costs. So the absolute cost increase of SilkAir is only about 1.5%. So revenue went up 7%, cost went up 1.5%, and here's the outcome of the result. And SilkAir will continue to expand, we'll elaborate a little bit more on that later.

Scoot, too have done very well. It is a $95 million turnaround for Scoot, from operating loss to an operating profit of $28 million as you can see here. Now Scoot benefited from its rapid expansion and also its, the delivery, they're taking delivery of the newer generation aircraft, which is much more fuel efficient as we all know. And as a matter of fact, during the year itself, the unit cost for Scoot actually came down 19%. Of course more, even more in the fourth quarter as it had more of the new generation 787. For Scoot itself, during the year, the capacity went up about 26%, and its revenue actually went up almost 30% because its carriage went up about 29 over per cent. So Scoot's yield for the year was actually quite flat. It didn't, it didn't actually suffer a decline in the yield. So the combination of that, which is revenue up 30%, and also benefit from both the lower fuel price and more efficient aircraft, and hence cost actually went up only about 5%. The combination of 30% revenue up, 5% cost up, is what you see as a result here.

Tiger has announced its results, so I won't elaborate more but I just, to point out that for Tiger itself, the capacity management of Tiger have delivered in part, accounted for this result. Besides the common factor of price, fuel price reduction, but it is also interesting to point out that Tiger is the only airline here that actually saw a yield improvement of about 2.9%.

So net profit, we've announced that, $804 million, more than doubled, but how does that, where does that come from, relative to last year's net profit of $368 million. So there was an increase in operating profit, $271 million, we saw earlier. There were some exceptional items and these two accounted for the difference of $56 million. There was an impairment taken for Cargo, obviously, our China Cargo Airlines investment. At the same time, there also wasn't a re-measurement gain, but of course the re-measurement gain was a lot bigger, hence the difference.

Then there was a refund of the fines. This is the, you may recall about the previous payment that Cargo made on the fine from EC, European Commission. And the European Court ruled against - ruled in favour of us, and therefore there was a refund.

Higher dividends, much of it is accounted for by the, our sale of the Abacus stake to Sabre and that special dividend was paid from that sale and accounted for about $106 million. And this is really a result, this part about share of profit, this is really a result or re-classification of Tiger from an associate to a subsidiary, and therefore, we no longer account for Tiger's loss, which in the first half of FY14/15, you may recall amounted to $129 million. Tax, higher taxes, as a result of better results, some other items, and here, you have the outcome.

Here's the fleet development. So you can see that SIA actually will take 13 A350s but the last one is only delivered in March of 2017, hence it doesn't quite get into operation. So for all intents and purposes, it's really 12. There are 12 deliveries but the expectation of growth, ASK-wise for SIA is going to be again flat this year.

You can probably tell that one reason is a continuation of the retrofit exercise, as we continue the retrofit for 777-300ERs and the A380s. The other one is really that these 12 aircraft are actually delivered throughout the whole year, so you know, a couple of them, one per month, or a couple in one month, sometimes. But spread throughout. So there isn't really a full impact of that delivery capacity to the financial year. You'll see that the following year.

SilkAir will continue to take delivery of its new aircraft. So three more. Last year, oh, just to mention, for SIA, that the decommissioning of the 777-300s as well as the A330-

300s, all five aircraft will be actually returned to lessors. So there is, we don't expect any sales from here.

SilkAir will continue to grow. In fact we expect SilkAir to grow by about 17% for the, for the, this current financial year.

Scoot will take two more of the 787s to 12, but Scoot's growth will be expected to be about 51%. The reason for that again, is a full-year impact of the delivery of the 787s that we have taken in the year FY15/16.

Tiger, no change in the fleet for next year, so you can expect that Tiger would have basically a flat ASK for this year as well.

Cargo will see a reduction of two aircraft. Basically these two freighters will be returned to, again to lessors. The outcome of it is that we expect Cargo's growth to be 3% to 4% in this year, in terms of CTK. And the reason for that growth is really because of the introduction of more bellyhold capacity from the various passenger carriers.

This slide, we show it every time with, at this meeting. So basically, it's largely in line as you see and noted probably from previous meetings that the three biggest expenditure years is really FY17/18 to FY19/20. Hedging position, actually this is also in the press release, so I wouldn't elaborate more.

Earnings per share increased because our earnings have gone up, and we have also announced that the, the Board will be proposing to the shareholders, a final dividend of 35 cents. So making up to total of 45 cents for the full year.

I would like to touch on some of the strategic developments, but firstly the environment. Not much different. We're still having all this uncertainty in the global economic environment. Uncertainty in Europe, Brexit is one aspect of it, but the economy is still not strong. It's in fact some concerns over the, the robustness of the economy there. Even in this part of the world. So we expect that, that would be the case for this year, continuing to be the case. Oil price, volatile. I mean in the recent weeks, it actually has been trending up somewhat, and competition continues.

You know, new aircraft being delivered to various carriers in the world, being deployed on various routes that will compete with us. We are aware of all this, we have been aware about all this and hence the reason why we have been adopting a strategy that centres around these four key areas.

We continue to strengthen our premium positioning and some of the highlights, the updates that, of what has been done over the last one year, and you can be assured that we'll continue to push the boundary on what more we can do to bring on better comfort, better premium for our customers. IFE Companion App when we launch it, with the A350s, we are actually the world's first as well, we'll continue to innovate in those areas.

SilverKris Lounges, two new ones in the new concept will be added. We announced that we'll progressively do so and indeed this will be the case in Brisbane and Bangkok, the next two this year. The good thing about it, in the way we launch our SilverKris Lounges, as we launch each and get feedback from our customers and also feedback from how the lounge is generally being used, we refine the concept, we make it even better for our customers.

The outcome has been very encouraging for each of those lounges that we have launched. Comparing the satisfaction index to prior to the launch, on average we see minimally an improvement of 15 percentage points. So that is a very significant improvement in satisfaction. And like I said, we'll learn, and we'll continue to improve and make it better.

Deliciously Wholesome meals were launched. It was well publicised. And so far the reception has been very good. You may be aware that the management team in SIA actually does meal tasting to try out the meals of different sectors and not just the premium meals. We've tried both the, largely both the Business Class and Economy Class just to make sure that we know what our customers are actually consuming, and we see whether there's any issue, and we, we also tried this. I think this is quite in line with the feedback we got from our customers, so far which is very encouraging.

Modern fleet, not new. We continue to, we will continue to receive the A350s, as you all know. Next year, the new product will be launched. We all are looking forward to that. And of course, 2018, more new things. And for the A350-900, we call it a game changer and we'll continue to unveil what we intend to do with that new aircraft to open up new possibilities.

And some of it will be announced over the course of the next few months and you might find some of the announcements exciting. Then of course, we have announced those, new destinations so far that have been announced, we'll continue again to reinforce the network connectivity aspects of our propositions.

The other key strategy is portfolio. And this is a familiar chart, and I think it is good to look at this chart. And to sort of update from here. So we have been focusing on increasing connectivity. SilkAir and SIA connectivity improvement, you saw the results. You saw how SilkAir is able to grow with that much more integrated planning and inventory control and all that, which allows SilkAir to grow a lot more because they can tap a lot more into the international connectivity of SIA and SIA too, would be able to make use of the, more of the SilkAir frequencies and destinations to enhance its network propositions. So that has been great.

Of course, we're only beginning to look at how best to really integrate and connect Tiger and Scoot. We are all aware of the exercise and we, some of you might be aware that we have effectively de-listed Tiger, 11 May, so two days ago, and that opens up again, you know, huge potential and possibility for us to do all those things that I just highlighted in this, in this map.

It is something that we have announced before, the network connectivity, the commercial and the operational backroom support functions. How do you organise it so that the combined entity can actually benefit a lot more and to be able to grow faster together. So not just this connectivity on the budget segment as well as the full service, we're also looking at how to harness the synergy across the entire Group.

There are two parts to this of course, one is the, the easier part is the support functions. The backroom functions. Things that, where the whole Group is able to do, that would actually benefit the individual airlines in the Group, because of the bigger economies of scale and the ability to do things in a more efficient manner.

The other part is really the commercial aspects of co-operation across the Group. Here is where we are going into somewhat uncharted territory of how can we be effective, how can we harness this synergy across full service and LCC. It's not a model that is well tested in the market but we believe that we can actually make it work.

Of course, we will, as we progress on it, we will make sure that we take the necessary steps to ensure that our customers' interest and awareness are properly protected, so that there is no confusion of brand, there's no dilution of brand and that we can actually serve. The whole aim is to be able to serve the market better, serve our customers better. With that, we will then, with all this portfolio, we will then be able to actually extend our reach.

And what do we mean by that? Just look at one aspect, which is the points served. And if you just look at SilkAir and SIA, we have 98 points currently, but if you add on the LCC subsidiaries, you'll find that we will increase the number of unique points served by the Group quite substantially, 122 destinations.

Next is the multi-hub strategy that we adopted, basically identifying huge markets with great potential as, as new growth engines for the Group going forward and the two that we have launched so far is Vistara in India, as well as NokScoot in Bangkok. We have touched a lot on those two airlines before, so I won't elaborate too much, except I think Vistara, people are all interested in what happened to 5/20 rule. We are also asking the same question.

But again, we continue our engagement with our friends, our partners in India, as well as the authorities in India, to actually encourage them to open up this because it's really for the benefit of the Indian economy. And if we add the destinations that we'll bring about with this joint venture to the Group itself, then you'll see this picture here, which will allow us really, access to markets and routes that we couldn't have done so ourselves. Certainly for Vistara, to be able to, in this particular case, so far to actually operate domestic in India is not something we could do as an SIA entity, as a Singapore-based airline.

And of course, for the case of NokScoot to actually, for now, NokScoot is, because of the issue with the ICAO inspection, we are all aware of it, NokScoot is only able to operate from Thailand to China and to Taiwan. But again, that route is not something that SIA or any SIA Singapore-based airline could actually tap into. So this opened up new market for us as a Group.

But of course when we talk about, these two are of course, joint ventures where we have substantial shareholdings, but there's also an affiliate, associated airline, which is Virgin Australia that we also have very deep commercial co-operation with, tapping into their network. And if you add up all these points, to the Group itself, you'll find that it will grow again very substantially. But perhaps it's more relevant to actually look at the key markets that are important to the SIA Group and to see what that means for those markets.

And the first one of course, is Southeast Asia. So if you look at Southeast Asia itself, SIA serves 10 destinations on our own. If you add SilkAir, 36 destinations. If you add the rest of the two subsidiaries, 41 destinations. And we're not stopping here, right. Because the other, SilkAir is going to grow as we saw earlier, and Tiger will be growing too. SilkAir, I mean Scoot will definitely be growing as well, to some parts.

So this will continue to expand and it will strengthen SIA's position to be the airline of choice, to actually go to any place in Southeast Asia. The other key market is of course Southwest Pacific, of which SIA Group serves 12 destinations and we just added two, right, Wellington and Canberra. And then if you were to add what we codeshare with Virgin Australia, we'll reach 48 destinations.

This is the benefit of a deep co-operation with FFP co-operation, with corporate contracts and all that, all tie into that co-operation. But beyond these two key markets, which we consider markets that we want to be especially the airline of choice when anyone were to consider going to Southeast Asia or Southwest Pacific, there are two strong, the two biggest engines of growth in Asia that we cannot ignore for sure, and here is China and India.

And China, here again, SIA and SilkAir, 10 destinations. And by adding the LCC subsidiaries, we almost more than double, basically the number of destinations that we can serve, or we have, we are serving. And as we speak, the various subsidiaries are really looking at what else and what more they will be doing in China. And you can expect this to continue to grow. This makes us one of the biggest operators, non-Chinese airline operators to China.

India, similarly, India in some sense from Singapore to India is somewhat limited because of traffic rights. But to the extent that we can get the rights, we will definitely continue to push to grow. But India here, you know, both the full-service segment, 11 destinations, if you add the, our LCC subsidiaries, 15. Here again, like China, the various carriers in the Group will be looking for more opportunities to grow to new points and new frequencies to serve India more. And India of course, we also have a domestic carrier in Vistara that we own 49% of, and if you add the Vistara network in here, we would have 24 destinations.

The fourth part of it is the new revenue, new business angle, and for the new revenue, I just want to highlight one thing, which this again is a slide I showed before. I just want to say that this, the KrisFlyer proposition continues to be strengthened and it is leveraging the portfolio airlines to actually strengthen the KrisFlyer membership base, and also is reaching out to our joint venture airlines, as well as Virgin for even greater exposure in those respective areas.

That also strengthened KrisFlyer's attractiveness to partners, non-air partners and you can see that we've been growing fast on our non-air partners. And what that means is also the growth in KrisFlyer revenue. We do not release specifics, but I can tell you that it, both the membership and the KrisFlyer revenue aspects are growing at double digits, which is, which is good strong growth, and we'll continue to look at how to, how to strengthen this further.

One aspect of KrisFlyer is really the membership, the data, the business, rather the customer data that you have from having expanded membership and so on, and I think there's a lot more that we can do with those data to firstly serve our customers better, and secondly for us to generate new and more revenue.

The other one I think is widely announced as well, which is that we have already seen the launch recently of the completion of the Airbus Asia Training Centre, set up in Seletar, and that looks very promising. Following the launch there were even more enquiries about wanting to send people for the training. So I think this is again a very encouraging sign of an adjacent business that we've gone into.

That's my last slide. So thank you very much for your attention.

Q&A

Mr Nicholas Ionides: Thank you Mr Goh. We'll now move the tables into position for the Q&A segment of this morning's session. For the Q&A Session, joining Mr Goh and Mr Barnes on the stage will be our two Executive Vice Presidents, EVP HR & Operations, Mr Ng Chin Hwee, and EVP Commercial, Mr Mak Swee Wah.

As we are waiting, 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, and state your name and the organisation that you are representing. I'd also like to make the same request as we made at the last session, that you limit your questions to two each time I call upon you, to give more people a chance to ask questions. Of course if there is time I can always return to you again later.

Okay, if we are ready, I'll take the first question. We have two in the second row. I will start with the lady and then we'll go to the gentleman. Thank you.

Ms Corrine Png, JP Morgan: Good morning, I'm Corrine Png from JP Morgan. I have two questions. One is on yields. You highlighted in your commentary that yields remain under pressure, but could you please elaborate on which segments of the market are you seeing this, particularly for Scoot and SilkAir, the yields have held up very well. Do you expect this to continue?

My second question is on Virgin Australia's stake. There are quite a lot of interested -- quite a number of interested parties in that stake, and how do you see this, and if a new interested party that's not SIA, acquires a stake in Virgin Australia will it have any impact on your existing enhanced cooperation? Thank you.

Mr Goh Choon Phong: I will take the Virgin Australia question and my colleagues will take the respective questions on Scoot and Tiger yield. I think you probably expect my answer, which is that we don't comment on rumours. Of course we watch what is going on in Virgin Australia closely. And if there is something to announce we'd certainly let you know.

Mr Mak Swee Wah: You asked about the yield at SilkAir and the prospects for that, and broader overall yield outlook also. I think what has been mentioned is that the yield situation, I think not just for us but for the industry as a whole, has been under pressure for a while. And this is not surprising given the generally soft economic conditions around the world where demand is not very strong and some major economies are slowing down.

And at the same time, there's still a lot of capacity injection into the market. So when you have a mismatch between supply and demand, the pressure on yield is inevitable and this is - we see it broadly, although more so in some markets than others. For example, in Europe, I think the situation's quite severe, and maybe across the Pacific as well.

So in Southeast Asia, yes, there is also pressure on yields, but I think certain segments are still holding up, so which also shows up in the fact that, the SilkAir yields which are mainly for the shorter haul routes, although there has been a fall, it is not as severe as some of the long haul routes. Yes.

Mr Nicholas Ionides: Okay. Junqi, we will come back to the second row again, the gentleman in the dark jacket.

Mr Eric Lin, UBS: Thank you. Eric Lin from UBS. Thanks for the opportunity. So I basically keep it short. My question is also on competition. Just now we mentioned about you know, long haul is actually more challenging, we say. Can I also mention - please share some lights on like Middle Eastern carriers, if possible. I've been hearing that, you know, many times, but have we actually seen some relief because probably they have actually grown - they're still growing but growing less in Asia. Maybe they have turned focus elsewhere, I mean the Middle Eastern carriers. And then secondly on the Chinese airlines, they're also very aggressive, even talking about building hubs in China to do Asian long haul into Europe and the U.S. So are you feeling the pressure already from the Chinese? So basically two questions, Middle Eastern carriers, and Chinese. Thanks.

Mr Goh Choon Phong: Maybe I just take it generally, I think you are right, that people are - if you look at the Middle Eastern carriers they're still adding capacity. They are still having aircraft being delivered and they have their own reports. And you can read it, their own comment on what their outlook is like but it's not inconsistent with the rest of the industry. So you - the other thing to understand is that when you're talking about a hub connecting to the rest of the world, the competition is not just to, of course, to the Middle East, but also beyond where they connect to.

So as they grow the other parts it will also add on to capacity and they compete, for example, for Europe. So then they'll compete with us as well. Similarly for the Chinese, as they grow beyond their domestic network to international, of course, some markets are not markets that we serve in the first place. But there are markets where they are trying to go into that will compete. But we take it in our stride, right. All these competitions will always be there.

What is important is whether we have the strategies to address that competition. And in some sense the strategy to us is important as strategy is flexible and nimble, and hence you see that we now have different vehicles so that we can actually tailor it to meet the different requirements of the market and of the competition.

Mr Eric Lin, UBS: Sorry, is it fair to say that Middle Eastern carriers competition is less of a challenge compared to a couple of years ago, whereas the Chinese are getting more challenging?

Mr Goh Choon Phong: I would say that both are challenging.

Mr Eric Lin, UBS: Thanks.

Mr Nicholas Ionides: All right, one row behind you please. The gentleman in the white shirt.

Mr Daniel Lau, Morgan Stanley: Hi, this is Daniel Lau from Morgan Stanley. Just two questions from me. The first one is also on yields. But it is more of like a long term kind of perspective. So we can see that in recent quarters, yields are down but load factors are up. So I believe that to some extent when you drive promotions for - say for mainline that essentially can drive up your loads as well. That also brings up the point, where you do see that actually is more of a pricing issue that's going to improve your loads.

And during the presentation, Mr Goh you mentioned that you're going to focus and strengthen on the premium product. So, to some extent how much more can focusing on strengthening of premium product improve demand for the mainline? Isn't that over time wouldn't it just be all on pricing?

The second question is on balance sheet. So how should we think about your leverage going forward? For a long time, SIA has been in a very strong net cash position. We are seeing an increase in the next three years in CAPEX. How will that impact your balance sheet? Will you - are you - will you be willing to whittle down your net cash and maybe even going to a slight net debt position and, you know, would you - how would that impact the decision to either own your aircraft or lease the aircraft. That's all for me.

Mr Goh Choon Phong: Okay, I'll take the first question and Stephen will take your questions on balance sheet impact. If you look across the industry generally speaking, yields are under pressure quite a bit. And in some sense, some of which is correlated to the decline in the fuel cost price because some, you can expect that people will discount some of that in the market. So there is some level of correlation.

I leave it to you to go and research what that correlation is. But if we - we continue to maintain a premium in terms of our product, but also in terms of some price premium. Now of course, the premium is different in different markets depending on the response of market. And like we say, you know, this is something that we need to be nimble on. So when you have a premium product - a better product and service provisions, when of course the general client - general trend of the yield of the market comes down, yield would have to come down, but there is still a gap. All right. So that is where it makes sense.

The other parts about the discount and all that, I think it depends really on the market itself. And sometimes when you foresee that there is some weakness going forward, we want to build base load, and that's when we have promotional activities to actually build the base load. And that's important because in order for us to actually be able to later on, when the actual demand come in to see whether we can actually manage the yield differently. But building base load is one of the aspects that we have to look into, especially for long haul because it takes a longer lead time.

Mr Stephen Barnes: Yes, the balance sheet is clearly going to be affected by the increase in CAPEX from FY17/18, onwards. You should expect to see a reduction in cash and liquid resources. You should also expect to see us managing liquidity to a point where we are - we remain comfortably liquid. At the moment we are criticised for being perhaps a little bit too liquid. So I think this - over time you'll see that balance change. So indebtedness will rise.

We don't - when we think about indebtedness, we don't make a distinction frankly between on balance sheet and off balance sheet. So we already think about the capital value of our operating leases as part of our indebtedness, as indeed do you. So from our perspective, the own versus lease decision is not related to capital structure. The own versus lease decision is much more driven by, you know, how do - what is the outlook from our perspective for residual values for a particular aircraft type.

Do we wish to retain some flexibility to be able to dispose aircraft in difficult times. You know, those sorts of operational and slightly more strategic decisions. So we'll manage - we'll continue to manage that and indeed the accounting standards from FY19/20 will bring it all to light, as all airlines have to bring their operating leases on balance sheet, anyway. But that's how we think about it already.

Mr Nicholas Ionides: Okay, I'll take the next question. The lady in the middle there, one, two, three, four, five - fifth row. Yes, that's correct.

Ms Jesalyn Wong, CLSA: Hi this is Jesalyn from CLSA. I have two questions here. Firstly, I like to know how the premium market demand for Business Class and First Class is looking. So on that what's the average occupancy level versus the past. And is there any outlook on guidance for the yield. The second question would be on - there are some market talks on A380 leases not being renewed. So would SIA be able to comment on whether this is true and when the leases become due which markets would these aircraft fly in if there's any aircraft to replace these A380s. That's all. Thank you.

Mr Goh Choon Phong: Okay, I'll take the second question. My colleague Swee Wah will take the first one. A380 leases, well the answer is that they are not up for decision yet. And we retain the flexibility to decide by the deadline and you will get to hear about it, what the decision is. Whatever it is - whatever the decision is, you can be assured that we would have taken in consideration our capacity need and the need for serving the key markets with that type of aircraft.

Mr Mak Swee Wah: Yes, on premium market demand and yield, I would say that on the whole, we still see the bookings holding up. Of course there are differences in different segments of the markets. I mean, certain industries are probably hit a bit worse, for example, the oil and gas. But then it's compensated by growth in other areas as well. So broadly speaking I would say that the premium market demand is holding up. On the yield, I think it's very much like what Mr Goh has said, is there is - that the market is in the state that it is and we will continue to be competitive and make sure that we sell it at the price that is of value to the customers.

Mr Nicholas Ionides: Okay. Junqi, just to your right. And then, to the lady in front of you in the aisle seat. Thanks.

Mr Raymond Yap, CIMB: Hi, morning. This is Raymond here from CIMB. Just want to zoom in on Scoot and Scoot's excellent performance. In the fourth quarter the yield - sorry the ASK actually went up by almost 50%, but yield relative to the fourth quarter of last year was actually flat. Conventional wisdom would suggest that a 50% increase in ASK would lead to declining yields, so I'm really interested to find out the background behind how you actually managed to keep yields steady and whether an additional 50% capacity increase next year, would actually cause the situation to turn around.

Mr Ng Chin Hwee: Well to begin with, managing yield is an art, not a science. So it is a bit hard to explain. But I think it's fair to say that obviously when we're dealing with

Scoot, that taps into more the leisure market. It is exposed to strong seasonality. The final quarter, if you look at the traditional results of ours, tends to be our strongest quarter and that is the time when obviously we've much stronger demand. We're able to hold, to be in a better position to have stronger yields.

Mr Raymond Yap, CIMB: But this is flat relative to last year. So there's no seasonality there.

Mr Ng Chin Hwee: No, for the fourth quarter, yes. But if you look at generally, the yield patterns, just like the main carrier, we were subjected to also competitive pressure. There were yields - there were yield declines in some of the places. Just give an example, in Australia, we were hit by the foreign exchange losses as well, because the currency effect had an impact on our yield, but on areas where we were able to - on the more mature routes that we had, we were able to successfully raise our yields.

Mr Raymond Yap, CIMB: Okay, thank you.

Mr Goh Choon Phong: I think you raised an interesting observation, and precisely you can see that the different segments actually react quite differently. I mentioned earlier that Tiger even managed to achieve a yield improvement.

Mr Nicholas Ionides: All right. One row in front. There, the lady in the aisle seat. Thank you.

Ms Sophie Leung, UOB Kay Hian: Hi, good morning. This is Sophie from UOB Kay Hian. Thanks for taking my questions. Okay, my first question is regarding the associates and JVs. So in 4Q, associates - share of profits from associates actually fell 41% and JVs also fell. So I'm wondering whether is this from the Vistara or Virgin Australia. What is the reason behind it? And if like this continues do you intend to inject further capital into these associates and JVs?

Mr Goh Choon Phong: Vistara and NokScoot are startups and we mentioned earlier that when we do the startups we have a long-term view in mind, and we want to nurture it to its full potential of course. But when you look at the associates and the joint venture line, it actually includes more than just the airlines. So, you might be aware that EC, SIA Engineering Company, have a lot of associates and JVs as well. And do - they do see some challenges in some of their key associates and JVs. For example, you have SAESL, which is a joint venture of Rolls Royce. All this - it's in the public domain, so the combination of that accounts for the difference.

Ms Sophie Leung, UOB Kay Hian: Okay, so it's the combination?

Mr Goh Choon Phong: Yes.

Ms Sophie Leung, UOB Kay Hian: It's not just Virgin or -

Mr Goh Choon Phong: Yes, there's a combination of that.

Ms Sophie Leung, UOB Kay Hian: Okay. Okay.

Mr Goh Choon Phong: There are substantial number of associates and JVs which have different performance this year in EC, in Engineering Company, relative to last year. If you look at their results you'll see it.

Ms Sophie Leung, UOB Kay Hian: Yes. Yes. Okay. Then the next question is regarding MRO costs. At the Parent Airline level MRO costs went up quite significantly, partly I suppose due to the return of leases. Do you expect this to continue or just normalise to a more manageable level?

Mr Stephen Barnes: Yes, as far as the - try again - the provision, the putting aside provisions for lease return costs is concerned, I think that we would see this normalising from now on. We have, as you may know, elected to lease all of our A330 aircraft. So we had a significant number of aircraft coming into the fleet that were on lease, and I think the last of the A330s joined us in September.

So from here on, I think we would - for the Parent Airline not see much. I think probably you're going to see a decline in the number of aircraft that are actually on lease. So you should see that contribution normalising from here on in. What probably will remain an issue will be the fact that we have aircraft that are, you know, going - increasingly coming through to their, sort of later, sort of second or third significant checks. Their engines are doing the same and so the cost of the maintenance is - has risen over the last few years. So that'll be a feature.

Ms Sophie Leung, UOB Kay Hian: Okay, thank you very much.

Mr Nicholas Ionides: Thank you. Can you pass the microphone one forward, please. Thank you.

Ms Karamjit Kaur, The Straits-Times: Hi, Karam from The Straits-Times. With regards to the recent expansion of ties between Singapore and Australia, there was no mention at all on aviation, which was quite strange. So is - were you disappointed by that? Are there things that you would like to do more in Australia that you're not able to do today because of government restrictions, and specifically with regards to transpacific, is that something that SIA is still seeking as actively as you were say 10 years ago, or has that become a bit of a - not as a big a deal any more? Thank you.

Mr Goh Choon Phong: Thank you Karam. Our position remains what we have said previously, which is that for - as a matter of principle, I think we should get the transpacific rights from Australia to the U.S. Although I would say that at this point in time, that is probably not our priority. We do have other areas of growth that we believe we can deploy our aircraft to. But as a matter of principle, yes. We absolutely would like to see that happen.

Ms Karamjit Kaur, The Straits-Times: So are you surprised that aviation was not part of the deal?

Mr Goh Choon Phong: We did not have expectations. So in some sense therefore I'm not surprised.

Mr Nicholas Ionides: Okay, we'll switch to our right side of the room. The gentleman in the white there. Second row, yes.

Mr Christopher Siow, Credit Suisse: Hi, this is Chris from Credit Suisse. I have two questions. So first one would be whether the forward bookings that you have registered, are they being done at promotional prices, and the second question would be can we have some updates on the Tigerair and Scoot integration and is it tracking along how you have projected it to be or will there be more things being done on the two? And for Scoot, as they expand, will we see unit cost coming down?

Mr Goh Choon Phong: Okay, I take the Tigerair, Scoot. I alluded to it earlier that - well, the fact is that we have completed the delisting of Tiger. So and the exercise that we conducted has gone beyond our initial objective. The primary objective of delisting actually, we have crossed the threshold for also compulsory acquisition, which is a process that is ongoing right now. So which - that means that we have full ownership - we will have full ownership of Tiger.

Mr Stephen Barnes: Okay, we now do.

Mr Goh Choon Phong: Okay. So Stephen just told me that we now do. So what that means is that we will have a completely free hand in integrating Tiger and Scoot and to enhance the connectivity of traffic between the two, much like what we have done for SIA and SilkAir. And you saw the results of that. Are we tracking? Yes, I believe we are. And you can expect some announcement, I believe pretty soon on what is it that we are doing. So I would not - I would not be able to comment further at this point in time. But you can be assured that yes, this is a high priority item for us and it has our full attention.

Mr Mak Swee Wah: On forward bookings I would say is a combination of both. It all depends on the markets and also the seasonality where there are pockets of weaknesses, of course there's more activity to scale some base loads in the forward booking, but for the others, where bookings are anticipated to come in later, then it is not. So it's a mix, it's a mix, what we're seeing.

Mr Nicholas Ionides: Okay, I have three queued up and that's all we have time for. So I'll start with the lady in the second row there, the centre.

Ms Mayuko Tani, Nikkei: Thank you. Good morning. This is Mayuko Tani from Nikkei. One more question on yield. You mentioned, Mr Goh, about the correlation between the fuel price and the yield, I think. And so assuming that the fuel price stays low this financial year, do you expect the peers in the industry continue to sell the seats in a lower price and yield also, even with the premium have to have - have to see the weaker yield for this year compared to last year? Another question is about Chinese market. In financial year '15, have you seen a drop or even the growth on the back of the weaker economy there, and what do you see is going to happen in this year? Thank you.

Mr Goh Choon Phong: Okay, maybe I'll just reply to your questions. Yes, I said that you can probably expect that there is correlation because some of the discounting was done because they're able to discount off on account of a lower production cost, which is lower - in particular lower fuel price. At the end of the day really, the pricing is determined by the demand and supply. So if you've pumped in a lot of supply, and there's not enough demand at certain price points, then in order to balance it - to generate new demand - you sort of drop your prices. That's the general theory of demand and supply, right? So to the extent that fuel prices are being low, there is the possibility that they will - that players - carriers in the industry, could also continue to do so. But if the demand and supply situation balances better then there is less need to do so. So I won't want to be able to project forward, because demand and supply is something that is hard to project.

And the important thing for us in this market, in this industry, is the ability to react to things nimbly, flexibly, and that's what we actually are structuring the organisation for. The second part about Chinese market, I just - is a general comment. So a general comment, I would say that it is still a growth market for us.

Mr Nicholas Ionides: Okay, Junqi, just in front of you. Just to your left now.

Ms Kyunghee Park, Bloomberg: Hi, Kyunghee from Bloomberg. Two questions. One is there have been reports about a possible sort of partnership with Air France. Can you sort of tell us a bit more of what is going on and what sort of partnership are you discussing? Second question, again I wanted to ask about Virgin Australia. Are you at all in talks or in negotiations with other partners like Etihad on the possibility of Air New Zealand selling? And would Singapore Air think of increasing the stake if Air New Zealand does decide to sell the stake? Thank you.

Mr Goh Choon Phong: So I will take the easier question. Not so much the easier question - easier answer, which is to your question about our consideration of Virgin Australia and all that. And the answer is the same, we really do not comment on rumour and we do - if we do have something that we've decided on, and we want to announce, we will do so.

Mr Mak Swee Wah: Yes, on Air France, I think it has been said before, we have many, many commercial arrangements with many different airlines of different degrees, ranging from just interline kind of arrangements to a deeper one, like codeshares and then ultimately to partnerships. So it's just one of the arrangements that, you know, we are in constant talks with many different airlines on different levels of cooperation.

Mr Nicholas Ionides: Okay, we'll go over to our left side of the room, the gentleman there. Thank you.

Mr Brendan Sobie, CAPA: Hi good morning, Brendan with CAPA. I had a question about SilkAir fleet and growth, 17% this fiscal year. What I noticed was, it didn't seem like there was any A320s exiting the fleet. The last couple years it almost seemed like you accelerated the exits and was maybe anticipating a faster transition. But now it seems like maybe the faster transition is not happening. Any colour on the fleet there, movements and what you expect to, in terms of transition to all-Boeing?

Mr Mak Swee Wah: No, I think the fleet plan has been mapped out in such a way that it supports our fleet - our capacity expansion plans. So this year we will take three new 737s, so that meets our requirements. So the disposal of the A320s is also done according to a plan to support that expansion. So it's in the right order.

Mr Brendan Sobie, CAPA: Okay, it seems a lot of flexibility there, obviously. And just with the 17% growth in ASKs, do you have any colour on, you know, Southeast Asia versus China, versus India, existing routes versus new routes? It's quite a lot of capacity again, and I think it's a little faster than what we've seen with SilkAir with the kind of high single, low double digits, usually.

Mr Mak Swee Wah: Yes, just - I'll give you a bit of background to that. First of all it's 17% because our FY15/16 numbers were a bit less than was originally planned because I think if you recall, we transferred one of our routes, Hangzhou, to Scoot. Yes. So when you measure you have slightly higher. We are expanding - we're adding frequencies to most of the existing destinations.

There's one new point, I would say two, Vientiane and Luang Prabang, that we have already announced, but beyond that the expansion is to – it's quite well spread out, India, China, Southeast Asia. So, yes, the expansion continues apace. We are driving utilisation a bit harder.

Mr Goh Choon Phong: Brendan, you also realise of course that the delivery of the new aircraft to SilkAir in the year just past, it's again throughout the year, and so therefore, somewhat full impact is seen only this year.

Mr Nicholas Ionides: I've had a plea for one more question. So we'll grant it. So two in front of you, Junqi. Just second in. Thank you.

Ms Rumi Hardasmalani, TODAY: A little bit more on Tiger and Scoot. Given the overlapping operations and given the fact that you said it's on top of your mind, should we be expecting a merger in the near term, Scoot and Tiger? Are you considering possibilities of having a common brand eventually, and a merger in the short term?

Mr Goh Choon Phong: Okay, I didn't - I don't think I said top of my mind, but I did say that it is one of the key priorities of course for us. But that question was asked during the offer period and our response then and now remains the same, which is that we would not rule that out. But for the moment, we do see a benefit in them having their own separate identities.

Mr Nicholas Ionides: Thank you. And with that last question, we will have to bring it to a close. I apologise. Thank you very much for your time. Have a good morning. Thank you.

(ENDS)