



TRANSCRIPT OF
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING
YEAR ENDED 31 MARCH 2008
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E & OE – May be edited for grammar

Mr Forshaw:

(audio commences) ...Senior Vice President Finance for Singapore Airlines who will take you through the presentation. Then, we will move to the question and answer session. On the panel today with us, we have a slightly different composition of the panel – for those of you who are more regular attendees of this event. It will, of course, be led by our Chief Executive Officer, Mr Chew Choon Seng. It will also include our Senior Executive Vice President Operations and Planning, Lt-Gen (Ret) Bey Soo Khiang; Executive Vice President Marketing and the Regions, Mr Huang Cheng Eng; Executive Vice President Human Resources and Planning, Mr Ng Chin Hwee; and Executive Vice President Operations and Services, Mr Mak Swee Wah; in addition to Mr Chan, and I will be your moderator for the afternoon.

With that, I will now introduce Mr Chan, and thank you very much for your attendance.

Mr Chan: Good afternoon, Ladies and Gentlemen. Welcome to the briefing on the results for financial year 2007/2008. I am sure, by now, you have seen the results, so, for this presentation, I will do a quick recap of the numbers and also to provide you with some additional analysis to add some colour to the numbers.

First up, the parent airline. The parent airline earned a revenue of \$12.8 billion, that is 12.5% higher than last year, on the back of over 19 million passengers carried. On the cost side, Total Expenditure \$11.1 billion – that is 7.7% higher than last year. And because the revenue growth was at a higher pace than the increase in our costs, our Operating Profit has gone up by 60%.

Let's zoom in on the operating statistics. On the yield side, yield growth of over 11% – that's really a reflection of the strong revenue environment over the course of the financial year, at least for the most part of the financial year. In terms of the Unit Cost, it

was also up – but by a lower rate of 6.3%, and therefore, our Breakeven Load Factor actually improved by over 3 percentage points.

Load factor 80.3% – that is 1.1 percentage points higher than last year. And because our Breakeven Load Factor improved by 3 points, so together, that results in an improvement of the Passenger Load Factor Spread by 4.2 points.

Here is a depiction of the passenger load factor over the last 4 years. A healthy growth trend here. And, next, let's look at the pink bar here, which shows the Breakeven Load Factor, which actually shows an improvement in 07/08, and that's, again, a reflection of the strong demand for air travel during the financial year. And, as a result, that has benefited yields, which have grown at a higher rate than our unit cost. And together with the improvement in the load factor, our spread has widened to 10.9 percentage points. And here, again, we see a healthy growth trend.

Moving on to costs, here are the top 5 expenditure which makes up close to 80% of the total expenditure of the parent company. No surprises fuel continues to be our largest expenditure, at 36.5%. As that is our highest expenditure, it deserves a little bit more analysis.

The next chart here, a year-on-year comparison. The starting point – that is the fuel bill for the last financial year, \$3.8 billion. And, because our capacity has grown by about 1.2%, the fuel uplifted has also gone up. And that has resulted in increase in our fuel bill by about \$58 million. Now, the largest increase comes from the higher fuel price, which has gone up from about \$84.40 average for the previous financial year to about \$99.20 in 07/08, resulting in a staggering \$678 million increase in fuel cost as a result. We were fortunate, during the year, the US dollar has moved in our favour, partially mitigating the higher fuel cost by about \$283 million. That takes us to a fuel bill for the year of \$4.2 billion, that's \$453 million higher than last year.

Moving on to the group, first up, the revenue of \$15.9 billion, almost \$16 billion, up by over 10% and, if you compare that against the Compounded Average Growth Rate for the 4-year series here, it is higher than 7.4%. And in this series, we are using 4 years because the year before that was SARS year.

Group expenditure has gone up as well, but by a smaller percentage – 5.1%. Also at a slower pace than the 4-year Compounded Average Growth Rate, and therefore, the operating profit for the group has gone up by over 60%.

Moving on to the Group Operating Profit – the composition. Here we see that SIA continues to be the biggest contributor to the group's operating profit at 77.4%, followed by SATS, Cargo and SIA Engineering. In terms of year-on-year improvement, SIA, as you saw earlier, improved by about \$617 million. SATS Group improved as well. SATS, by now you would have seen the results, they have actually a revenue growth of over 1%, but managed to bring down costs of over 1% as well, thereby improving the operating profit. SIA Cargo had a strong performance, turning around from operating loss last year, and therefore contributing \$163.9 million in terms of the operating profit. And this is really as a result of effective capacity management and, at the same time, cost control. Although the load carriage for cargo has come down, because of careful capacity management, they managed to actually improve on the load factor by about 0.2 percentage points, to a

load factor of 62.2%. At the same time, they have also improved on the yields, while the unit cost was reduced, thereby improving on their profitability. And that is the result here. SIA Engineering also have done better at the operating level, coming in close to \$1 million better, at operating profit level.

Going down to the net profit, again here, a year-on-year comparison, a reference point here is last year, you would recall, we came in with net profit of \$2.129 billion. And you recall last year, we had 2 exceptional items – the sale of SIA Building and also the sale of SALE, which gave us \$421 million last year. This year, we didn't have the benefit of any such one-off item. Also, last year, there was a write-back of deferred tax provision – that's a result of reduction of corporate tax rate of Singapore from 20% to 18%. And because, in terms of operating profit, the group performed better by \$810 million, that has effectively offset the one-off items last year. However, this year, we had lower surplus on disposal of aircraft and other fixed assets, bringing our net profit to slightly over \$2 billion, \$80 million lower than last year.

Next, let's look at dividends. First, earnings per share, \$1.68, compared to last year, a slight reduction because of a lower net profit. And from there, an interim of 20 cents was paid. In consideration of the performance of the group, the Board has recommended a final dividend of 80 cents, which makes a total dividend of \$1. Based on the prevailing share price, that translates to about 6% in dividend yield, which, if I may say so, is a respectable yield on the shares.

Here is the Per Share Statistics. That's how it stacks up. EBITDAR per Share – a slight improvement over last year. We have talked about the ordinary dividend per share earlier on – increase of 50 cents from last year. The Net Asset Value per Share – \$12.77.

Looking ahead. A few items to update you. Firstly, on the Fleet Development. As of 1st April we have 98 aircraft. We will be taking delivery of 5 A380s in FY08/09. Together with the 3 which we already have, we should have 8 A380s at the end of the financial year FY08/09. Another 5 B777-300ERs. Now we have 14, another 5, by the end of FY08/09, we should have all the 19 B777-300ERs. We will take delivery of 4 A330-300s. During the year, we also expect to dispose of 6 B747-400s, which brings us to 106 aircraft in the fleet on 31 March 09.

Here is the projection of our capital expenditure. Principally, it is for aircraft, as you can see from this chart here. It ranges from a low of \$2.2 billion in 08/09 to a high of \$5.1 billion in FY11/12.

Moving on to hedging. This is our budget uplift volume – 39 million barrels. Our hedging target remains unchanged, ranging from 30% to 60%. As of last week, we have hedged about 36% of our fuel requirements in FY08/09. The average hedge price ranges between US\$104 and US\$109 per barrel – this is for jet fuel.

The Outlook – indeed the coming year is going to be a challenging one for the airline industry. I think we all note that there is stress in the global financial markets. This will cast a cloud of uncertainty over the outlook for demand for air travel. We all know fuel cost inflation – this is going to be one of our biggest challenges. Fuel cost is expected to remain high and volatile, thereby increasing our cost. The only thing certain here is

competition – they would always be around and hot on our heels. We have to remind ourselves to stay ahead of our competition.

So, on that note, I conclude my presentation, and I invite my colleagues to join me here on the panel.

Mr Forshaw: Hi, Ladies and Gentlemen. That is the presentation of the slides. Just to remind you, once again, to state your name and organization at the preface of any questions that you wish to ask. I have introduced the panelists and, I think that, as we go forward, you will probably hear from one or more of them. Any questions? Sorry, we just pass the microphone to you...

HSBC: Hello, Good Afternoon. Mark Webb from HSBC. Congratulations on the great results starting off. Maybe let's home in at the outlook. Last time at 3rd Quarter results, you talked about still some pretty strong forward bookings. I note you are more downbeat in your outlook statements in this result. Could you run through your forward bookings and identify where you are seeing areas of weakness, and also perhaps give us a run through on the outlook for passenger yields.

Mr Chew: First of all, it would be remiss of me not to thank all of you for giving us your time this afternoon. As you know, it's not just the change of the makeup of the panel – this is the senior-most 5 executives in the mother airline company. But also we decided, this year, to hold it here in town, so that we come to you rather than you make the track out to Changi. But, be that as it may, let me now turn to the question.

In a nutshell, when you say why we are downbeat in our comments despite this set of numbers. It is because we want to be cautious. The outlook, as you know, is not great from a macro point of view. After all, I needn't remind you that this is a business in which, in the last couple of months, there were 7 visits to Bankruptcy Courts for some competitors. So, the uncertainty that is facing global economic markets is very much present in our business and casts a whole cloud over it. The forward bookings, as we have them at this moment, are still firm. But then, these things are subject to change, and they are vulnerable to cancellations, to changes of plans, and changes in corporate travel policies. So we are not taking anything for granted, even though, based on the numbers we have on the books, things are holding up.

As to whether we see pockets of weaknesses, for sure we have seen some softening of the market for discretionary travel out of the US. But not from the corporate sector, as yet. I suppose bankers have a lot of things to do, so they have to keep flying, at least for the foreseeable future. So, that is at the very macro level.

We are seeing some softening of our load factors – and I feel comfortable about saying this, because we publish our carriage numbers every month in our in-house publications, so you can see the number for yourselves. So, the load factors have come down a couple of percentage points also.

The absolute carriage is still growing. It is so happens that, because of last year's standstill in our capacity production – because of the delays in the delivery of the newer aircraft – that year-on-year, from the month of April, we have a capacity growth of nearly 9%. Even though our total carriage uplift went up about 5%, we have a dip of load factor, simply

because the growth did not quite match the growth in capacity. However, it is still running at the level of high 70s, and from the service delivery perspective, that is not altogether a negative – in that it enables our people to cope with the higher demands of our passengers that much better. Cheng Eng, you want to add to that...

Mr Huang: Mr Chew has quite well covered everything... well, we are being very cautious and, going forward, we will keep track of the booking level every now and then...

Mr Forshaw: Any other questions?

JP Morgan: Corrine Png from JP Morgan. I have 2 questions for you. The first one is – looking at your future aircraft deliveries, I notice that SIA will have a more varied fleet, going forward, compared to your 3 aircraft types in the past. So, what is your rationale for this, and would it actually lower your operating efficiency going forward? My second question, on the cargo side, I believe that you haven't put in any aircraft orders for freighters, apart from your conversions. So, looking at your competitors, some of them had ordered the new 748s and 777s. Looking a few years forward, do you think that this will put you at a disadvantage versus them, or do you think it is more prudent to rely on the 744s and your bellyhold, rather than just going for market share and volume. Thanks.

Mr Chew: You have obviously done your homework. What you have stated for the makeup of our fleet – it is factual. However, I would say that this is an interim phase.

You are right that, hitherto, our passenger fleet comprises just the 747s, 777s and a few A340-500s. Now that the A380 has joined the fleet, and as we grow that, we are in the process of phasing out the 747s, as in Hon Chew's presentation. This is an interim period.

I think we would be out of passenger versions of the 747s by about 2010, 2011, thereabouts. So, it is a transition phase. The burden of having an extra type is not as heavy as if we kept it going indefinitely. And then, of course, as we start taking delivery of the new A330s that we have on a lease arrangement with Airbus from next January – that would add another aircraft type.

But, there again, the Airbus family allows what you call multi-fleeting, in that a pilot who holds a license, or who is certified, to fly the A340s can also fly the A330s, and there is a lot of commonality in the Airbus cockpits even between the A340s and the A380s, and so on, and so there is a lot more synergies, if I can put it that way, than would appear at first blush.

As for our staying with just one aircraft type for the cargo fleet. First of all, as you would have noticed from our presentation of the numbers, rationalizing the fleet and reducing the scale of operations is not necessarily a bad thing. You talked about market share. For us, being number 1 in market share is not the end. The *raison d'être* is really to be number 1 with our customers and, secondly, number 1 in profits. That, to us, is more meaningful. So, if the mix of the 747-400 freighters that we have plus what we have in hand, in terms of conversions of our passenger aircraft into freighters that will be undertaken in the next couple of years or so, that would serve our needs adequately. We are not convinced about the additional expenditure that would be needed to renew the freighter fleet with 747-8s freighters, when the tradeoffs in terms of operating efficiency is rather marginal – in our view. So, we do not need that. Plus, with the changing trade flows, with more direct

services between China and the key markets for China manufacturers in Europe, and in America, it makes more sense for us to work closely with our associate, Great Wall Airlines, and participate in the world air cargo trade in that manner, in an expanded way.

Mr Forshaw: Question in front here...

Merrill Lynch: Paul Dewberry, Merrill Lynch. I have couple of questions. First, looking your fleet plan, you have about 9-10% in ASK growth this year. Can you confirm that sort of number. Secondly, you are adding a lot of capacity, your competitors are adding a lot of capacity. The economic environment is clearly weaker and yet fuel price is surging. How high can you get these passenger yields, how close are we to the tipping point for demand. Thanks.

Mr Chew: Before I refer that question to my colleague in charge of Planning, I should correct – I think the position now is that our capacity growth for this new financial year will be more in the order of about 7%, and we retain a certain degree of flexibility of fine-tuning our capacity on a route-specific basis. In other words, we will deploy capacity to areas where we see demand staying firm, and growing. For example, in our announcement recently about some adjustments to our schedules that would come out later in the year, or some which just started – Osaka-Bangkok, for example, we have withdrawn service from that sector, and later in the year, we will be withdrawing from the Los Angeles-Taipei sector. In turn, we are increasing frequencies into Vietnam, both Ho Chi Minh and Hanoi. We are now operating 5 flights a day into Shanghai, and so on. But, to comment more on our capacity plans for this year, I'll ask Chin Hwee to talk about that...

Mr Ng: For this year, the planned capacity growth is 7.1%. It might look like 9%, but if you look at the fleet development for this year, it is actually a release of up to 6 747s. That has to be accounted in the stream itself. As Mr Chew has mentioned, there has been some changes also in the network, so as to optimize the network. That doesn't mean, of course, that these are cast in stone. Should there be new opportunities for us to expand our capacity to other routes, like India or China, we will still be able to do so, if the need arises.

Mr Forshaw: Thank you. At the front, just here, please.

UBS: Good afternoon. Damien Horth from UBS. I suppose, you are smiling, I suppose, we should consider your dividend payout generous...

Mr Chew: You mean you no longer call us lazy balance sheet?

UBS: Yes, I can (laughs). I am just wondering if we can take that payout ratio as a guide forward, so if you look at the payout this year. Is that what you would be targeting in the next couple of years? And second and separate question. You have now been operating the A380 for a few months. I am just wondering how the cost performance has been versus Airbus' promises?

Mr Chew: Well, Damien, to take your first question – the Board reviewed the business projections under a variety of scenarios of stress, and then took stock of the capital reserves, and the projected funding needs to meet our capex commitments, and also

perhaps, strategic opportunities that may arise. Taking into account all that, plus a largely as yet unexploited financing capacity of the group, the board came to the conclusion that the new dividend rate of a dollar a share is affordable, and sustainable. I hope that answers your question. As you know, we prefer not to provide specific guidance on things like payout ratios and so on, but I am telling you this is what led to that conclusion.

On your second point on the performance of the Airbus 380 to date, I would say, overall, it has delivered performance according to the specifications. In that regard, I would invite Soo Kiang to speak a bit more...

Lt-Gen Bey: The aircraft has performed well relatively, compared to all the other aircraft types that have been inducted into the airline previously. In terms of the unit cost to operate the aircraft, it is not meaningful to do it now, because we have injected a lot of costs ahead to prepare its entry into service, like pilot training, crew training. Also with a small number of aircraft, it doesn't give us a good indication of what is going to be the steady-state cost. We would have to wait for a while for the numbers to build up, before we can come to any meaningful comparison with 744s and 777s.

Mr Chew: But in terms of the technical specifications, it has performed according to specs, in terms of fuel burnt per plane mile, trip costs, and so on – it has delivered. Anyway, if it didn't, we have performance guarantees, which I wouldn't go into. I think the most important thing with this plane for us is the fact that it has performed very reliably. As you would have heard us in our earlier public comments, we have said that this is one new plane that has been least troublesome, in terms of entry into commercial service. Much more importantly to us, this great plane has really proven to be a hit with our customers. Everybody is very favourably taken by the amount of space in the cabin, by the level of quietness, and the general friendliness of the plane, and even the communities around the airports at Sydney, around London, around Changi, are quite surprised at how quiet this plane really is.

Mr Forshaw: Any other questions?

Credit Suisse: Thank you. Hi. This is Sam Lee from Credit Suisse. I think that you have produced very good result. But just a few points I want to clarify regarding the results. Firstly, regarding the contributions from the associates. Actually in the 4th Quarter, I can see that there is a small loss. Can you elaborate on that? The second thing I want to ask is regarding the tax rate. Effective tax rate in the 4th Quarter was actually lower than the previous 3 quarters. Are there any specifics that we have to watch out for. The third question is on yields, both from passenger and cargo. Can you highlight to us how much of that, or what percentage growth is actually from fuel surcharges? Thank you.

Mr Chan: I will take the first 2 questions. Your first question is on the contributions from our associates for 4th quarter. There is a small loss for the 4th Quarter. That's largely because of some of the year-end provisions that were made by our associates, in particular, Virgin Atlantic. As Virgin is a private company, I can't give you the specifics. Suffice to say that Virgin Atlantic, for the full year, they have actually made a small profit under UK GAAP. If you followed our previous briefings, you would know that, for Virgin Atlantic, we have to make some FRS alignment adjustments. So, that has resulted in a small loss – but not a material number to the group.

On your question on the effective tax rate, similarly, for some of our associates and, in this case, Tiger, they have made some adjustments to their tax number. As a result, that has impacted slightly on the effective tax rate for the 4th Quarter.

Mr Huang: On the yield side, basically, we have different routes, different demand level. Also, there is a difference in the local rate that is sold by different countries. So, on the whole, together we find that there was pretty good local yield improvement over the last one year. So, on that basis, taken as a whole – we don't have the breakdown as to how much it comes from surcharges – but on the whole, that's what we have, in terms of good local rates from the different stations. And there are different demand levels from different groups...

Mr Chew: I think, as Hon Chew touched upon in his earlier presentation, the matter is also that the exchange rate movements turned out to be favourable for the company. We had a weaker US dollar relative to the Sing dollar, that translated into a mitigation on the rise in fuel prices. Conversely, the strength of the Euro, the Australian dollar, the UK pound, translated into additional Sing dollar for us. The fact is that the fuel surcharges that you referred to are all set in US dollars, and then converted into local currencies and then converted into Sing again. All this makes the whole yield, the composite yield number, a bit hard to breakdown. So, sorry, we don't do breakdown

Mr Forshaw: Question at the back...

Reuters: Hi Daryl from Reuters. Can I get an update on your bid for China Eastern – are you still talking to China Eastern on the deal? And also, there are signs that the Chinese government is trending towards consolidation in the domestic sector. So, can I get your comments on how is that going to affect your bid? Thank you.

Mr Chew: Well, we still maintain a dialogue with the China Eastern management, but that relates more to commercial cooperation going forward. As for your question on what the Chinese government policy is likely to be, I think I am the last person to speak on that. You have to pose this to the appropriate officers in China.

Mr Forshaw: Question at the front here, please...

CLSA: Hi there, Robert Bruce from CLSA. Just a question – you are phasing out a lot of the 747s. With the increase in fuel price, the market for conversion into freighters started to disappear and demand is slackening off. Would that affect your disposal prices, etc, ability to decommission the aircraft in an efficient manner. And, secondly, just in the 4th Quarter, your fuel cost was only up 13% year-on-year, which seems relatively low to me. Could you provide more detail on what the drivers were, and gains you made on the contracts there? Thanks.

Mr Chew: I will just take the first question regarding the fallout on residual values of the B747s – if I can put the question in that way, interpret your question in that light – with higher prices. The pressure is on operating economics, whether that would impact on the demand for conversions of passenger aircraft into freighters. Well, the truth is we hedged in effect our exposure to the residual value of 747-400 aircraft, when we did quite a slew of sale and leasebacks. Although we still have 16 owned aircraft in the fleet at the moment, one on lease, 16 sort of owned. Out of the 16 that are in our own books at the

moment, most of them are on sale-and-leaseback arrangements. At the end of lease, we will be returning them to the lessors – we don't carry the risks. Out of the handful that we have, 3 of them are earmarked for our own cargo subsidiary for conversion. So, the total exposure is down right to either 1 or 2 aircraft, that's all. The question of vulnerability of the book value of the 747-400s is really not a big issue for us. Fact of the matter is, right now, at this point in time, the second-hand value of 747-400s are still relatively firm, surprisingly. But that's the reality. Of course, if you are interested in a couple, I believe Oasis still have 2 in Hong Kong.

And on the other comment about the oil, fuel costs...

Mr Chan: It is indeed the fuel price, year-on-year, had gone up on average 17.5%. But, as noted earlier, we have favourable movement in US dollar. That has partially mitigated that increase. Of course, we have a hedging policy in place. As we have mentioned before, we hedge about 50% of our fuel requirement. The hedging gains are disclosed in our SGX announcement – you can see that on page 2 – for the group, for 07/08, there is a hedging gain of about \$232 million.

Mr Forshaw: A question at the middle...

Morgan Stanley: Chin Lim from Morgan Stanley. I have 2 questions. The first is from a client, so it is not my question. He wanted to know – Australia, your strategy in Australia, what you are doing down there? Are you using Tiger to do what you need to do? Are you still looking for rights to US from Australia? That is the first question. My second question is... what's the answer, then I will ask the second.

Mr Chew: Well, firstly, with regards to what we are doing in Australia, the truthful answer is – nothing, we are just being a competitive airline there. If some others are running scared of us, that is their problem.

Tiger, I cannot speak for Tiger really, because Tiger is run as an independent company, with an independent set of shareholders. They have their own policies. Its positioning is very clear. It is a pure low cost carrier. It operates domestically in Australia. It is doing reasonably well. As a 49% shareholder, SIA is reasonably pleased with the progress that Tiger has made in Australia. If you were asked for specifics, I am afraid that I would not be in a position to disclose other than to say that, at this juncture, Tiger Australia is running ahead of the business plans. So it is doing a lot better in terms of market penetration, in terms of the turnover, in terms of the cashflow. As for our quest for trans-pacific air rights beyond Australia, our case is still there, and we are sort of revisiting it every so often, reminding Canberra that, look, you know, the rationale and logic behind our request for access to the routes are still valid. Qantas these days still operates beyond Singapore to London, to Frankfurt, and we are not allowed to fly beyond Australia. I rest my case.

Morgan Stanley: Okay. My real question...

Mr Chew: That one is for your client...

Morgan Stanley: Yeah. You know your fuel surcharge, and in all the airlines, the fuel surcharge, they are very very high. The economy is slowing down. You said that

discretionary travel, you are very worried every day. Are we at the point yet, at this stage where you think fuel surcharge might be difficult to push through now?

Mr Chew: Well, Chin, I will be very candid with you that the world, as a whole, has weathered 100 bucks oil reasonably well. If you think of it, where the oil price is today, year-on-year, it is doubling, right – last May, it was only about 60-odd bucks. I think when some of your colleagues in the industry talked about \$100 oil, people wondered what they were talking about. Today, nobody is laughing. And now, the same guys are talking about 200 bucks. So, to that extent that we have had to raise our fuel surcharges, it is a question that we had no choice, we have to pass it through. We can demonstrate, and we did, in an article in our in-house publication, demonstrate that the recovery rate that we were achieving was less than half – when you benchmark it to prices when this whole fuel surcharge thing started in mid-2004. So, we are still shouldering half of the increase in relative terms. Now, as to whether there would be mercy if the global economy slows further, I think we have to first ask our friends in the oil industry. Because they are the ones turning in real rosy numbers. And we have to ask for mercy when we fill up our gas tanks for our cars too. We get no mercy from them. So the day when the fuel companies, decide that, right, they will give a special rebate to the airlines, then that's the day we will say "hallelujah" and we will also pass some of these back to the consumers. But, other than that, well, where we are is what the reality is. I don't know what the answer is.

Mr Forshaw: There is some time for a couple more questions. In front here...

Macquarie: Hi, Tim Bacchus from Macquarie. I see that, you know, on cost side, you have done quite well actually this year. Quite a number of lines have actually gone down, even staff costs going down in 4th Quarter. But it seems that the real outlier, beyond fuel, is on the maintenance side, almost double over 4th Quarter. Can you just give us some elaboration? Was it one-off 747 decommissioning, etc.

The second question I have is on your associate, your airline associate. You mention Tiger, we have a question on that. You are reasonably pleased, you say, with the performance and the direction, as a member of the Board and 49% shareholder. Does it include, for example, its forays into Korea and some of the other clients that it has? And then, on the other airlines associate, on Virgin Atlantic, just an update on where you think you might be going with that shareholding?

Mr Chew: I will take the easy part first, and I give the hard part to my colleagues, but they can think about the answer now. Chin, his question really pertains to SIA and his Australian friend. Those comments are in the context of Australia. If you are asking me a more general question on Tiger Airways, as a parent company here, and its forays up north, then I would say that those general comments are equally relevant.

I can safely say that I am not betraying any confidence for FY 07/08 – profit came close to \$10 million. They are ahead of business plans.

The venture that has been dubbed Incheon Tiger, that is still at the so-called application and certification/diligence stage, so it will be premature for me to comment more than that. The plans are in hand, but we do have to get all the necessary approvals, before we can start operations. So, who will take the other question on engineering expenses, Hon Chew or Swee Wah, or both of you can...

Oh, Virgin Atlantic. I thought Hon Chew just said about the fact that they have a profit under UK accounting rules, and we accounted for our share of that, but when we had made the necessary accounting adjustments to align with our own accounting principles, that share of profit became a share of loss, but the numbers are, in our context, not material, even year-on-year. As to whether we are happy there, well I think it is not a secret that we regard it as an underperforming investment. We still are sort of reviewing of our options. We are open to all reasonable offers, but as they say in the classified ads, no time wasters please, in other words, if somebody makes us a reasonable offer, we will be very happy to look at it, but we are not desperate. So, if people think that they can get it for a buck from us, that is a time waster.

Mr Chan: I'll first touch on the AMO costs, first the accounting aspects. I think the 4th Quarter number has year-end provisions there. I think it is more useful if you look at the full year number. So, there isn't any discernible trend that you can get by looking just at the 4th Quarter. For the full year, the AMO costs have gone up by 30%. Part of the reason is because of the fact that we have implemented FRS16, which is the accounting standard that requires us to capitalize heavy maintenance and overhaul costs. This is the 3rd year of implementation. If you remove that impact, the real increase was about 15% for the full year. The main reason for that is really the increase in some of component maintenance, because of the landing gear work that we have to do. Mr Mak can, maybe, elaborate on some of the work.

Mr Mak: Of course, we have a large fleet of 777s. As these aircraft get older, there are a lot of maintenance requirements coming on-stream. Some of the increased works coincide with the maintenance schedules that are required, reflected in some of the additional work that has been mentioned by Hon Chew.

Mr Forshaw: Any further questions at the back?... I would give preference to those who haven't already asked questions.

Straits Times: This is the first year that your 2 subsidiaries have set their own bonuses without the SIA collar attached. Given that you are more or less divorced in that area, do you think that, perhaps, it is time to seriously re-consider the divestment issue. Related to the fact that they have not been divested yet, is that more because you don't need the cash, or because you feel that you need to keep them within the family?

Mr Chew: Are you making a comment, or asking a question? But, Karam, the fact of the matter is that the SIA Board has undertaken to review, at regular intervals, the ownership position in the 2 listed subsidiaries. The last time a real top-to-bottom review was done was about a year ago. In the course of this year, there would be another review again. But the considerations have not changed. Both are, as you can see from their results, still profitable, sustainable businesses. They are adding value to the group, and therefore there is no pressure on us, so to speak, to reduce our holdings. In fact, relative to the size of the company's stake in the 2 companies when they were first listed – when we held 87% – in the course of the last few years, through the exercise of staff options, you will see from their annual reports that the parent's holding level has come down to 80%, or slightly less than 80%. In the natural fullness of time, it has been coming down anyway. Nonetheless, this topic is one that the Board will review at regular intervals. As to whether

we need the money, the fact is that we are returning cash to shareholders through an increase in dividend rate, so you have answered the question just now.

Mr Forshaw: Okay, final question. Gentleman here in a red tie.

CIMB: Hi, this is Raymond from CIMB. I have 3 questions. One is the fuel hedging position. I think, at the same time last year, if I remember correctly, you were hedged about 47% of your jet fuel requirements. This time, you are hedged only at 37%. Are you taking the view that jet fuel prices will come down. Is that why you are hedging less this year, versus last year?

The second question is about the A380s potential delays, the news that had been coming out in the market about Airbus potentially not being able to deliver what they promised. How does that affected you, in terms of the A380s coming in.

The last question is on the capital expenditure. If I look at your slides last year, for the 4th Quarter briefing, you had about \$4 billion in capex targeted for 09/10. Now, it seems that it has been brought down to \$2.5b. And also for 10/11, it has been brought down from \$5.1b to \$3.6b. Could I just understand what the change is?

Mr Chew: Okay, I will take your first question relating to the percentage of the fuel volume that we have hedged. When you refer to last year, actually you are referring to our briefing at the half-year mark. We have always hedged according to what we call a declining wedge profile – for the near quarters, we are more heavily hedged than the far quarters. In our programme of hedging in the region of between 30-60%, and normally we will come in about half, 50%, in the near quarters, we usually hedged fully up to 50%, 55% or so, and in the far quarter, or the 4th Quarter, we usually have it at the thin end of the wedge, at about 15%-20%. And in between are the intermediate positions. When we talk about the relative volume for any particular year, when we do the mid-year briefing, we have already hedged. The first 2 quarters are already history – they have already been hedged out by more than 50%. Hence, at the mid-year point, we are always hedged out at a higher level than at this point in time, when the financial year has just started. I don't know whether that is clear to you, but if not, we can see you at the mid-year briefing when you can see that the figure has gone up.

What is true, of course is that, this year, our average hedged out price reflects the shifts in prices. And this is fuel. Unlike other airlines that say that I hedge at \$50, \$80, they are referring to crude oil. Then they run the risk of basis risks, because there is a crack spread there. We do a variety – I mean we are reasonably comfortable doing some proxy hedges, which we then, what we call, roll up into jet fuel as the maturity nears. For jet fuel, it's what we are hedged in for the near quarters, for all the 4 quarters, going ahead. Coming out at about \$104-\$109, as you would have heard. Last year, at the mid-year briefing, it was much lower – in the \$90s to low \$100s.

On the A380s, the fact of the matter is that we will get our 5th aircraft towards the end of next month, June. That is still on schedule. We will get our 6th airplane in September. And then, what you referred to all this recent statements from Airbus, they have given us some pre-advice that there could be some slight, some small delays on the deliveries that we have scheduled for next year, 2009. But the exact number of days or weeks delayed,

they have not yet communicated it to us, so when they do, we will then review the situation and see what adjustments, if any, that we need to make.

On your last question on capex, I think I will ask Chan Hon Chew again to deal with it.

Mr Chan: I think that the numbers you quoted could have been from a year ago. There was an update at half time. The difference is actually quite marginal. For 08/09, for instance, the last guidance was \$2.7 billion, now it is \$2.2 billion, the difference is really different exchange rates that were used. If you look at the total for the 5 years, the difference is only about \$200 million. The total is, as on the slide, is \$17.2 billion. The previous guidance was \$17 billion. So it is a small difference.

Mr Forshaw: Okay, Ladies and Gentlemen, with that, I will bring to a close this analyst/media briefing. Thank you very much for your attendance. A very good afternoon to you.

(Ends)