



TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING
Half-Year Ended 30 September 2008
(Read in conjunction with Powerpoint Presentation)
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Mr Forshaw: ...Welcome to the media and analysts' briefing of the half year and second quarter results for Singapore Airlines Limited. My name is Stephen Forshaw. I'm your MC and host for this afternoon. The format for this afternoon is that in just a moment I will introduce Mr Chan Hon Chew, the Senior Vice-President Finance, for Singapore Airlines, who will give a presentation. We'll then move to a question and answer format and the panel will be led by the Chief Executive Officer, Mr Chew Choon Seng. We'll also feature the Executive Vice-President, Marketing and the Regions, Mr Huang Cheng Eng and Mr Chan. A couple of house-keeping matters, if I may. First, could I ask you to turn your mobile phones either off or to silent mode. Proceedings today are being recorded for transcription purposes so that when we get to questions I would ask you to, firstly, wait for a microphone to be passed to you, and secondly, to introduce yourself by name and organisation for the benefit not only of the panel but also the transcript of the proceedings. With that I would now take great pleasure in introducing to you Mr Chan Hon Chew.

Mr Chan: Good afternoon, ladies and gentlemen. Welcome to the briefing on the results of Singapore Airlines for the first half of financial year 08/09. The results have been announced yesterday. So the details are available on the SGX website and also the SIA website. What I will do for the presentation is to have a quick recap on the results and to provide some analysis on the numbers to give you a better flavour of our financial performance.

First up, the parent airline. For the first half of financial year 08-09, the parent airline earned revenue of \$6.9 million. This is on the back of 9.6 million passengers carried. Compared against the same period last year, revenue grew 14.7 percent, which, if I may say so, is a respectable growth in such difficult times.

However, this 14.7 percent revenue growth was overtaken by cost increase, no thanks to sky high fuel prices. As a result the parent airline's operating profit declined 36.6 percent to \$495.2 million.

Let's zoom in on the operating statistics. Firstly, on the yield side, there continues to be growth at 7.7 percent year-on-year, to 12.6 cents per pkm. However, unit cost has increased even more, by 11 percent. The increase in unit cost was because of the steep increase in fuel prices.

But it is worth highlighting that the other cost items were well contained and if you look at unit cost excluding fuel, there was actually a reduction by 8.3 percent. As unit cost increased at a faster pace than yield, the breakeven load factor actually increased by 2.1 points.

Moving on to passenger load factor: it was down 2.4 points as a result of the growth in passenger carriage of 5.4 percent, which was at a slower pace than our capacity growth of 8.5 percent. As we saw earlier the breakeven load factor increased by 2.1 points. So as a result the spread of the passenger load factor over the breakeven narrowed by 4.5 points to 5.7 points.

In the next slide, this is a depiction of the passenger load factor over five years. In the first half of 08/09 as we highlighted earlier, it was a decline to 77.9 percent. However it's worth noting, it is still a shade higher than the first half of 06-07. Breakeven load factor inched up because of the higher fuel prices and the spread has narrowed. While the spread has narrowed, it is noteworthy that it is still higher than the first half of 06/07 and before that, notwithstanding record high fuel prices this financial year.

Moving on to the cost side, this is a depiction of the top five expenditure for the parent airline. Again, fuel leads the pack here at 44.5 percent; more than 8 percentage points higher than the same period last year.

As this is the biggest expenditure, let's take a closer look at the fuel cost for the parent airline. The starting point here, this is the fuel bill for the first half of 07-08. The increase in the volume of fuel uplifted has contributed \$146 million to the increase in our fuel cost. But the biggest increase comes from the increase in fuel prices, by over 76 percent from an average of US\$88 per barrel last year to US\$155 per barrel this year. We had some relief from a weaker US dollar. And for the first half year-on-year compared to the same period last year, fuel cost has increased by whopping \$1.39 billion. The total fuel bill for the first half; \$3.3 billion, and if you recall the whole of the last financial year 07-08, our fuel bill was \$4 billion. At half time, now it is already at \$3.3 billion.

Moving on to the group, top line, this is a five-year series, the growth trend has remained intact. For the first half of 08/09, there was revenue growth of \$922 million to \$8.5 billion first half this financial year; growth of over 12 percent. And if we compare this to the compounded average growth rate of 10 percent, the growth this year is ahead of the compounded average growth rate, or CAGR in short. However, on the expenditure side, it has increased even more, by over 20 percent. This is a result of, again, higher fuel prices and this increase is the steepest in the last five years. As you can see, the increase is almost twice that of the CAGR for the last five years. Therefore, as a result, the operating profit for the Group has declined by \$407 million to \$575 million for the Group in the first half, and this is about 41.4 percent reduction from the same period last year.

Let's take a closer look at the contribution to the groups' operating profit. As you can see from the chart, the parent airline continues to contribute the

largest share; 86.1 percent. However, as we saw earlier the operating profit for the parent airline has declined by 36.6 percent.

SATS, too, saw the operating profit coming down, by 12.5 percent. While SATS saw revenue growth of about 5 percent, however, this was overtaken by expenditure increase of about 9.3 percent, mainly from higher costs as a result of Terminal 3 operations, which started only this financial year.

SIA Engineering Company, as well, saw reduction in the operating profit by 10.7 percent. Engineering Company saw reduction in revenue by about 1.2 percent, arising from lower airframe and component overhaul revenues.

SIA Cargo, you can see from the chart, there's a negative contribution of 13.2 percent. Cargo was also affected by very high fuel prices. As a result, it made an operating loss of \$76 million in the first half of this financial year. This slow down in the economy has resulted in a 1.7 percent contraction in terms of cargo's traffic, and as a result the cargo load factor has declined, and that has fallen below the breakeven load factor of 63.5 percent.

Moving on to the Group's net profit after tax and minority interests, this is a year-on-year comparison. The reference point here, the first half of 07/08, \$932 million. As you saw earlier, the group's operating profit has come down by \$407 million. Higher share of profits from associated companies, that had partially offset the drop in the profit: this is largely on account of better performance from Virgin Atlantic. However to highlight, there was a one-off adjustment arising from reclassification of Virgin Atlantic's investment in Virgin Nigeria, which was previously treated as a subsidiary [by Virgin Atlantic], and now it has been reclassified as a long-term investment. The adjustment was the reversal of past losses consolidated by Virgin Atlantic, over and above their cost investment in Virgin Nigeria. So SIA's share of the adjustment was \$50 million. Lastly, other items including tax, lower tax of \$25 million, so year-on-year, a reduction of \$250 million from the same period last year.

Next, let's look at some per-share statistics, that's how they stack up. EBITDAR per share down 5 cents, earnings per share down 17 cents to 57.6 cents. And in terms of the interim dividend, the Board of Directors have decided to declare an interim dividend of 20 cents per share, same as last year. And the net asset value per share, as at 30 September 2008, stood at \$12.26. Comparing that against March 08 of \$12.77, the reduction is the result of payment of the final dividend of 80 cents per share.

Looking ahead, a few items to update you. First of all, let's look at the passenger fleet development for the parent airline. The operating fleet as at 30 September stands at 101 aircraft. We will be receiving delivery of the last of the nineteen B777-300ERs on firm order, and we also start receiving delivery of the Airbus A330-300s, four of them, before March of '09, and in addition we'll return two of the 747s to our lessors. So the operating fleet number, projection for March 2009 is 104.

Moving on to the Group capex projection for the next five years: principally, this is for aircraft, and it ranges from \$1.9 billion to \$3.2 billion. If you compare against the previous update when we announced our full year results, you notice the numbers have come down. This is principally because of unexpected delays of the B787 aircraft.

Moving on to fuel hedging. Our hedging position at this point, the budgeted uplift volume, 36 million barrels for the whole financial year 08/09; the hedging target between 30 and 60 percent. As of now, we have hedged about 49.3 percent, and the average hedge price is in the range of US\$117 to US\$121 per barrel.

Outlook: global financial markets and crisis, well, first of all, there is no need for us to describe in any more detail than the headline here; that the global financial markets are in crisis. I'm sure you know it as well as we do. What we'll talk about is, whether any of the fallout from the crisis has an impact on us.

Well, firstly, in the aftermath of the crisis, there has been very little lending activities in the financial markets. While globally governments have taken action but how long the markets will return to normalcy remains to be seen. Raising funds in the near term, if it is even possible, will be costly. In this respect, for Singapore Airlines, there's no direct impact on us because we do not have immediate need to borrow. The company's prudent approach to capital structure puts us in a position of strength. At the parent airline, we now have over \$4 billion in cash, and at the Group level, \$5 billion in cash. And this is notwithstanding we have recently returned \$2.2 billion to shareholders.

Secondly, one result of the turmoil was the recent volatility in currency markets. Because we pay for fuel and aircraft in US Dollars, the sharp appreciation in US Dollars is not in our favour. In addition the concurrent depreciation of other currencies such as the Euro, the Pound, and also the Aussie Dollar, which are major currencies in which we earn our revenues, will impact our earnings in Singapore Dollars. We do have a currency hedging programme in place which will help us to partially mitigate the effects of this volatility.

Worsening economic outlook: well, no business can be immune. In terms of demand for air transportation, although the advance bookings, at this point, for the immediate next quarter are holding up, there are signs of weakening beyond that. We are monitoring the trends closely, and for the current financial year, we have already made adjustments to capacity. For instance, the service to Osaka via Bangkok has been suspended since May, and our service to Los Angeles via Taipei has been suspended since October 2008.

For the Northern winter schedule, progressive changes to frequencies have been planned to destinations in Southeast Asia, North Asia and West Asia will be made to better match capacity to demand.

Last but not least, fuel prices: well, fuel prices have retreated from historical highs but even at this level, it remains our biggest single item of expenditure, and it will remain an important part of our cost structure. We'll continue to mitigate this risk through our hedging programme.

So indeed it will be a challenging time for airlines. Nobody will be immune to the environment in which we operate and Singapore Airlines is no exception, and neither can we predict the future. However, what we can do is to prepare ourselves, to brace ourselves for the challenges ahead of us. With the company's sound finances we are prepared and in a position of strength to weather the storm.

On that note I conclude my presentation. Thank you.

Mr Forshaw: Thank you, Mr Chan. I'll now invite Mr Chew, Mr Huang, and Mr Chan to the front to join the panel to take your questions.

Just a reminder once again if I may to await the microphone if you have a question and to identify yourself by name and organisation. Question here.

Question: Robert Kong from Citi. Three questions if I may, hopefully, straight forward ones. First of all, could you just give some idea as to the amount of revenues that you typically receive in Pounds Sterling, Euros and Aussie Dollars?

Mr Chew: I think in terms of share, I'll give it to you in terms of a contribution to our revenue pie. The Singapore Dollar makes up about 40 percent of our total, I'm talking about parent airline company but to the extent that the parent airline company makes up 80-over percent of the Group's turnover, that will give you a big flavour. The US Dollar accounts for another about 15 percent; the Euro and the Pound together, another 15, and the Australian and New Zealand Dollars together make up another 15. So that

currency mix, in total, accounts for 85 percent of our total revenue. The Yen is about 5 percent.

Question: When you say US Dollar, you're including the dollar-linked currency like Hong Kong dollar and that, or just the US dollar?

Mr Chew: That will be so, yes. No, US and US-linked, that means Renminbi and the HK Dollar. Those are the only two principal currencies.

Question: Second question is: You've said that perhaps beyond the next couple of months, it's not clear how demand and bookings will look. Could you give us some flavour as to what the differences are right now between premium class and the back of the plane?

Mr Huang: I think Hon Chew had earlier said that the next three months the booking looks... is holding up quite well. Of course we see a slight decline in the business class area. However, we also see, in a way, a strengthening of the economy class bookings, and as you can see a lot of companies, especially financial institutions within the region, are traveling still but they are traveling in economy class.

Mr Chew: I think it's route specific. So the answer to your question really also is that for the longer hauls, the premium demand is still holding firm, but for shorter haul, travel within the region, we are seeing trading down. From the sector you are in, you're not surprised, right? All your travel departments have been putting out instructions.

Question: *[Mr Kong continuing]* We'll be taking boats then. Final question from me, obviously, fuel prices have come down a long way. They're at much lower levels than even two months ago, fuel surcharges have only just started to come down. Is there, do you think, room for fuel surcharges to be cut further?

Mr Chew: It all depends on where oil prices move. We've always been quite transparent in that respect, in that if we had folded surcharges into the basic fare, as one or two carriers tried to do, then you know, when fuel prices corrected, the pressure to give back, to roll it back is less. But in our case we preferred and chose to be more transparent about it, so as to whether we would review, adjust fuel surcharges further depends really very much on where oil goes.

Mr Forshaw: Question here in front. ---

Question: Costas Paris from Dow Jones ---. Mr Chew, we're not used to asking these kind of questions in Singapore for quite sometime, but just a week ago Neptune Orient Lines announced lay offs, today DBS announced lay offs. You are facing substantial weakness, your net profit in the quarter was down more than 30 percent, are you going to lay off people?

Mr Chew: You never say never in any business, but we are still a long way off from having to even contemplate that issue to the extent that, as you can see, our top line revenue is still growing. In our case, as you've heard in the presentation, we've got some good news, some bad news. So the bad news of course is that the top line revenue is being challenged by the business environment. But on the other hand, fuel prices are correcting, and it's a question of managing the business, and as we tailor capacity to the traffic patterns, we should be able to manage the business to stay above water. So at this juncture, we have no intentions, no plans to start reducing head count, because as Hon Chew presented as well, we are continuing to stay the course, take delivery of new aircraft as they come on, we still need people to be trained to man those new planes. We may, as a result of scheduled adjustments, retire some of the older planes and that might moderate the increase in head count that would be required, but other than that we would be staying true to the fundamentals of our business model, which is predicated

not only on investment in new aircraft and equipment, but also in the training of our people to deliver the service.

Mr Forshaw: OK, question here in front.

Question: Hi, Robert Bruce from CLSA. Two questions that are sort of interlinked. Firstly, in the second quarter, the staff cost, I think, declined by about 11 percent. Is that a reduction and provision for full-year bonuses, discretionary pay?

Mr Chew: Yes, to that extent our compensation structure is designed intentionally, post-SARS, to be self-correcting, so that when our projection of the profits for the year are made, we automatically adjust the provision for the profit sharing bonus that we give to our staff. You may recall that we've adjusted it so that at least 30 percent of the annual compensation of our people is variable.

Question: *[Mr Bruce continuing]* So with that in mind, given that, you know, profits coming down, bonuses will be less, is it still feasible despite your strong balance sheet to continue to pay \$1 per share dividend, ie a final dividend of 80 cents per share.

Mr Chew: Well, you will have seen, we do not have an explicit dividend policy but we're on record as saying that we are confident about being able to maintain the rate of \$1 per share, but to the extent that at this half way point, despite the bottom line at the Group level, being down by about 27 percent, we are still maintaining the same rate of payment and therefore that reflects a higher payout ratio. So as to what the final dividend for the year will be, let's keep our fingers crossed and see at the end of the next six months what the numbers are like and I'm sure the Board will, so to speak, do the right thing.

Mr Forshaw: I think Corrine over here you had your hand up.

Question: Thank you, Corrine Png from JP Morgan. I've two questions. The first one is: I wasn't in the industry during the Asian crisis, so I just wanted to ask you to give us more colour on how you managed to stay profitable throughout the down cycles, how you managed your costs. And my second question is on your subsidiaries, SATS and SIA Engineering, I understand that your contract with them will be expiring in the next one to two years, how do you plan to structure this, going forward? Would you ever consider having a multiple of ground service players handling you, for example? Thank you.

Mr Chew: Well, the first part of your question, your first question really is quite simple. In any business if your revenue is more than your cost, you're profitable. So, we are coming off what has been the tail end of a very benign revenue environment because although the weaknesses in the market, there were signs already starting, it wasn't until quite late in the first half that the market started coming off a cliff. As you know the financial markets really took a bath after August and it wasn't until October that things started getting really ugly. But, of course, October is after the end of September, which is where this half year ended. But having said that, I'm aware that I have colleagues in the industry who, you know, fared worse than we did. I think it's a combination of everything. We were, you know, sort of, perhaps better positioned than they were in terms of the traffic environment because in the early stages of the financial meltdown, a lot of people who were looking for financing and so on were still coming out to Asia in big numbers. They were coming out to look for investors, including sovereign wealth funds. That generated sufficient traffic to help us to be in a better position revenue wise. I think discretionary spending was still holding up in the first half, and in terms of management of costs, you know, we have always paid attention to all those areas of cost that we can control, and as I've mentioned to Mr Bruce's question, we have quite a good bit of our costs that are correlated with our results. So that's the answer to your first question.

The second question: actually SATS and the Engineering Company being separately listed entities more appropriately should address the questions you

pose, but insofar as our contracts with them are concerned, the agreements will run out sometime in 3Q of '09, calendar 3Q '09. And the terms and conditions are being renegotiated at this very moment.

Question: Good evening. Damien Horth from UBS. Three quick questions. Can you give us sort of a feel of what your ASK growth will be this financial year, and if possible, next financial year as well? Hon Chew, second question, Hon Chew, you mentioned some foreign exchange hedging in your briefing, I'm wondering if you could give us some more details on that? And then lastly you spoke a bit about the financial services sector, and it's all very close to our hearts, so I'm just wondering what proportion of your revenue comes from financial services, and if you are able to give us a number, how you define financial services.

Mr Chew: I'll take the easy one and then difficult ones my colleagues can do it! But the first half, factually, our capacity production in terms of available seat kilometres [ASK] was up about 8.5 percent. Now you might wonder, that's foolhardy to grow that amount in that sort of market environment. The truth of the matter is that it was generated because we took delivery of the first, by that time, five units of our Airbus 380s, and plus additional units of the 777-300ERs, and it was versus a low based before, because it seems a long time ago but it wasn't until October 2007 that our very first unit of A380 joined us. So that's the reason for the 8.5 percent. But as we move into this second half, the year-on-year comparison becomes less dramatic, and with the adjustments that we've just made to the schedules, the second half year-on-year will see a capacity growth of less than one percent. So that, I calculate that, for the full year ending March 2009, for the full 12 months our capacity growth year-on-year would be less than 5 percent. And for the following year, starting April of 2009, at this juncture our crystal ball warns us to plan for not more than 1 percent. I suppose you will lead on to ask then: would that imply surplus aircraft? The answer to you is yes. And what we're going to do? Well, we have various options. We can sell them, lease them, convert them into freighters, or park them in a desert. Serious. Hon Chew.

Mr Chan: I'll take your second question on the foreign exchange. As Mr Chew mentioned earlier, our foreign exchange exposure on the revenue side, you can see a portion of our revenues, over 40 percent actually is in Singapore dollars. The rest we have various currencies. On the expenditure side, as you know, fuel is a big portion of our expenditure. So naturally, US Dollars is a big part of our expenditure. So it's about 50-60 percent of that. So if you look at the profile of our foreign exchange exposures, we are usually short US Dollars and long in the other currencies. In terms of how we hedge, we adopt the same principle as that adopted for fuel hedging. We don't take positions. It's really for the purpose of buying insurance to mitigate volatility in the market. So in terms of how much we hedge? I can give you a range; 30 to 60 percent for each of those respective currencies.

Question: *[Mr Horth continuing]* Again ... over an 18 month period, your hedge price is built up.

Mr Chan: Up to two years.

Mr Forshaw: Sorry, sorry, can I just ask that you wait for the microphone because we are transcribing this for the benefit of others who can't be here. So can I come back to you when we just deal with the third part of question.

Mr Huang: Your question about the travel by the financial institutions. Financial institutions for us is grouped under the banks, those companies that provide financial services. We have a wide spread of corporate accounts. So the financial institution part accounts for about 20-25 percent of our revenue. And because we are spread quite wide in other accounts like oil, natural resources, consumer goods, IT, we're still getting good support from corporate travel from the other areas. In terms of travel by corporate accounts, the big boys, those that you know are in trouble, of course, their travel has come down and is quite obvious. But we also find that there are a lot of other niche and smaller financial institutions. They're traveling quite a bit now because

they're going all over the world to get business from what the big boys have lost. So that also in a way help in terms of travel by the financial institutions. So overall the decline is not so bad.

Mr Forshaw: I think there's a question here to seek clarification on a comment made. Can you pass the microphone?

Question: *[Mr Robert Bruce, CLSA]* Yes, sorry, when you said you're expenses are 50 to 60 percent in US Dollars, is that total or is that just the fuel cost?

Mr Chan: Total.

Mr Forshaw: Thanks. Okay, question, here at the front, please.

Question: Hi, Hino Lam from Goldman Sachs. Quick question on the jet fuel and jet fuel hedging. Hon Chew's covered it, 50 percent hedge on 36 million barrels, so about 18 million barrels. How much of that is options, swaps, and so forth? And if I may, second question on, sort of, how far do you see WTI or jet fuel has to drop until you realise hedging losses? Thank you.

Mr Chan: Yes, we have used a number of different types of instruments to hedge. We have swaps, collars and options, and in terms of the proportion of the portfolio, we have the flexibility to vary. We have not given the actual numbers, in terms of the values of each of those types of contracts.

Mr Chew: I would say that the type of OTC instruments that we use are fairly plain vanilla, not for us, fancy double ups, double downs, and those sort of betting stuff. We are quite clear that we use this purely for risk management and to smooth out volatility. We're not aiming to make money.

So therefore your second question: at which point would we start realising hedging losses, I think that we can be quite transparent, because for the second half, we are hedged out averagely at about US\$115 or so per barrel for

jet fuel. I think quite a lot of news reporters as well as even analysts confuse the numbers that some of my colleagues throw out. They say they're hedged at \$80. That is because they are hedging in crude. We don't. We hedge in jet fuel. So the basis risk for us is hedged in. For them, it's a different basis risk. They're still exposed on the crack and what jet fuel does in terms of behaviour relative to crude. So when I say we're hedged out at about \$115 to \$120 for the portion that is hedged out, and if you look at what forward curve now is, the forward curve now is about US\$100, then we're sitting on some hedging losses as against hedging gains in the first half, when the average market price was about US\$155 per barrel, but net of our hedging we were gaining something like, maybe, \$18 to \$20 per barrel. So for this second half, but you have to remember all the time we hedge only half our volume requirements. The other half we ride with the market. So we'll benefit from the drop. So overall our fuel bill for the second half definitely would be lower than for the first half. We would lose the benefit of the weak US\$. How much that is we won't know until what the rates pan out to be, but overall we will get a relief on the input side in terms of fuel cost. That's a good news, as I said. The bad news, the top line, we don't know, anybody's guess. So you should travel more and help us!

Question: Hi, Karam from the Straits Times. Just with regards to the manpower issue, you're not planning any lay offs, but are you planning some other options like, you know, no-pay leave for staff, fewer flying hours for pilots and cabin crew, for example? Is it also an option to perhaps adjust your variable component, you know, part of staff salaries? Are these some of the options that you might be looking at to, you know, to mitigate the impact?

Mr Chew: Well, at this juncture, because our flying programme will still see some growth, I said less than one percent, but it's still growing, we're not cutting back in aggregate, we may be fine tuning frequencies and capacity on routes where the loads can be accommodated with less capacity, or improved economics. So we're not at that stage yet of, and even going forward as I've said for the next budget year, we're planning in terms of some marginal

growth. So, you know, we do not need to go into that area of asking people to go on furlough and so on, yet.

Then on your reference to the variable component that is built into our staff's pay, that too, there's a formulaic approach. That is only if our financial results, in the classic definition of recession for two quarters, go below by more than x percent, would we examine the possibility of suspending that monthly variable component, which is why we have built in quite a lot of flexibility now. I hope we will never need to go that area, but for now, definitely after sitting on \$682 million at a Group level for six months, I think we should end up the full year in an alright situation.

Question: *[Ms Kaur continuing]* Okay, just another question on demand, if I may. You mentioned earlier that the impact has been route specific. Can you give us some flavour on how some of the markets are doing; your all business class flights to the US for example, we hear that, you know, loads for Singapore-New York are not very good, and Singapore-LA is even worse, can you give us some colour on that?

Mr Chew: I will speak to your last point first. Anecdotally, it is true that on a few flights, you know, sometimes with just a hundred seats you see 40 seats occupied, or 30 something seats occupied, but that's in the nature of the business because these are new flights, and we had introduced them into rather soft environment. But it is also day-specific because definitely the flights to Newark have gained attraction. So now if you get on board the flight on a Thursday, Friday, or Saturday, you'll find that 80-over percent of the seats are taken, even in today's environment, because as Cheng Eng mentioned, apart from the financial institutions, we have among our top corporate accounts, people who are in the oil and gas sector, people who are in the IT sector, people who are consultants, and so on. So the demand pattern is there. To Los Angeles, we just completed the daily, cut over to a daily all business class service, just a few weeks ago. So that one also is skewed towards the weekends. The weekends, the flights are doing alright.

But what has been serendipitous for us is that aircraft with four engines and such a long haul was being burdened by high fuel prices. So now that fuel prices have corrected, our breakevens have come down. So I can say for sure to you that if I can fill up 80 percent of the seats, we make money.

Question: *[Ms Kaur continuing]* What are your average loads on that route, weekends about 80 something and then, but on average ...

Mr Chew: As I've said, it's still early days yet and we're tracking closely and so on, but we prefer, for competitive reasons, not to disclose, otherwise some of my competitors who have the same aircraft and who are scratching their heads what to do with it might borrow the template.

Mr Forshaw: Chin Lim.

Question: Chin Lim, Morgan Stanley. I have very short question. I was trying at Hon Chew, so I try him again. Back to the fuel hedging which you have cash flow hedges change in equity of about \$993 million, that's for the entire contract you have, so I think 20, 18-24 months, right. The question I have is: how many barrels is that you're talking about, and two, do you have to mark to market every quarter as you announce it?

Mr Chan: Yes, as we were talking halfway earlier, under the accounting standards we have to apply hedge accounting and we have to mark to market at every reporting date, meaning every quarter end, you have to determine what is the change in the valuation, and the movements in that change will have to be taken to the reserves. So basically the number you have quoted earlier, that is for the six months period, the movement in the market values. It's for the entire portfolio, meaning all the hedged contracts that we have in place today, we mark to market and the movements taken to the reserve. You have asked me about the number of barrels earlier. Well, you can have an estimate based on the percentage hedged at the moment. It's now about

half of our annual requirement. So for the group, our requirement is 36 million barrels.

Mr Chew: A year, that's annual, that's annual. So, say, for the second half, it will be only 18 million barrels, volume requirement, we hedge half of that, so that's nine.

Question: *[Mr Chin Lim continuing]* --- Over 18 months?

Mr Chan: Yes, yes.

Mr Chew: Then we roll it up. That's right.

Mr Forshaw: Okay, just a couple more questions. We've just a little time. Yes, front here.

Question: Hello, Mark Webb from HSBC. The passenger yields were up, about 8 percent in the second quarter, what percent of that was underlying ticket improvements and what percent of that was the fuel surcharges being higher year-on-year? And also just in connection that \$994 million loss going through reserves the mark to market, what is the figure for the fuel hedges as opposed to the other hedges?

Mr Huang: We have a mix of the yield increase. Some will be to surcharge, some will be due to local improvement in yield, and a bit of it caused by currency. I don't want to break down which is which, but overall I think it's helped by improvement in local yield and, to some extent, the fuel surcharge.

Mr Chan: Okay, I can give you a bit of flavour in terms of the breakdown of the yield increase. This is a question that most of you are interested in. In terms of the local currency yield, it contributes about 5 percentage points of the 7.7 percent. Fuel surcharge also adds about the same level, about 5 percentage points. We did benefit from some improvement in the passenger

mix, meaning more at the front end of the cabin, but that contributed very little, maybe only about 0.4 percentage points. However, the currency movements, were not in our favour, on the revenue side, so that took away about 3 points. So net net, that takes us to about 7.7 percentage. Your question on the movements in the reserves, that's largely from fuel. However, we do not actually disclose the breakdown but safe to say that is largely coming from fuel but we do have also movements in the reserves from currency hedges, but there are so many different currencies, so the directions are different for each currency. So it's a mixed, a blended number, including fuel and foreign currency.

Mr Forshaw: Thanks, we'll take two more questions. Daryl at the back.

Question: Thank you. Daryl from Reuters. Can I just clarify, why do you say that longer haul flights are holding up better than the short hauls? And second question is, given the current situation and what's happening with some of your competitors, is this a good time to start making acquisitions? Thank you.

Mr Chew: I think you've got it wrong. I didn't say long hauls are doing better than regional. I'm saying that the drop, or rather the down trading from business class to economy class was happening more on the regional flights than the ones on the long haul. So it's a different statement than what you ...

Question: *Inaudible*

Mr Chew: Yes, because corporates start reviewing their travel policies so that their executives are persuaded to travel coach when they fly on legs that are shorter than six hours, and but for longer than six hours, I think the better comfort of business class is justified.

Mr Forshaw: So second question there about acquisitions?

Mr Chew: Oh, you are new to this beat, is it? In international aviation, M&As are not allowed, you know. It's only M&As are, in the airline industry, is only allowed within economic borders, i.e. right now it's only existent in either the USA, or within the European Union. The rest of the world, not allowed!

Mr Forshaw: Also at the back.

Question: Vincent from Standard and Poors. The balance sheet shows the fare value reserve dropping by about \$900+ million, and you said that it's because of the, that obviously reflects the drop in fuel price during that quarter, but the month of October was particularly brutal and I'm just wondering whether you have an estimate for end October and what further decreases would that have shown?

Mr Chan: Again I think the movement in the reserve is really as a result of a requirement for us to apply hedge accounting. I don't think it's meaningful for us to even try to project at this point in time for the month of October because the markets are still volatile. Again the whole objective of hedging is to smooth out the volatility. So we cannot forget what is the primary objective for doing that. So I think it's not meaningful at this point to try and look at a projection.

Mr Forshaw: We will take one more question. Just here at the front.

Question: Yes, thank you. I'm Kelvin from Daiwa Institute of Research. Two questions, one is a follow-up question of corporate travel. I want to know the percentage of the total revenue contribution and also second question will be: What if, you said that next year you have ASK less than one percent. But you ...

Mr Chew: ASK growth.

Question: *[Mr Kelvin, continuing]* ASK growth, yeah, but you assume that you can manage to like selling off the aircraft, or getting rid of the excess capacity. What if you cannot sell the aircraft, what will be the ASK growth then? Do you have an estimation on that?

Mr Chew: I'll speak to your second part, your second question and my colleague here will address the first one, you know, about corporate travel. When I mentioned that we may end up with some surplus aircraft, aircraft surplus to our operations, that has to be seen in the context of our continuing to take delivery of aircraft that we had committed to. As Mr Chan pointed out, we're taking delivery of the first four of our 19 Airbus 330s, which would be joining the fleet from January for regional routes. We will continue to take progressive deliveries of more units of the Airbus 380s, and we still have one more 777-300ER that will be joining the fleet, and these new planes, as they come in, if we have capacity growth of just say one percent, then we will have older planes which we will then phase out. The options included all those things that I had said just now; we can try and sell them if there are buyers who are interested, because those are still relatively new planes in the sense that, for us they are old because they are, our average fleet age at this point in time is just six years two-and-a-half months. But those older planes that I'm talking about are 777-200s. The oldest ones which we will, it will be FIFO - first in first out - so the first ones out next year, and by that time maybe about 11 years old. So, but for some airlines 11 years old is still a very young aircraft. So they may be interested in buying, and they're still relatively fuel efficient. So we may be able to find buyers for them. Alternatively, we can lease them out. Alternatively, we can look at converting them for freighter work, although at this point in time air freight business is even in deeper straits than the passenger business, so, but there are various options. And then the ultimate of course is to park them in the desert as we did with a few of our aircrafts in the depths of SARS in 2003. These are standard sort of options available to all airlines who find that they have a few more aircraft than they need.

Question: Which desert do you park them in? ---
[Laughter.]

Mr Chew: There's Mojave, there's the Nevada, there's Gobi. (Laughter)

Mr Huang: Ask for quotation!

Mr Forshaw: We'll deal with the first question.

Mr Huang: We have a mixture of corporate accounts, direct and indirect. And a lot of competitors are dying to find out from us how much we have, and I'm not going to give them the pleasure of knowing what is our revenue in terms of corporate account because it is true, we work very hard and competitors know that we're very strong in that area. We intend to keep it that way.

Mr Forshaw: OK, thank you, ladies and gentlemen. With that we'll bring this afternoon's Q & A to a close. Thank you for your attendance and I wish you a very good evening and a pleasant weekend. Thank you.

(Ends)