

# TRANSCRIPT

## SINGAPORE AIRLINES FINANCIAL RESULTS

### BRIEFING

Half-Year Ended 30 September 2009

*(Read in conjunction with Powerpoint Presentation)*

SIA Training Centre

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E&OE – may be edited for grammar

**Mr. Nicholas Ionides:** Thank you for joining us here today at the media and analyst briefing for Singapore Airlines' second quarter and first half financial results. My name is Nicholas Ionides, and I'll be moderating today's session. The format will be as follows: we'll be starting with a presentation by Senior Vice President Finance, Mr. Chan Hon Chew. He'll be giving a presentation on the passenger airline results that were announced yesterday evening. Mr. Chan will then hand over to our Chief Executive Officer, Mr. Chew Choon Seng, who will be presenting the SIA Group results. We'll then move to the Q&A part of the afternoon, which will be led by Mr. Chew. He will be joined at the podium, or at the table, by Mr. Huang Cheng Eng, Executive Vice President for Marketing and the Regions, and Mr. Chan. Now, before we begin, just the usual reminders. If you're asking a question, we ask that you use one of the microphones presented there. Please give me a signal that you'd like to ask a question, and I'll give you the go-ahead. Also, we will be recording today's proceedings for the benefit of those who are not able to attend. So please also turn off your mobile phones. Alright, thank you very much and I now hand over to Mr. Chan Hon Chew.

**Mr. Chan Hon Chew:** Good afternoon, ladies and gentlemen. Welcome to the briefing on the results of the Singapore Airlines Group for the second quarter and the half-year of financial year 09-10. I'll kick off with the results of the parent airline, starting with the headline numbers. First, the top line. For the second quarter of financial year 09-10, the parent airline has earned total revenues of 2.45 billion dollars. That's 32% down compared to the same quarter last year. Although load factors have gone up, yield was still about 20% down. We'll show more details in the later slides. Total expenditure was also down, but at a slower pace of -22.7%. That's largely on account of lower fuel costs which were down 54.3% as fuel price corrected from the peak last year. Partially offsetting against that is fuel hedging loss of about 164 million dollars in contrast to the 148 million gain last year. We had some relief from lower ex-fuel costs by 133 million dollars, or 7.5%, reflecting the cost savings measures taken such as the wage cuts, the shorter work month measures, and voluntary no-pay leave. Other variable costs also went down, as action was taken to reduce capacity. As the total revenue couldn't cover total expenditure for the second quarter, the parent made an operating loss of 157.1 million dollars. But the good news is it has narrowed from the first quarter's loss of 271 million

dollars. So including the first quarter, the first-half's operating loss came to 428.5 million dollars.

We'll zoom in on the operating statistics. Here we look at the sequential quarters that make up the first half. First, capacity measured in available seat kilometres was just a shade higher than the first quarter, while passenger carriage measured in revenue passenger kilometres was 14% higher compared to the first quarter. As a result, passenger load factor was up eight points to 79.6%. And for the first half, the passenger load factor was 75.6%, 2.3 points lower than last year. As you can see, the capacity reduction of 13.1% still falls short of the drop in passenger carriage of 15.6%.

Moving on to yields, for the second quarter at 9.8 cents per PKM, was 4% lower than the first quarter. Unit cost too was higher largely because fuel prices have resumed their upward trend in the second quarter. In fact, fuel prices have risen by 50% since the beginning of the financial year. So the lower yields compounded by the higher unit costs has pushed our breakeven load factor to 88.8%. And for the first half, the breakeven load factor was 86%, that's 13.8 percentage points higher than the same half last year. And as you can see here, one of the main drivers is the 20.6% lower yields compared to the same period last year.

To better illustrate the spread as we saw in the earlier slide, the passenger load factor went up by eight points to 79.6% but still that was lower than our breakeven, and therefore we still made a loss at the operating level and a negative spread of 9.2 percentage points. However, because of the eight percentage point improvement in the load factor which more than compensated for the 4.5 points increase in our breakeven factor, the negative spread has narrowed. And for the first half, the passenger load factor was 10.4 points lower than breakeven.

In the next chart, we look at the trends, the quarterly trends. Here we compare the year-on-year percentage change in the passenger kilometres. And you can see in this slide, it has been quite a sharp decline for the last 12 months, and by the first quarter of the current financial year, it was almost a negative 20%. But with the promotional activities kicking in, that has helped to narrow that to 11.8% in the second quarter.

Here we look at the passenger load factor, similar observations in the first quarter - came in at 71.6% and second quarter went up to 79.6% which was 0.5 points higher than the same quarter last year. So the combined actions of capacity reduction and also in terms of the promotional fares to stimulate demand has helped to bring our load factor back to the same level as last year.

However yields are still in a down trend. If you look at the second quarter it was -23.4%. However, with our loads back at where we were last year, our actions now focus on improving our yields.

Moving on to costs, this pie chart shows the top five expenditure that makes up 80% of our total expenditure. No surprises, fuel still the largest share at 35.8%, followed by aircraft depreciation and rentals, which have now taken over staff as the second largest expenditure. The other two top expenditure is passenger cost and airport handling.

As fuel is the largest expenditure, here's a closer look at the year-on-year reduction in our fuel cost as a reference point. That's the fuel bill for the first half of the previous financial year. As fuel prices have corrected from the peak last year, from about 154 dollars per barrel to 73 dollars per barrel in the second quarter, that has contributed to a reduction in fuel cost by 1.5 billion. Because we have reduced capacity by 13%, fuel uplift was also lower by 13% and that contributed 413 million dollars in the reduction. However, the US Dollar was stronger compared to the same period last year, that added 76 million dollars, and also the hedging loss of 400 million dollars for the first half, compared to a gain of 428 last year, results in a reduction in our fuel costs by about one billion dollars.

Before we move on to the Group, here's a look at the passenger fleet. As of 30 September, we have 109 aircraft. We'll be taking delivery of one more A380 and three more A330s, while one 747-400 will be returned to the lessor, which gives us an operating fleet at the end of this financial year of 112. That was my last slide on the parent. I'll hand over to Mr. Chew who will review the Group results. Thank you.

**Mr. Chew Choon Seng:** Good afternoon. I will just walk quickly through the headline numbers, from the results that we announced overnight, and which you will have had a chance to look at and then go through to say a few words about the business outlook before we open up for questions and answers.

The Group revenue consolidates what Hon Chew has just presented, with the results of SIA Engineering, Singapore Airlines Cargo Company, and SilkAir, as well as associates. And not to forget SATS for the period up to end of August, subsequent to which we spun it off to shareholders. So the chart here is a histogram of results by quarters in terms of group revenue from which you will see that for the second quarter of the current financial year, revenue went up at a group level by 211 million dollars to just a shade over, a shade under, 3.1 billion. But it will not escape notice too that compared to the same quarters in the previous year, there has been a decline of no less than 2.6 billion, the 30% number which closely parallels what happened at the parent company.

On the expenditure side, the same pattern, albeit not by the same proportions as for the parent company. Group expenditure in Q2 was higher than in Q1 by 74 million dollars, mainly on account of higher jet fuel prices. For the half year, expenditure came in at 6.5 billion, which was down on the previous year by 18 or 19% on a rounded basis.

So, in a nutshell, expenditure came down less than revenue did. Consequently we had losses in the second quarter as well, but the loss is less than in the first quarter of the current year by 137 million. But I suppose in this day and age, or especially for the airline industry, certainly not for banks, but for airlines, smaller losses are positive. Half-year loss at the operating level, 501 million dollars, and compared to the first half of the previous financial year, this was a turnaround of over one billion.

In terms of makeup of the results by the various major companies in the Group, the parent company with the numbers that have just been presented, we recorded an operating loss of 429 million. Engineering Company was still in positive territory, albeit down by nine million dollars from the previous year. Cargo continued to deteriorate, and more than doubled the losses from the year before. SilkAir had practically the same number, five million, except from a plus, the sign was negative this time. And the last line there is a contribution from SATS for the period up to August of 70 million.

This is a parallel chart showing Group net profit. Net here means after tax, after minority interests, and it's the same pattern that in Q2 of the current financial year, the loss has narrowed from the 307 of the first quarter. Together, we account for half-year net loss of 466 million. Year-on-year, this is a turnaround from the profit of 600 over, nearly 700 million of the year before. You'll notice that I move very quickly through all the loss figures.

And here we are showing you the per share number. Cash flow has been positive even in this situation, so we generated 70 cents per share cash flow, but this is down by a dollar from the 1.70 from the previous year. The loss per share came out to 39.4 cents. And because all the good people in the company had taken the sacrifice of having salary cuts, shorter work periods, gone on no-pay leave, and, in short, tightened their belts, we have also, or when I say 'we' I mean the Board of Directors, have decided not to declare any dividends for the half-year, with the hope that shareholders will agree to share the pain. Net asset value at the end of September stood at \$10.51 per share, but this partly reflects the result of distribution in specie of the shareholding in SATS. Now, let me talk a bit about the business outlook for the second half year.

As we stated in the announcement, advance bookings that we have show a clear year-on-year narrowing, but that's partly because of the fact that the downturn in the airline industry started after the fall of Lehman Brothers last October. So through the winter months of 08-09, the numbers had already started coming

down. So on the year-upon-year basis going forward for the next half-year, even if it's running below year-on-year, the percentages would be off a lower base and therefore we would be seeing smaller minuses. But there are clear signs from the pattern of forward bookings that have been coming in that there is not just a narrowing of the drop, but some real growth starting to come in. And more noteworthy is the fact that we're seeing a definite pick-up in bookings in business class. Anecdotally, I'm sure many of you will have heard, many of the large banks have started relaxing the rules on travel for their executives, so we're starting to see bankers in suits back in first class and business class. So that's the encouraging part. Given the fact that we had on a plan basis trimmed back our capacity this winter by about 10% from the year before, and given the recovery that we are seeing as reflected in our advance bookings, the chances are that our load factors will hold near the 80% that we recorded in Q2. Hence, our statement that the capacity that we programmed for the next six months, well one month is gone, October, next five months, is a good match for the demand. And this represents an opportunity for us to recover some of the yield erosions that had been experienced. There are some boosters that will help us in this second half, and I will just name three of them.

The first is the APEC Summit, which is being held right now here. This has given us a boost in ridership coming into and out of Singapore, and filling up the front cabins. Another event that is serendipitous for us is the fact that the bi-annual, the once every two year air show here in Singapore, will be held in the coming February. Traditionally, the air show always gives us a boost in ridership, in the front end as well. And not to forget, we hope that the integrated resorts will have their soft openings as scheduled, in the first quarter of 2010. And this will give a fillip to travel into and out of Singapore in general, because my marketing colleagues have been in discussions with the managements of both IRs on promotional activities. The other factor that will be significant in the second half will be our lessened exposure to fuel hedging losses.

As Hon Chew mentioned, at the parent airline company level, our hedging loss amounted to 400 million Singapore dollars in the first half. At the Group level, the number added up to 486 million dollars comprising the 400 at the parent airline company level, 70 million by the cargo company, and 16 million by SilkAir. But for the second half of the financial year, we have kept the hedges down to about 22% of the projected uplift volume of 16 million barrels. If you do your mental arithmetic, that means the hedge position is about 3.5 million barrels, 3.52 to be exact. And the average price at which that is hedged out at is US 100 dollars per barrel, and this is jet fuel. I must emphasise again, some airlines, when they say they are hedged out at X dollars, they mean they are hedged on crude, or gas oil, as the case may be. In our case, all our hedging has been on jet fuel, which means there is no basis risk, basis risk in the sense that there is a crack spread between crude and jet fuel. So, if jet fuel prices for the second half average out at let's say 90 dollars US per barrel, then our hedging

loss for the second half will amount to 35 million dollars US, or let's say about 50-something million Sing, a far cry from the 486 that we saw in the first half. So that's something to factor in. Of course, if jet fuel prices go above \$100 or go near \$100, then hedging losses will be less. But conversely, our fuel expenditure will go up, and we certainly hope that will not be the case, because being hedged only 22%, it leaves 78% naked. But, our own assessment is that oil will hang about these levels, so we shall see. When I say these levels, it means current levels.

A snapshot of projection on group capex over the next five years, the outlays projected are principally for aircraft acquisition and they range from 1.6 billion dollars in the coming financial year starting April 2010 through to March 2015. They range from 1.6 billion to a high of three billion in 2013, 2014, and this reflects the shift in deliveries of the 787s from Boeing. According to their latest indication to us, we can only expect the first of our 787s to be delivered in Q3 of 2014. The 2013 number that you see here reflects the delivery positions that we hold on the A350 XWB, plus progress payments that we have to make to Boeing ahead of the 2014 deliveries. So that ends my segment, and I'll invite my colleagues to come up here and join me on the podium. Thank you.

**Mr. Nicholas Ionides:** We'll now switch to the Q&A session of today. A reminder, please give me a sign that you'd like to ask a question. And when you do, please make your way to one of the microphones. Please also identify yourself and state the name of your organisation. The gentleman over there, please.

Mark Webb from HSBC. Just sort of starting off with what you finished on your fuel hedging strategy. You used to say that you used to like to hedge 30-60% of your fuel lift, about 18 months out on a declining wedge basis, and your fuel hedging now looks very light indeed compared to that previous strategy. Now I appreciate that you do believe that fuel prices will stay at the current levels, but obviously a hedging strategy is to hedge against the risk that we're wrong, so why have you taken a slightly different approach than you've taken previously?

**Mr. Chew Choon Seng:** I don't like to sound like a teacher, Mark, but good question. We - when I say we I mean not just the management but the board committee that oversees our hedging activities - had to review the policy in the light of the substantial losses that were incurred when oil and fuel took a precipitous drop, as of the turn of 2008 into 09.

The volatility that has happened has been quite unprecedented because if we recall, last July crude went up to 147 per barrel, and jet was about 174. I remember the numbers because it's 1-4-7, 1-7-4. And then by March of 09, it went down to as low as 30-something dollars per barrel for crude, and jet fuel was around 40-something, 50 dollars. And then by August, crude is way back

up to 80-something dollars. So the magnitude of the volatility forced us to re-examine the wisdom of adhering to the previously laid-down policy.

And I suppose our counter-parties in hedging did the same too, because their pricing on hedging instruments corrected very sharply. I suppose it reflects the underlying volatility. And as a result of which the prices that we were getting on the market were not worth the risks that were being covered, and hence we decided to trim the level of our exposure.

One result of the review is that instead of holding the bottom end of the range at 30%, we have now dropped it to 20. So the intention is still to hedge on the basis risk, but the instruments that we will use will be more finely tuned to give us protection on the upside, but not to lock us in on the downside, ie call options rather than collars or swaps.

Also, you might say it's somewhat of a view of what the position is looking forward, taking into account the macro picture. The fact of the matter is that the fundamentals of the global economy are not that rosy, but markets seem to be riding ahead on high liquidity. Whether that's sustainable remains to be seen. But I think there have been some reports out just overnight that King Abdullah thinks that the right price for oil is around 70 to 75 bucks. Right now, the spot rate is about 80, so he's about right.

I just saw some headline in one of the articles that said that \$100 crude projections don't gel with reality, and I fully agree with that view. But at the end of the day markets have minds of their own, and so, Mark, there you go. You place your money and you take your pick.

**Mr. Nicholas Ionides:** Alright, the lady there please.

**Ms. Corrine Png, JP Morgan:** Good evening everyone, Mr. Chew, and everyone. I'm Corrine from JP Morgan. Just one question from me. What is your outlook on the air cargo market? I was looking at your monthly numbers, and the recovery seems to be lagging the other North Asian carriers. Is it because some of the cargo is just not worth carrying at the low yields? I just wanted your thoughts on that, and perhaps the follow up question would be, what is your plan on the passenger-to-freighter conversion programme, or is there no hurry right now? Thank you.

**Mr. Chew Choon Seng:** Well, Corrine, my colleague here is the President of SIA Cargo, so I will have to ask one of my colleagues, give the man a mic. It's too early for a tiger yet, but—

**Mr. Goh Choon Phong, President SIA Cargo:** Just a response to that question. I think if you look at the cargo market, and if you look at the second quarter of this year, the quarter just passed, compared to first quarter, we find

that the second quarter, the market in terms of demands might have actually improved. What happened is that if you also look at our second quarter results compared to first quarter, you'll find that the second quarter yield, as well as load factor, has actually improved from the first quarter.

The total carriage has improved as well because the capacity has actually increased, but you're correct to say that we have been fairly disciplined, we've been very disciplined, in terms of putting back the capacity. We only put back capacity if we think that we can carry cargo at a fairly reasonable yield. If you look at it carefully, there is still a lot of capacity available in the market out there. There are aircraft that have been parked, there are aircraft that have been put aside because they cannot generate the revenue that is enough to carry the cost, and those led to lower utilisation.

So what we did, as you correctly observed, was to actually be very disciplined about matching the capacity input with the demand in the market of a reasonable quality. Thank you.

Your second question was on PTF. Are you asking whether we are continuing with the PTF programme from the owner of the aircraft's perspective, or from the buyer of the PTF?

**Ms. Corrine Png, JP Morgan:** (Off microphone, inaudible).

**Mr. Goh Choon Phong:** So from the perspective of the owner of the aircraft.

**Mr. Chew Choon Seng:** Well, the planes that will be phased out which we still own are available for sale, so if you are interested in having one to park in your backyard let me know, we can cut you a good deal. But we are keeping our options open... We had earmarked three for conversion to be deployed in the cargo company, but that was in a time and a place when the airfreight business was much stronger than what it is at the current moment.

If I may just add to Choon Phong's response to your query about why we lag behind, I wouldn't say exactly lag, it's just that we've been as he said more disciplined. We've not been chasing volumes. What we have experienced in common with the other major freight players especially based in Asia, as you know the bulk of the demand is from Asia to Europe and to America, or to be very blunt, coming out of China, is that there is some evidence of restocking, rebuilding of inventory in these two major market areas of America and Europe. The big question for all of us is, is this just a cyclical thing meaning that once the restocking for Thanksgiving and Christmas is over, will things resume? It remains to be seen. We hope it is not, that this recovery will be sustained. But you have seen what happened in the States and in Europe with Cash for Clunkers, where the government gives money to people to buy new cars. After they bought the new cars they stopped buying. So all they did was

put demand forward in time. So it is as with the global economy at large. Will the governments be able to withdraw all the stimulus packages, or will we be seeing package two, package three? We shall see.

**Mr. Nicholas Ionides:** Asha.

**Asha Popatlal, Channel NewsAsia:** Hi, Asha Popatlal from Channel NewsAsia. I just have a couple of questions, Mr. Chew, if I may. First question is, you warned last quarter that if business conditions don't improve, that you could register your first full-year loss. Now you've already said that we haven't really seen a fully sustained recovery, especially in some of your key markets like Europe and the US. Do you foresee a first full-year loss? Do you think you can turn things around in Q3, Q4? Another question is, obviously, you spoke about yields, how you really do have to improve yields. What are your plans to improve yields? And one final question, I know you've put in quite a lot of capacity cuts, and you've had a couple of plane deliveries, are there plans for any more cuts?

**Mr. Chew Choon Seng:** Well Asha, I'll take the first and the last, and then Cheng Eng will have the pleasure of addressing your question on yields, because that's his KPI (laughter). And then I'll take the last question first. I'll be very biblical, the last shall be first.

So capacity cuts, further capacity cuts or parking of planes, the answer is quite clearly no. As I had mentioned in my remarks, the capacity that we have programmed in for the coming period ending March is quite well matched to the demand that we're seeing, and we have achieved in the quarter that is under report, load factor averaging close to 80%. At that level there is no cause to cut capacity. As I said, it's the opportunity for us to improve yields, so the answer to you is a categorical no. In fact, we may be putting back some capacity on routes where demand greatly is outstripping the capacity that we have at the moment. I won't be more specific than that, because those decisions are not yet made.

Then as to your question on the prospects of the losses being carried forward to the full-year stage, well Asha, those of you who have been following us, and covering SIA, will know that we don't give specific guidance. All I can say is that certainly, internally our goal is to keep our record of annual profits unbroken. What are the chances? Well the chances are we'll give it our very best shot, and the only other comment I'll make in that regard is to give a bit of historical perspective. I think as Karamjit observed in her article and Ven too, this was the first time since the year of SARS in 2003 where we recorded a loss for half a year. But if you harp back to what happened in 2003 or 2004, by the end of the 12 months ending by March 2004, we not only clawed back all the losses, we came in with an annual profit of 600-over million dollars. So that's the type of benchmark we've set for ourselves. Which is not to say how

confident are we and so on, but certainly the entire organisation and the management team as well as the Board of Directors, we are all going to do our very best to bring things around. Cheng Eng, about yields. Whatever he says will be held against him (laughter).

**Mr. Huang Cheng Eng:** I think you have heard in various quarters that business travel has come back in a way. A lot of companies have relaxed travel. So in a way, I think there's business to be made out in the world and businesses can start to travel again. So in a way that is useful for us and is good for us.

Secondly, as Mr. Chew said earlier, there's certain events that come up that will help us in terms of having quality traffic. The air show is one, in February. I think there are a number of other events, like regional conferences, and they can help here and there. So that will help us also to give us back some quality traffic or high yield traffic.

On top of that, we see a slight return to leisure travelling. People are wanting to travel again in terms of year-end holidays, advance loads are holding up quite well. So that is also in a way good. And last, but not least, I think if the IR has a soft opening in the first quarter of next year, that will bring in quite a lot of leisure travel, especially with the Resort World, we are going to see a lot of families travelling, coming into Singapore to visit the Universal Studios. Marina Sands will bring in a lot of exhibitions, conferences and things like that.

So overall, we think there are opportunities to improve our traffic mix and bring in a quality traffic mix. And that in return will give us a better yield.

**Mr. Chew Choon Seng:** Cheng Eng, if I may just clarify your use of the term quality, higher quality, because we might get misinterpretation here. Actually, we regard all the passengers, whether they are visiting friends, relatives, holidaymakers, whoever flies on SIA is quality traffic. What he means is the front end, the premium, the business class/first class traffic, you know. So all our customers, even on SilkAir, Yau Seng (referring to Mr. Chin Yau Seng, Chief Executive SilkAir) I assure you, they are quality people (laughter). In fact, in the depths of the recession, when we went in fairly aggressively on promotional pricing, part of the intention also was to expose the SIA experience to customers who otherwise would not have flown SIA, with the intention that when good times return, we will pull these customers up market with us.

**Mr. Nicholas Ionides:** Right, yes the gentleman in the fourth row please.

**Mr. Raymond Yap, CIMB:** Good evening, this is Raymond from CIMB. I'd just like to get a bit of colour about where economy class and business class now stand relative to each other. For instance, in the second quarter we had RPK falling 12% year-on-year. What does that mean for economy class versus

business class if you had to segregate that? And also, for yield, we had yield about 23% lower year-on-year just on the second quarter. If you look at it on the business class versus economy class perspective, where does that stand? Also, the load factor now is about close to 80%, what is the business load factor and the economy load factor and the increase in RPK of about 14% quarter-on-quarter. Where are we seeing the growth from? Is it mainly from economy class or business class? Thank you.

**Mr. Chan Hon Chew:** In terms of yields and load factors, I think you are quite familiar with us, we don't segregate between the different classes.

**Mr. Chew Choon Seng:** We don't disclose for competitive reasons. We elect not to disclose the breakdown. So we like other people to think that, you know, the premium classes have died. That's great, then they vacate the market space and we dominate.

**Mr. Nicholas Ionides:** Alright, sticking to the fourth row please.

Chin Lim, Morgan Stanley. I'll ask a much easier question, so you have to answer this -

**Mr. Chew Choon Seng:** No, those questions were easy, just (laughter) we elect not to disclose -

**Mr. Chin Lim:** I guess you're running very high load today. I remember early this year when you took 17 aircraft out and you reduced capacity by 11%, two aircraft—

**Mr. Chew Choon Seng:** Chin, if I may just correct you - 17, not all came, because not all came out of the fleet without replacement, because while we took out 17, we added...

**Mr. Chin Lim:** Yes. I thought the original plan was to ground the 17 aircraft, park in the desert. But it seems so far there's only two that have been parked. If I look at your load factors going so strong at 80%, and the last time you did the cut was in March, where you go for the summer schedule, when can we earliest see, the earliest time you can announce, if you want to put back capacity into the market? When will be the time that you need to announce, so that, you know, the summer schedule will be updated as well?

**Mr. Chew Choon Seng:** You are right that we have parked two planes in the Nevada/California desert. One is a freighter 747, the other is a passenger. The rest of the fleet have been used to backstop planes that were brought in for heavy maintenance, and cabin interior works and so on to upgrade the product. As I said, on a net basis we did not pull out 17 because whilst we took out a

number of the older planes from commission, we were adding A380s as well as A330-300s.

As to when we would reactivate those planes, no doubt we are running about 80% passenger load factor at the moment. But this is where the opportunity to improve the yields lies. We will reactivate flights where we can generate positive cash flow. We don't believe in getting market share just for the sake of carrying loads, and then not recovering full costs. It is a balancing game, but our priority right now is to get the bottom line into the black.

**Mr. Chin Lim:** So just to follow up, that means the focus is on yield, rather than on market shares for you today?

**Mr. Chew Choon Seng:** Yes, right, right. Well Chin, it's just as we never aim to be the biggest airline in the world, we just want to be the most profitable and the best.

**Mr. Nicholas Ionides:** Right. In the centre there.

Wei Sim from Macquarie Securities. I've just got a few questions here. Firstly, how much would we need to see yields to recover before we actually consider adding capacity back on? And if we did, how quickly would we be able to add capacity back on? Secondly, it's more of a long-term question, but what kind of threat I guess do you see from the low-cost carriers and the Middle Eastern airlines?

**Mr. Chew Choon Seng:** Well, I think those are the type of questions that for obvious reasons we would only answer in the vein of we will add capacity when we've got yields up to the right level, what we consider to be right and appropriate and what would turn in a profit for the company on an overall basis, what will return us the profits. And I think your other questions I, yeah, maybe you want to try it?

**Mr. Huang Cheng Eng:** I think the Middle Eastern airlines you can see, they operate quite a bit in Singapore, South Asia, and to Australia. In a way, we are also very strong in these routes. We have a very good network to Australia, to Europe, and we have a good network to North Asia as well.

So I'm saying that if you look at the Middle Eastern carriers, all over the places, basically they are more on the kangaroo route of Australia to Europe. But Australia, for SIA we also have a good network, as strong as them, if not even stronger. We have a good spread of network to Australia, to Europe as well as the Southern Indian continent and North Asia. So in terms of the traffic feed and the way we can generate market from one region to the other, and that we have a good spread of capacity among the regions, I think we are quite up there to compete with them and we will get our rightful share of the market.

**Mr. Nicholas Ionides:** We've got time for a couple more. The gentleman there in the third row please.

Hi, Robert Bruce from CLSA. Just a couple of questions, the first one on finance. I saw in the numbers that the handling charges actually went up year-on-year despite the falling capacity. So maybe if you could just clarify why that happened? Secondly, in terms of the proposed IPO of Tiger Air, will you be holding your stake or looking to sell down into that? And more of a strategic question, is there any scope to merge in SilkAir into Tiger to create a greater low-cost carrier, or do you think SilkAir still has a purpose in being on its own? And final question, if you are loss-making for the year, will there still be a final dividend payable? (Laughter).

**Mr. Chew Choon Seng:** I think I will first of all, those are four very - Chin those are difficult questions (laughter) - but being difficult, I will hand the first one to my colleague, EVP Mr. Mak Swee Wah in charge of operations and services. The question being, why did handling costs go up despite the reduction in operations?

**Mr. Chan Hon Chew:** If I may take that question...

**Mr. Chew Choon Seng:** He's a good delegator, he passed it back - (laughter).

**Mr. Chan Hon Chew:** Well I saw him looking at me (laughter). If you look at the parent airline company level, handling charges actually come down consistent with the reduction in capacity. But at a group level, as you know, we have divested our stake in SATS. So in other words, when you compare it year-on-year, it's not like-for-like, because for the month of September there is no elimination of intra group profits. So that's the reason why, if you compare year-on-year it's not like-for-like.

**Mr. Chew Choon Seng:** Well Robert, on the question regarding the prospective IPO of Tiger Airways, I should clarify that that is very much a project in progress, in study at the moment there's been no definitive schedule set as yet for the exercise. So when you ask the question of whether it will be a vendor sale or whether it will be additional capital being tapped, I cannot preempt the decision, because it is not a wholly owned company or even a subsidiary of Singapore Airlines. We have other shareholders whose interests must be respected, and I can't speak for them.

Your other question was the possibility of folding Tiger into SilkAir or vice versa. Well, I think the business models are quite distinct. One definitely has been long established as our regional wing. It has carved out its own marketplace despite some, should I say, lack of clarity in the marketplace. There was never lack of clarity on the part of the company, but some people

out there thought that it wasn't clear what SilkAir's role was despite our repeatedly enunciating the fact that SilkAir is meant to serve emerging destinations around here, with a lower cost structure, lesser frills, and with aircraft of types that are more suited to flights with no more than two and a half, three hours away from base, which do not need the same level of accoutrements as the SIA product.

Tiger on the other hand, was deliberately meant to be a real LCC kind of product, you know, in your face, very low-cost, and you want water, you pay two bucks. If you want something, you pay five bucks, you know. So I think the cultures and so on are quite separate. And on the evidence thus far, Tiger has been flying since November of 2004, five years now, and SilkAir has gone from strength to strength in that period as well. So the posit that we have that the LCCs create a market niche of their own has been borne out in practice. It has created its own market. No doubt in its absence, maybe the growth for SilkAir might have been more, but SilkAir has nonetheless continued to grow. Plus SilkAir is also a very apt alternative model for us on short-haul routes which have been opened up to the low-cost model like Singapore-Kuala Lumpur, Singapore-Penang, where once the route was opened up, it did not make economic sense for us to be operating big 777s on the route, seven or eight times a day. So we have been more selective, and that's where SilkAir was very handy. So the strategy of having a portfolio whereby we have different horses for different courses is playing out.

Final dividend. Well I think the board will determine that when the numbers finally come in. So if we do arrive at that position where we can declare a dividend, then that's great. If not, my colleague here is also reminding me to make the point, which we have obviously been using in response to some discussion internally, the fact that in our last year's dividend, when because of the second half's poorer results we declared a dividend of 40 cents, we also concurrently announced the intention to recommend to shareholders the distribution in specie of the shareholding in SATS. And then for every one share in SIA, the shareholder got 0.73 share of SATS, which at the traded price at a time of about 2.50, you end up with roughly, you'd say that's about \$1.60? So 0.40 plus 1.60 is \$2.00. So that was meant to last for two years (laughter).

**Mr. Nicholas Ionides:** Alright, we'll take one final one. The gentleman at the back please.

Rohan Suppiah Kim Eng. I know you said previously that SIA Engineering is integral towards your operations, but has there been any change in that thinking given the fact that SATS has already been divested and the relationship continues quite well, and so you might even consider divesting SIA Engineering and still be able to continue that kind of relationship?

**Mr. Chew Choon Seng:** Well the answer for you is a very quick, categorical no. No intention whatsoever. We have stated before that we regard Engineering Company as synergistic, and more importantly mission critical to the parent airline company's operations. So, and it is a performing company, very relevant to our core competences, and therefore the logic that applied in the case of SATS where more than half their turnover, or nearly 2/3 of their turnover is now from food and food-related industries, and more than half their profit comes from the food side, which we don't claim any expertise in. But in Engineering, certainly we have the relevant skills, we form a substantial base workload for the subsidiary, so there's no intention at all to spin off Engineering Company.

**Mr. Nicholas Ionides:** And with that, we will bring today's session to a close. Thank you very much to the panel and thank you all for attending.

ENDS