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**Nicholas Ionides:** Good morning ladies and gentlemen, and welcome to the media and analysts' briefing for Singapore Airlines' fourth quarter and full-year financial results. My name is Nicholas Ionides and I will be moderating today's session. Many of you are regulars here but for the benefit of the newcomers allow me to explain what the format will be this morning. We will be starting with Mr Chan Hon Chew, Senior Vice President Finance for Singapore Airlines, who will be giving a presentation on the results and on last night's announcement of the proposed distribution of shares in SATS to SIA shareholders. We will then move to the Q&A session, which will be led by Chief Executive Officer Mr Chew Choon Seng. Mr Chew will be joined on the panel by Executive Vice President, Marketing and the Regions, Mr Huang Cheng Eng, as well as Mr Chan. Before we begin, the usual reminders. First, please turn your mobile phones off or switch them to silent mode. Second, we will be recording today's proceedings for transcription purposes so when you are asking questions please wait for a microphone. Please also identify yourself and your organisation. With that said, we will begin with Mr Chan Hon Chew.

**Mr Chan:** Thank you Nick. Good morning ladies and gentlemen. Once again welcome to the briefing on the results of Singapore Airlines for the

financial year 08/09. The results had been announced yesterday, excuse me, and they are available on the SGX website and also SIA's website. I'm sure by now, excuse me, something stuck in my throat, I'm sure by now you have seen the results and for this presentation I will do a quick recap of the numbers and provide you with additional analysis to add some colour through the numbers. So, first up, the group results and the headline numbers for the group. For the financial year 08/09, the group has earned total revenues of \$15.9 billion, almost flat compared to last year against a CAGR of about 7.4 percent, and CAGR, we mean the compounded average growth rate. However, on the expenditure side, it continued to climb higher by over \$1.2 billion or 9 percent. This is mainly due to higher fuel prices, especially so in the first half of the financial year when jet fuel prices actually peaked at US\$170 per barrel, this is jet fuel price, in the month of July. So for the full year the average fuel price that we paid was actually 20 percent higher than the same period last year. So as a result of the higher fuel prices the total fuel bill was up by \$1 billion, just on account of higher fuel prices. So because expenditure went up on a very flat revenue base operating profit was down \$1.2 billion, or over 57 percent and the resulting operating margin, 5.6 percent, was 7.7 points lower. And you can see here, this is the lowest operating profit margin in the last five years. Let's take a closer look at the contribution to the Group's operating profit and you can see on the chart the parent airline continues to be the biggest contributor, followed by SATS and SIA Engineering Company. However, for the parent airline the operating profit has come down by about \$821 million, halved from last year, and a lot of that decline actually took place in Q4, to be exact \$337 million took place in the last quarter of the financial year. SATS also saw a decline in its operating profit. Though it seems marginal at just 2 percent this is largely because SATS had the benefit of the acquisition of Singapore Food Industries or SFI in short and that has added about \$12 million to its operating profit. So if you exclude that SATS' operating profit would have been about \$15 million lower or about 8.8 percent lower year-on-year. SIA Engineering bucked the trend. They managed to improve operating profit by over 9 percent and this is largely from growth in revenues in line maintenance and also fleet

management, and this was achieved through increasing its revenue coming from third party business by over 20 percent. Finally, Cargo had a tough year. It incurred an operating loss of \$245 million and half of that loss was recorded in the fourth quarter.

Let's take a look at the quarterly numbers. As we mentioned earlier, a large part of the decline in the operating profit was actually in the last quarter. Here we are looking at the Group revenues for the four quarters of the financial year compared to the same period last year. And you can see here it's really a tale of two halves; the first half we had strong revenue growth. For the first half revenue grew by 12 percent in contrast to the contraction we see here in the second half and in fact the fourth quarter revenue declined by \$786 million, or about 19 percent. On the expenditure side also the story is split to two halves. The first half we had very high fuel prices. That resulted in expenditure to increase by over 20 percent in the first half. Although we had revenue growth in the first half that was not enough to offset the increase in costs. In the second half although fuel prices have come down, however due to the higher fuel prices locked in, in the hedges that we have taken, that has offset some of the savings from the lower fuel prices. For instance, in the last quarter, although fuel prices have come down to about US\$61 per barrel, the total fuel bill was actually higher than the same period last year. Despite that, you can see in the chart, in the fourth quarter we did have some decline in Group expenditure by \$290 million, largely on account of lower staff costs. As a result for the last quarter the Group made an operating loss of \$28 million and you can see that is \$496 million lower than the same period last year. Moving on to the Group's net profit after tax and MI, the bottom line, despite the \$28 million operating [loss] we saw in the earlier chart in the last quarter the Group actually made a profit after tax and MI of \$42 million at the Group level. This is largely because of a tax writeback of \$138 million of prior years deferred tax liabilities arising from the reduction in corporate tax rate by 1 percentage point. And for the full year the Group profit attributable to shareholders for 08/09 was 1.1, \$1.06 billion, and you can see in the last quarter the decline was \$486 million, and for the full year 988 or

about 48 percent. Moving on to the comparison between this year and last year, the bottom line, just to recap the key reasons for the decline; as we saw earlier operating profit was down \$1.2 billion. There was some reduction in non-operating items and the benefit of the tax writeback to give us the final figure of \$1.06 billion, which was \$988 million lower than last year.

Moving on to the parent airline, first we look at the total revenues. For the whole year we still had some revenue growth of about 2.3 percent. However expenditure increased even more, by 10 percent, and as you can see from the chart, largely because of higher fuel costs and as a result of the hedging loss of \$306 million, compared to a gain of \$185 million last year. We had some benefit of reduction in ex-fuel costs by about 2.6 percent. However as the expenditure increase was higher than revenue growth, operating profit was down almost 50 percent to \$822 million.

Let's zoom in on the operating statistics. First of all, yields. For the full year we still had yield growth of about 3.3 percent. However unit cost was up even more, by 9.5 percent, as we explained earlier, largely because of higher fuel price for the full year, and as a result the passenger load factor was higher by 4.2 points to 73.6 percent.

Moving on to capacity for the full year, small growth of 3.4 percent. The weakness in the demand for air travel resulted in a decline in passenger carriage by 1.5 percent and therefore 3.8 points reduction in our passenger load factor, albeit off a very high base last year of 80.3 percent. As a recap, the passenger load factor was down 3.8 points and coupled with the increase in our breakeven load factor by 4.2 points the spread between the load factor and the breakeven has narrowed by about 8 points to 2.9 points.

The next slide is a depiction of the five-year passenger load factor trend. You can see here the 09 load factor of 76.5 percent. It's back to the levels we last saw in 2006. And the breakeven, the highest in the last

five years, and resulting in a spread of 2.9 points, which is the lowest in the last five years. So having seen the operating statistics you can see the operating environment has deteriorated and since the start of 2009 the decline was sharp and swift.

And the next chart you can see here, this is a year-on-year comparison of the percentage change in the passenger kilometres. You can clearly see since December the decline has been very steep, although perhaps in the months between Feb and March is less steep, but by March the decline has reached 21.8 percent.

The next chart shows the monthly passenger load factor. The red line shows the 08/09 passenger load factor compared against the green line, the same period last year. You can see in the month of March the decline has become less steep, largely because of the actions taken to trim excess capacity has started to take effect.

Moving on to costs, this is the top five which makes up to almost 80 percent, which makes up more than 80 percent of the total expenditure. No surprise fuel is still the biggest item of 43.8 percent. Aircraft depreciation and rentals now has overtaken staff costs as the number two highest expenditure. This is largely because of the additional aircraft that the parent has taken delivery of during the year. We took delivery of three A380s, four A330s and five B777-300ERs. Staff cost is down, now it's making up 12.5 percent of the total expenditure, largely because of lower profit sharing bonus as a result of the weaker performance. As fuel cost is the largest expenditure item it deserves a bit more analysis, a year-on-year comparison. Here the starting point is the fuel bill for last year. Because capacity was up 3.4 percent the volume of fuel uplifted also went up by about 2.8 percent, giving rise to increase in cost of \$145 million. But the biggest reason for the increase, that's the higher weighted average fuel price. For the year the average was about US\$120 per barrel compared to US\$99 last year, thereby resulting in \$860 million increase in costs. We had some benefit from a weaker US

dollar, but including the effect of hedging the total fuel bill was \$1.29 billion higher than last year.

Next we look at dividends. The numbers that we saw translates to an earnings per share of 89.6 cents and out of which an interim dividend was paid, 20 cents, and the Board of Directors have recommended a final dividend of 20 cents to make up total ordinary dividend of 40 cents. In addition we have also announced a proposed dividend *in specie* of substantially all the shares in SATS held by SIA which was announced yesterday. If I may hereafter refer to the dividend *in specie* as DIS in short. This has been announced so we will talk through some of the key points of the proposed DIS. To start with, the objectives of the proposed DIS, first and foremost the objective is to unlock shareholder value. Under the proposed DIS, SIA shareholders are to receive up to 0.73 shares for every SIA share held, and secondly the DIS will enable SIA to concentrate on airline and aircraft MRO business. Lastly, the proposed DIS will give SIA shareholders a direct stake in SATS without additional cost. First, I'll elaborate on unlocking of shareholder value. Firstly, the proposed DIS will have the effect of increasing the shareholding of SATS held by public shareholders from the current public float of less than 20 percent. An increase in the public float would improve the trading liquidity of SATS shares, thereby potentially enhancing value. Following the proposed DIS SIA shareholders will become direct shareholders of SATS and will be able to separately manage their portfolio holdings of SIA and SATS in accordance with each individual shareholder's investment objectives. If a shareholder so decides to cash out, the shareholder can easily do so as SATS shares are publicly traded, or if a shareholder decides to hold on to the shares, the shareholder will be able to benefit directly from any future dividends that SATS may pay and at the same time any other corporate actions of SATS. And all this will come at no cost to the shareholder. I'll touch a bit on the rationale here. Following the proposed DIS, the SIA shareholder will hold stakes in both SIA and SATS, and because the proposed DIS is for substantially all the SATS shares held by SIA, SATS will no longer be a subsidiary of SIA. So this will enable SIA to concentrate on airline and aircraft MRO businesses,

and SATS on the other hand will be able to independently pursue opportunities to lessen its dependence on aviation business. Well, SATS has already expanded its exposure to non-aviation business from zero to 43 percent after its acquisition of SFI. SATS' business therefore has substantial non-aviation business which is to non-core to SIA. The proposed DIS will have no impact on continuity of its operations. An agreement has been signed on 8<sup>th</sup> May that will provide assurance to SIA that SATS will continue to supply ground handling and in-flight catering services for the next three to five years from 1<sup>st</sup> October. At the same time that will provide SATS with assurance of revenue from SIA for the next three to five years from 1<sup>st</sup> October.

Moving on to the financial effects, firstly, earnings per share. Well, SIA's earnings per share would be reduced but from the shareholder's perspective SIA shareholders will have direct interest in SATS shares and therefore benefit directly from any future dividends that SATS may pay. From the company's perspective you can see the effect on return on equity is not significant and at the same time there is positive impact on gearing because SATS' borrowings will no longer be consolidated in SIA Group's financial statements. Just to note, the proposed DIS is subject to shareholders' approval at an EGM to be convened, and also subject to regulatory approvals. For more information please do refer to the announcement dated 14<sup>th</sup> May. A circular to SIA shareholders in relation to the proposed DIS together with a notice of EGM will be dispatched to shareholders in due course.

Looking ahead, a few items to update. Firstly, on the operating fleet of the parent airline. As of 1<sup>st</sup> April we had 103 aircraft and over the course of the financial year we will be taking delivery of five Airbus A380 and seven Airbus A330s. At the same time three 747s will be decommissioned. These will be returned to lessors at the end of the lease term. At the same time as a result of the reduction in capacity there will be 13 surplus aircraft, which takes us to 99 aircraft by 31<sup>st</sup> March 2010. This slide gives you projection of the capex for the next

five years. It ranges from a low of \$1.7 billion in 09/10 to a high of \$3.8 billion in financial year 13/14.

Finally, the outlook. Well, since the start of 2009 the drop in demand for air travel has been sharp and swift. While the advance bookings indicate that the drop in demand may be levelling out, many uncertainties remain. For one we are in the midst of a global recession and in addition we now have the outbreak of Influenza A, which adds to the uncertainties that sets back the probability of a sustained recovery. In the near term promotional pricing and reduced business travel will keep revenue under pressure. On the cost side there is some relief from lower fuel prices. Jet fuel prices are now less than half of what it used to be at its peak. However, the savings from lower fuel costs will be offset by progressive settlement of hedges locked in at higher prices. In these challenging times capacity and cost management are important. Action has been taken to trim excess capacity and several measures have been progressively introduced to manage excess resources arising from the removal of surplus capacity. These ongoing steps together with a strong balance sheet will help to sustain the company through the downturn. On that note I end my presentation and I hand the podium back to Nick. Thank you.

**Mr Ionides:** Thank you Mr Chan. I'd now like to invite the panellists up, Mr Chew, Mr Huang and Mr Chan to the table. Right, thank you. Over to you, questions please. Gentlemen out there, over at the corner. Sorry, can we wait until the microphone comes up please.

**Question:** Good morning, Damien Horth from UBS. We're all painfully aware of the changes in the corporate travel market over the last 18 months and this has happened in the context of a fairly radical change in the profile of your new aircraft, with a significantly great proportion of the aircraft committed to premium traffic. I'm just wondering has it got to the point where you're considering re-configuring the new aircraft with a lower premium density.

**Mr Chew:** Well, Damien, as you know the airline business is one where the capital investments have a long time horizon and configuration of aircraft take a long time to be effected and we are a long-term player in this business, all airlines, by definition, have to have long term - perspective. So, it isn't a question of changing the business model by the headlines day to day. True, in the short term the cycles may cause changes in market mix and we will have to adjust our marketing position accordingly. But, if I may just use an analogy, just because the Walmarts and the Uniqlos are doing best it does not mean that the luxury houses are all just going to disappear. So on that perspective we are staying with the business approach that we have evolved. At the same time of course we are monitoring market shifts and trends and we will adapt our marketing approach accordingly. As you are aware we have been engaging in marketing promotions quite actively. So, and we've also been promoting heavily through our frequent flyer base to our loyal supporters who have millions of miles and help them to consume those miles so that under our accounting of deferring revenue until the points are used, as the points get burned off we start recognising the revenue that is sitting in our balance sheet as liabilities.

**Mr Horth:** Just to follow up on that, thank you. Can you just explain to us why you decided against putting in a premium economy type product which a number of your competitors have done particularly in this A380 aircraft?

**Mr Chew:** Well, Damien, I'm very tempted to say all our economy seats are premium economy. It's true, you know, because most of our newer aircraft especially, the inflight entertainment systems that we have in the main cabin beats other people's business class. That's, you know, not an exaggeration, and the new generation of seats that we've been introducing progressively, starting out with the 777-300s in end of 2006, flowing on to the 380, now with the 330s, these are I would say very competitive in the market.

**Mr Ionides:** All right, now let's move to this side. The lady in the second row please.

**Question:** Hi, good morning, Mr Chew and all. Thanks very much for coming down to town to see us.

**Mr Chew:** Thank you, but would you like to introduce yourself. Many people would like to know who you are.

**Question:** Oh, sorry, I'm Corrine Png for JP Morgan. Just one question for you. You have been very generous in your dividend distribution, even in these tough times. I'm very, very happy for SATS and basically, I understand your rationale for divesting, for spinning off this subsidiary, but I just wanted to ask you why now? Why don't you wait until the market recovers? You might be able to divest SATS at much higher valuations, perhaps to a friendly strategic investor and so on. And then the follow-up question would be, SIA Engineering you also have an 81 percent stake, the free float is low, liquidity has shrunk, what are you thinking about that one? Thank you.

**Mr Chew:** Thank you, Corrine. You know that was a question that I've been thinking through last night. I knew it would come up. Let me explain it thus. Anytime is a good time for unlocking shareholder value. We in SIA do not pretend to be able to time the markets any better than other shareholders. Therefore the distribution *in specie* will allow, as Hon Chew has explained, shareholders in SIA not just to have SIA shares but now to have SIA shares and SATS shares without any monetary outlay at all. And then the shareholders themselves will have the autonomy to decide whether they want to buy more SATS shares, hold on to them or monetise the dividends, er, the dividend *in specie* that we have given out. So the question of timing we are leaving to the shareholders themselves to make the judgement call on. Your question about Engineering Company. Well, I think we have reviewed the Engineering position and come to the conclusion that it is strategically more important to us, in terms of being critical to the operating integrity, reliability of our flying

operations. The distribution in SATS gives SIA's shareholders direct ownership in a profitable and independently listed company which now derives more than 40 percent of its revenue from non-airline activities, as well as, if you look at the numbers and crunch them, more than two-thirds of their revenue now comes from food and catering businesses. We in SIA know the airline business, but I don't pretend to know much about the food business other than to eat.

**Ms Png:** Thank you.

**Mr Ionides:** Right, I'm going to move to the back a little bit. The gentleman back there.

**Question:** Robert Kong from Citi. Three questions if I may. To follow up on Corrine's question on the distribution *in specie*, at the current SATS share price of \$1.55, if that distribution was made today, would there be any divestment gains for SIA?

**Mr Chew:** Hon Chew.

**Mr Chan:** Well, no, the transaction will be recorded at the book value, meaning the net asset value of SATS. So there will not be any gain or loss arising from the dividend *in specie*.

**Mr Kong:** Okay. Second question, could you provide more colour on the hedging loss. I believe there's \$112 million related to early termination of contracts which probably would have matured in the next one or two quarters. Could you provide some colour on what you've done there and what that would mean for your hedging positions in the next one or two quarters?

**Mr Chan:** Yes, well, as we have explained in the news release and also the presentation, we have a number of contracts that were terminated before maturity date. That was a result of a regular review of our fuel hedges and as you know we have already announced reduction in

capacity by some 11 percent as of now. That will result in lower fuel consumption. So as a result the hedge cover that we had before actually has gone up higher than what we had originally planned for. So therefore we have terminated some of the contracts before maturity.

**Mr Kong:** Any guidance on your hedging price for the next quarter?

**Mr Chan:** Well, as we have explained in the past we have a consistent policy of hedging around 45 percent, plus or minus 15 percentage points. So for the new financial year we are hedged now closer to the lower end of that range and in terms of the exercise price, averaging between US\$120 to US\$130 per barrel.

**Mr Chew:** I can give you more specific numbers on that. At this point in time, for the new financial year of 09/10, our hedge position is only 25 percent of our volume requirements. The Group volume requirements is about 30 million barrels and it is in that range that Hon Chew mentioned of looking 125 to 130, but you must remember that the unhedged portion which is now sitting at about 75 percent, well, jet fuel yesterday closed at 63 bucks (USD). Last year the average as you have seen in the presentation was close to \$120 (USD). So that's, the fuel bill will be halved from the price movement by itself. So you know any hedging loss will sort of offset some of that savings but there still would be a big savings. But the challenge is still the top line challenge.

**Mr Kong:** Final question from me. Could you provide some colour on, in the fourth quarter the associate losses of \$106 million?

**Mr Chan:** Yes, in the fourth quarter the share of losses of the associated companies is about a hundred over million dollars. That's largely coming out of our investment in Virgin Atlantic. As you know Virgin Atlantic is a company that is incorporated in the UK. So as a result the financial statements are actually prepared under UK GAAP because they are a private company. So they actually do not apply international FRSs. So we had to make some adjustments in relation to their hedges and because

they do use proxy hedges there are some adjustments for ineffectiveness of hedge. So that's one of the main reasons for the weaker performance. But if you look at the full year you would notice that the share of associates is actually quite flat. So it's really share of profits in the early part of the year returning back in the fourth quarter. For the full year it's about flat.

**Mr Chew:** I should emphasise that point that if you, what Hon Chew said about Virgin Atlantic, in the first half the share of profits from associates, a big part of it was attributable to Virgin Atlantic as well. So it was, to blame Virgin Atlantic for the second half's dip in associated companies' profits would not give you the complete picture. In fact, if we take the two halves then Virgin Atlantic contributed \$0.4 million.

**Mr Ionides:** We'll switch back to this side of the room. I know I promised here in front next.

**Question:** Good morning. Costas Paris from Dow Jones. Are you still talking to China Eastern or are you still interested in investing in China Eastern? I saw your response that we had saying that we have our own priorities now. I guess it's a very, very difficult environment to look for investments, but I also know that you are very, very keen in expanding in China. So does China Eastern remain a priority, as we go forward this year?

**Mr Chew:** Well Costas first of all let me state categorically that we are on talking terms with everybody, you know. So, no hard feelings. So there are usual dialogues that, you know, hello-hello kind of stuff going on, but if your question refers to whether there's any revival of discussions about a strategic investment, the answer is no. There hasn't been and although longer term you are right, we still maintain an interest in having the opportunity to participate in the airline business in China, in the immediate situation that we have before us our hands are quite full. So, you know, therefore it's not a burning priority for us.

**Mr Paris:** And a follow up, in hindsight, with this crisis in your hands, what would you have done differently if you knew that something as traumatic as this is coming. Would you have hedged less, would you have configured your aircraft differently, would you have put back orders?

**Mr Chew:** That's a tough one. That's like asking me, you know, if you know now what you knew then, if you knew then what you know now, would you have gotten married? (Laughter) That's an impossible question. I can't answer that sort of question, because - nice try but you're not going to get me there.

**Mr Ionides:** All right, we move on. We'll stick to the same, the front row, next to Costas please.

**Question:** Hello, morning. Mark Webb, HSBC. Your passenger traffic fell off significantly in the first quarter and indeed it was worse than the AAPA figures were for the international airline sector as a whole in Asia and significantly worse than Cathay Pacific's performance for example. What do you think the reason for that was and if it was due to ticket pricing strategies are your strategies changing?

**Mr Chew:** Yes our traffic count, in other words the head count of passenger numbers, has been more than say the numbers that have been put out by the Association of Asia Pacific Airlines. We attribute that to a few factors. First of all Singapore is a financial trading centre and therefore the downturn in travel from the financial corporates affects us more than some other airlines in the region. You single out Cathay for perspective. Well, I think Cathay is in a slightly different position from us in that it has a higher proportion of traffic to and from mainland China and between Hong Kong and Taiwan. Our traffic mix has a much lower content of that kind of traffic. Is it a question of our pricing? Well, as I had observed in my earlier comments to Damien's question is that we have been promoting travel through, you know, competitive pricing moves. So it's not a, it's more a question of market response and those

of you who are based here in Singapore know that whenever there's a travel fair in Singapore in town the booking profile rises. So I think I wouldn't attribute Singaporeans to being more savvy in terms for looking for bargains than Hong Kong residents, but it's a sign of deflationary times, you know, that people wait for bargains to come on before they start booking. And I think the other reason why year-on-year we have seen more declines than last year can be attributable to certain peculiar factors, for example, last year we had the Singapore Air Show. This year we did not have one. We'll have one next year. So there are factors like that that come into play in terms of ridership. But Mark I would say that one/two months does not make a pattern if you know what I mean. We should let the numbers run for longer and then we'll see, you know, what the trends look like.

**Mr Webb:** Thanks and for a quick follow-up question. Your passenger yields were down just 5 percent in the first --- fourth quarter. Could you break down that between currency, surcharge impact and if you like the underlying ticket pricing?

**Mr Chan:** I'll give you some flavour of the 5.6 percent reduction in yield, in the fourth quarter you are referring to January-March 09. Yeah. About half of that actually came from lower local currency yields and also in terms of the passenger mix. The other half of the 5.6 percentage points was a result of foreign exchange. As you know our major revenue generating currencies are Aussie, the Euro, the Pound, and as you know there has been weakening of those currencies against the Sing dollar. So that has resulted in about half of that yield decline.

**Mr Webb:** Okay, thank you.

**Mr Ionides:** We'll switch back to this side of the room. The gentleman there in the third row.

**Question:** Hi, I'm Joe Liew from Deutsche Bank. Mr Chew, I wanted to have a little bit of your latest thoughts especially looking at outlook

statements where you said that demand decline seems to be levelling off. Can we interpret that to mean you are very marginally more positive on the business outlook versus January and February and linked to that perhaps you can give us a bit more colour on forward bookings on the passenger side, and just to round off, fourth quarter cargo is even worse than what passenger did. What do things look like in the cargo business over the next two or three months? Thank you.

**Mr Chew:** Okay. I'll just make a quick comment on that and then invite Cheng Eng here to say a few words more as well as Goh Choon Phong who is President and CEO of our Cargo unit to address your question about cargo. Joe, you referred to the statement in our news release that the advance bookings we have would indicate the drop in demand is levelling off. By that we are referring to our observation that a drop of 20-odd percent, 21 percent or thereabouts which Hon Chew showed for March, the forward bookings also show that year-on-year, at the same point in time in May 2008 when we looked through our system range of 12 months ahead, we were running about, the line was going from minus 12, minus 20, minus 25, and then now it seems to have levelled off at about the 20, 22 range. So as they say it's that it isn't worse than the year before but the worsening has stopped. So it's like looking for green shoots, so you get very encouraged and, except that you just pray that early frost doesn't come. So we're seeing a flattening out. So you are right that it's more encouraging but we'll be more encouraged when we see things turning up. Now that is still not visible yet. But I'll ask Cheng Eng to...

**Mr Huang:** Mr Chew has really explained it very well but we report to say that the green shoots, yes, we are optimistic but what we want to see is the green shoots growing rather than the green shoots just remaining where they are, you know. We hope events like the flu would not, you know get worse and then you'll see not only levelling off but hopefully some improvements in the coming months, but right now it's still too early to say so.

**Mr Goh:** On the cargo front I believe most people would know that it has been under pressure for quite a while. The plunge in the cargo traffic globally actually, the sudden plunge, the steep plunge came in thereabout December last year. If you look at IATA's published data on a global basis, it plunges over 20 percent. In the last few months however you find that there has been a stabilisation in the decline, much as what Mr Chew and Cheng Eng have said about the passenger side and it stabilised, the plunge itself, the decline stabilised at about 20-over percent as well. For SIA Cargo itself we are seeing the similar trend here and for us, in terms of load which we measure in terms of LTK, load tonnes kilometres, it levelled off in the last few months at a minus average of about 16 percent. So that's where we are looking at as well.

**Mr Chew:** Mark, if you are at all interested, if you compare the drop in our cargo tonnage and cargo load tonne kilometres, our drop has been less than our competitors. So that's to balance the picture.

**Mr Ionides:** Right, we'll move to the front row here. Gentleman, fourth down. The fourth one down, please.

**Question:** Hi, good morning. Paul Dewberry, Merrill Lynch. Can you give us a bit more colour on the details of the 13 surplus aircraft you intend to remove, such as the model types, whether they are owned or leased, and then secondly, have you applied for and/or succeeded in deferring any future aircraft deliveries? Thanks.

**Mr Chew:** Looks like everybody wants colour this morning. Well the 13 surplus aircraft, we had identified them previously. They comprise nine Boeing 777-200s and four 747-400s. We are actively marketing them and there is interest but as you know this is not a time when it's easy for people who are interested to raise financing. But we've had a few nibbles here and there and we are working those leads. And your other question as to whether we are going to defer deliveries of planes that are in the production process, well, we have been in discussions with Airbus more than Boeing because Boeing our next deliveries are of the

787-9 which they are still supposed to get off the air next month, by the end of next month, and our first examples don't get to deliver until 20-, at this point in time they still left it at 2011 but we know that it's going to be 2012/2013 thereabouts, so that's still some ways away. As Hon Chew flashed up our programmed deliveries over the next 12/18 months are more with Airbus. In that regard what he had shown there of the next five 380s, actually they are already in the final process of production. We take delivery of our seventh and eighth A380s this month in fact, in May, and then we take three more in the later part of this year or one in January. So that makes a total of five and those are too advanced in production to reschedule without severe penalties and disruptions, plus we want the planes to come in and to continue with our exercise of, not exercise, our policy of fleet renewal. It isn't, as I said in my earlier comments, we are a long term player here, our strategies are long term, you know. So the policy of operating a young modern fleet with new products is an ongoing one. It isn't one that we turn on and off according to the whims and fancies of the business cycle. It's not possible. And likewise with the 330 deliveries that are coming in, so we remain committed to that and taking delivery of those new planes is the reason why we are able to release the 13 planes of the earlier vintage. But we have been discussing with Airbus about further deliveries down the line. Those dialogues are still open and ongoing and so you know we reserve some flexibility there.

**Mr Ionides:** Right, time for probably two more. The gentleman there.

**Question:** Thanks. Chin Lim, Morgan Stanley. I'll ask you a very simple question.

**Mr Chew:** Those are the most dangerous ones.

**Chin Lim:** SIA and SATS, now that you don't own SATS anymore ...

**Mr Chew:** That's presumptive you know. It's a proposal that will be submitted to shareholders for shareholders to vote on. So ...

**Chin Lim:** Okay, so let's assume that a shareholder owns SATS and SIA doesn't own SATS anymore. Does that open up for you to negotiate much more aggressively with SATS in terms of pricing, going forward?

**Mr Chew:** Well, Chin, first of all, congratulations. You got 1,061 spot on. Your question as to whether not having SATS as a subsidiary enables SIA to shop around for our handling requirements at Changi, the answer to that has to be yes, although because SATS has been independently listed for 10 years, we have been quite, for want of a better word, quite religious about negotiating our arrangements at arms length. But having said that, it was more or less a captive customer situation. As to whether we will be able to get a better purchase for our needs at Changi Airport in the open market, it depends on market dynamics and what are the alternative arrangements that we can make as time goes on. But it's not an issue in the immediate future because as has been stated we have just signed an extension contract with SATS for the next three to five years, starting from this October.

**Chin Lim:** So the other thing is on your catering. Will that affect your catering because you always try to push you know, your inflight foods as one of the best, in SIA. Would that change the arrangement now that you don't really own SATS?

**Mr Chew:** No, not really because Chin this practice of outsourcing our airport servicing and catering uplifts is one that we have followed all these 30/40 years at all our overseas locations. All our handling at overseas locations, be it London, Sydney, has always been contracted out.

**Chin Lim:** So I guess I should still buy SATS shares, right?

**Mr Chew:** No, no, no. If you are an institutional shareholder or even an individual shareholder, we leave the decision to you, you see, rather than having SATS sitting inside 81 percent, of SATS sitting inside SIA, we

are unlocking that and giving that to you as the shareholders, as a nice present for you to decide on and to hold or monetise as you like.

**Chin Lim:** Okay, thanks.

**Mr Ionides:** Okay, we'll take one more. The gentleman back there.

**Question:** Hi, I'm Raymond from CIMB. Just two questions. On the staff cost, I know you have been doing quite a lot of things about the no-pay leave etc, and your staff cost did actually come down quite a fair bit in this financial year. What would you think would be the full impact of all your initiatives in the next financial year in terms of the staff cost, in terms of the percentage decline, that you would expect? And the second question is concerning the capacity reduction that you have planned, 11 percent, and according to the slides the March numbers look a lot worse than that. How long would it take for you to look at these RPK declines, and if it is more than 11 percent how long would it take for you to make another decision to cut capacity by even more than 11 percent?

**Mr Chan:** Well, yes, Raymond, as we have shown on the slide, for the staff cost there has been reduction and that's one of the key contributors to the lower non-fuel costs. As you know our wage structure, quite a large proportion of that is actually variable and one big component of that is the profit sharing bonus. So how much of that will go up or go down will be dependent on how well the company performs. So that would be one of the key drivers in the level of staff cost. So given, if the outlook is bad then staff cost would automatically adjust, or vice versa if from better then staff cost would also go up.

**Raymond:** Yes, what I mean is that if you take out that portion, what would be the impact?

**Mr Chew:** That number at the Group level for the year just completed, to give you an idea, is about \$250 million. So as to whether any bonuses will be payable, as Hon Chew says, relates very much to what the profits

are. It's a self-correcting structure that we have here. Of course the fixed monthly salaries, that's the more sticky part and which we are addressing through measures like the leave programmes and so on. As to how much exactly will realise out of that, it depends on how many people volunteer and all these things. So you can take a percentage of it and do your own calculations. Your other question as to at which point will we trigger off some more corrections to our operating plans, well, we have no preset level at which we would do the next step or not, but obviously in a business like ours if you track the business volumes and so on and if they fall below economic levels then obviously some action will be taken, but until that point is bridged we will continue to manage the business as best we can, and if you're asking me for specifics, well, that's something I don't want my competitors to know.

**Mr Ionides:** Alright, with that we'll bring this morning's session to a close. Thank you very much to the panellists and thank you all for attending.

**(Ends)**