TRANSCRIPT
SINGAPORE AIRLINES FINANCIAL RESULTS BRIEFING

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E&OE – may be edited for grammar

Mr Siva Govindasamy: Welcome to the media and analyst briefing for Singapore Airlines' second quarter and first half results. My name is Siva Govindasamy and I'll be your moderator today.

The morning's programme will be as follows. We will begin with Mr. Stephen Barnes, SVP Finance, who will present the Group's results. This will be followed by a presentation by Mr. Goh Choon Phong, Chief Executive Officer, with an update on our strategic initiatives. We will then move to the Q&A segment, which will be led by Mr. Goh. Joining him on the panel will be Mr. Barnes, our EVP Commercial, Mr. Mak Swee Wah, as well as our EVP HR and Operations, Mr. Ng Chin Hwee.

So, I would now like to invite Mr. Barnes to give his presentation. Thank you.

Mr Stephen Barnes: Good morning. Thank you, Siva. CEO, EVPs, guests who are here this morning. If I may linger, first of all, on some highlights for the half year. And starting off with passenger growth. Passenger growth has been strong. All of the three passenger airlines were able to catch that strong demand. SIA's traffic, in particular, grew more rapidly than capacity growth. So, we achieved a record load factor for the summer months with improvement in RASK.

SilkAir was contending with the transfer of routes to Scoot as well as the grounding of the MAX 8 aircraft. So this has clearly put a great deal of pressure on its production and its ability to drive improved revenue. And yet it did. Revenue grew on the back of stronger traffic growth and higher loads.

For Scoot, capacity expansion was relatively moderate of around 5.6% for the half. Traffic grew a little bit more rapidly, as it was able to fully capture the transfer of routes across from SilkAir. However, it did have to contend with aircraft that were grounded and we consciously managed utilisation of the fleet to ensure operational resilience.

Net fuel costs rose not because of fuel price. Fuel price has fallen but fuel costs rose in line with the increase in volume consumed. We had higher ex-fuel cost primarily but not completely attributable to the growth in the scale of the operations.

And then below the operating line, we had a significant improvement in the contribution of associates and joint ventures, which matched or mitigated the increase in finance charges which we'll come to.

The other perspective for the second quarter is the growth in revenue, which was driven by the increase in passenger flown revenue. Passenger flown revenue was offset to a degree by reduction in cargo revenue. Obviously, it has been a difficult environment in cargo.

Non-fuel costs were up $160 million or around 6%, mainly attributable to the expansion of the operations as mentioned. And then, net fuel costs were up to 1.7%. The same picture applies for the whole of the first half. Again, we had strong passenger revenue growth. Some were offset by the reduction in cargo revenue; costs rising either in line with the consumption of fuel or the increase in the scale of the operations.

Bottom-line, the operating profit was somewhat stable but down about $13 million for the half. Operating margin ticked down from 5.4% to 5.0%.

Some of the operating statistics which was already been published so I won't linger particularly long. But I wanted to call out the strong 8.6% growth in passenger traffic in SIA, leading to 1.0% pt increase in load factor, a record.

You see in SilkAir, the growth in passenger traffic, despite the fact that the capacity was actually down a little bit so a strong uptick in passenger load. And then for Scoot, which is already operating at a fairly high passenger load factor, managing to maintain and even slightly improve that.

Cargo essentially is suffering from a macro-economic environment - loads are soft, yields are soft, and as a consequence, you'll see that revenue is down.

The pie chart to the right just to give you a sense of the relative production of capacity and traffic in the low-cost business compared with the full-service business. From a standing start, in six or seven years ago, the Group now has 20% of its capacity and its traffic generated by Scoot.

A very quick slide just to sort of give you a picture of the overall growth and revenue up to 5.3% or $418 million. Look at where that came from. You can see that for the Group, the passenger revenue was up 8.2%. Cargo revenue down $138 million.

I would like to call out the highlights - the growth in engineering services revenue. This is primarily driven by Engineering Company's growth in line maintenance with third party airlines, not with SIA particularly. Other passenger revenue is down. That's coming from a number of sources but primarily charter services were reduced during the half.

And then the increase in other revenue - it's primarily actually coming from KrisShop. KrisShop became a subsidiary of SIA in November last year and we are now able to recognise its revenue contribution and its costs in the business.

Expenditure is up at $431 million. That's about 5.8%. For context, the overall growth in passenger capacity for the Group was 6.4%, although cargo capacity was about flat.

So where did it come from? This is a very busy slide. I'm going to linger here for a bit just to make sure that we have properly explained what is going on. To the right-hand side, you can see that the unit costs for all of the passenger airlines rose. When you take out fuel, you can see that the ex-fuel costs rose by a little bit more rapidly.

Let me linger on staff costs, which were up $159 million. This is coming from an increase in headcount and the service increments, driving an increase in pay and allowances. And secondly, an increase in crew allowances. You may recall that we began the non-stop services to the US in October last year. That came with higher allowances, as consequence of the ultra-long haul service. We have a full summer of that coming through. Similarly, we have increased flying hours for the crew, and some upper revision and allowances for cabin crew as well as pilots. I should also say that there is a small increase in provision for profit sharing bonus, which is driven by the improved operating statistics.

Now, on depreciation and leased aircraft charges. We have taken in 23 more aircraft year-on-year. And you can imagine that our depreciation charge should rise. Now that is mitigated or offset partly by the return of 10 aircraft to lessors. So, the net increase is 13 aircraft.

Handling charges are essentially flat. There is an increase in handling charges on the passenger side, but a reduction on the cargo front. Landing, parking and over flying charges are growing pretty much in line with our traffic.

In terms of sales costs, we have a higher rate of growth in sales costs as we are essentially driving revenue and investing for the future. This is coming through in terms of commissions, advertising, and the fees and transaction costs that we paid to the various booking engines.

And finally, fuel. I thought it would be easier to explain fuel on the next slide. We had a 9.4% reduction on the average price of our fuel so that has significantly reduced the base cost. As a consequence of the fuel price coming down, our hedging gain also came down. We had a hedging gain of $76 million but the reduction is shown up here. But we consumed more fuel. We consumed 4.8% more fuel, well within the increase in capacity. And of course, the US dollar was strong. That explains the overall increase in the fuel bill.

Group operating profit for the first half was down a little bit. Primarily, I should say, in the second quarter. Let's try and look at the sources. Sorry, this is covering the full half, I should say, not the second quarter alone. We have a higher growth in passenger flown revenue, slightly mitigated by or offset by the reduction in cargo flown revenue, contribution from the newly minted subsidiary KrisShop, higher fuel costs and then the non-fuel costs, which I spent a little time describing which contributed to the overall reduction by about $13 million in operating profit.

Turning to the contribution of the main operating entities, SIA's operating profit improved by $47 million or about 11%, as the parent airline's revenue was up by $406 million, driven by passenger flown revenue as we talked about it before.

Expenditure increased by $360 million, led by staff costs, fuel costs and aircraft standing charges.

SilkAir had to contend with the grounding of the MAX 8 aircraft. It is carrying the depreciation cost of those six aircraft and during the half, it was also carrying or having to incur preservation costs to maintain the aircraft in a close to ready state. Finally, it also had to make a provision of about $6 million in relation to the costs that have been incurred for the retrofit and the transfer of the aircraft to Scoot. But currently with the MAX situation, that's no longer happening. As a consequence, that provision has now been recognised by SilkAir. For SilkAir, passenger flown revenue actually rose. Overall revenue fell primarily because without having any spare aircraft to go around, it had to cut down on its charter flights and ticket breakage was also lower.

Scoot's operations were challenged by the transfer of the routes from SilkAir for which the demand has to be built. And of course, none of the 737 NG aircraft were transferred across from SilkAir to Scoot. We have the additional routes to contend without additional fleet. The overall network and fleet deployment was challenging to manage.

Revenue overall increased by just $7 million. Now that, it had an increase of $29 million passenger flown revenue, reflecting a 5.8% growth in traffic, but partially offset by lower yields as we saw earlier on.

Expenditure was up largely due to variable costs which grew absolutely in line with the growth in capacity, but also higher charges coming about because of the additional aircraft and fleet being both 787s as well as A320neos, as well as higher payroll costs.

Engineering Company had a relatively good first half, primarily seeing growth in revenue from line maintenance services. But the real benefit coming from lower expenditure particularly in the production overheads.

Taking a quick look at the operating profits, specifically for the parent airline. Here, we see the increase in the flown revenue - parent airline level only - offset by cargo revenue. This is a picture which is bringing together some of the themes that I've already mentioned.

Higher fuel cost, higher staff costs, the increase in the size of the fleet leading to higher aircraft standing charges or ownership costs, are partially mitigated by reduced maintenance costs. This relates primarily to the benefit of reduced provisions for leased aircraft as we returned aircraft to lessors. And then a number of other items coming through.

Overall, the operating profit at SIA level was $465 million as I mentioned earlier, up about 11%.

Coming back to the Group level. The Group profit attributable to owners was up a little bit, up 5% or about $10 million. This is primarily coming through in the second quarter. Let's take a look at first half. You have already seen slightly lower operating profit and improvement in associates. This is all accounted for by the reduction in losses or share of losses that we recognise in Virgin Australia. In the prior year, they had significant charges. They still had impairment charges this year but at a much lower level than last year.

Our joint ventures also contributed positively. I will linger just for a moment on the finance charges. We have raised more funds in order to fund the acquisition of aircraft but the majority of this change - $39 million of this change - is attributed to adopting IFRS16 which is the leasing accounting standard. You will recall that the leasing standard split lease rentals into two. Partly depreciation of the right-of-use asset, and partly, specifically identifying the interest expense. The interest expense now turns up here.

Slightly lower taxation and the others is primarily attributed to gains on disposal of aircraft. So, overall profit is up just $10 million.

The statistics are simple. EBITDA per share is up – above $1 per share. Basic earnings - which means earnings struck before comprehensive income - is up a little bit to 17.4 cents per share. And yesterday, the Board agreed to declare an interim dividend of the same level as last year of 8 cents.

Just a few slides to give you a slightly different perspective. I'm going to mention IFRS 16 again which does have impact, when talking about leverage. When we compare March with the end of September, leverage is up entirely as a consequence of bringing or recognising lease liabilities on our balance sheet. There is no other debt that was taken on during the six months, so this is entirely the lease liabilities coming on balance sheet. Plus, the effect of the adjustment to reserves which was negative on the first of April. So, the $2.1 billion of lease liabilities plus the reduction to reserves on the first of April are driving the change in leverage.

Interest coverage is also affected because we're now specifically calling out the interest expense that was previously embedded in lease rentals.

Just a few additional slides to give you a sense of the overall operations. We are currently looking at an overall growth in capacity for the passenger business at 6 percent and that splits between the three entities as you can see.

For cargo, the capacity will be slightly down by one percent. This is really by managing freight capacity.

The fleet is going to be fairly stable, growing from 207 by just one aircraft to 208. SIA will take in eight additional A350s and 787s and will dispose four 777s classics and four A330s. SilkAir will return one A320 to lessor and Scoot will take an additional two A320neos.

This is an update of the projected capital expenditure. There is a difference compared with the guidance that we gave six months ago. The difference primarily arises from changes in the estimated cost of retrofits for various reasons and the strength of the US dollar.

On our fuel hedging position, we are currently hedged at about 75% for the remainder of the year, for the second half, 78% I should say, at around $75, $76. Going into the next year, we're hedged up 64%. And for the remainder of the hedge period, which goes out five years, we used Brent to hedge up to about 50%. We're a little bit short of that at the moment, at the far end.

With that, I would like to hand over to Goh Choon Phong.

Mr Goh Choon Phong: Thank you, Stephen. Good morning, everyone. Welcome again to our analyst briefing in STC. So, I'll touch on some of the key developments among our strategic initiatives.

This should be a familiar slide to at least most of you. These are the four key areas where we have strategic developments. I will not touch on all the details, but I'll highlight some of the key developments. We have been –as what Stephen has pointed out in the earlier slides – very aggressive on aircraft acquisition.

And a lot of it is about renewal as well, as you can see for this year in Stephen's slide. The remainder of the year; eight new aircraft coming in, eight older aircraft leaving the fleet. You can see that this aggressive renewal will continue, looking at the outstanding aircraft orders that we still have. This is actually important because it is a deliberate strategy of ours to do so. Because of the new aircraft deliveries, it gives us the capability to operate to markets where previously would not have been possible or commercially feasible.

Some of these markets are, for example, the long-haul secondary markets such as Dusseldorf, which we are able to operate using the A350-900 long-haul. At the same time of course, all these new aircraft are giving us a lot more in terms of fuel efficiency which I will elaborate a little more later.

And of course, we all know that because of the delivery of these new aircraft type, particularly the ultra long-range (ULR) version of the A350, we're able to operate an extensive network now into the US. In fact, we have increased our weekly frequency to the US from 40x to 56x since the beginning of the ULR operations and we have significantly increased our presence, our market share to the US from key markets in Asia, particularly Southeast Asia and India; of course some from Southwest Pacific as well.

The other aspect is the continuous development we have on deep commercial cooperation, and this has brought about tangible benefits for the SIA Group, in terms of expanding our network reach into interior points within a country of the partners we have, which otherwise wouldn't have been available to us.

We are able together to enhance our value propositions when we go for our corporate deals because we're able to offer a much more compelling network. At the same time, with the enhanced cooperation on the FFP (Frequent Flyer Programme) front, we're able also to increase our value propositions for the consumers at large. At the end of the day, what we have achieved in all of this cooperation is a win-win. It is something that you can see by noticing that the cooperation that we have with existing partners has always been deepening and expanding.

Of course, the latest addition is Malaysia Airlines. We have recently announced that we have entered into an agreement to strike deeper commercial cooperation with Malaysia Airlines. Of course, the actual execution of it will be subject to regulatory approval.

Some development on the Group portfolio side. Of course, this is something that is known to the market, but just to update everyone that the integration of SilkAir back into SIA is progressing on track. Whether we are talking about route rationalisation across the Group, much of the route transfers between SilkAir and Scoot is progressing on track.

Retrofitting of the aircraft with a new technology or rather the new cabin seats and amenities is something that is on track as well. We have identified the seats and we are in the process of finalising the final details about the seats. And of course, the staff movement, 45% of the SilkAir staff in Head Office have actually been integrated into SIA.

The Group portfolio remains a very important aspect of our strategy in enabling the Group to reach out to many more points than we would otherwise not be able to do so. So, in this case, you look at all these key markets highlighted there, we are today either the number one or number two biggest foreign carriers in terms of number of points served in those respective regions and countries.

It is significant to point out that, for example, without Scoot and the ability to operate the low-cost model, a budget model into some of those destinations, we wouldn't have been able to achieve as many points for the Group. China, for example, 70% of those points are actually uniquely served through Scoot.

On a multi-hub strategy, the key update will really be in Vistara's rapid growth since the beginning of the year. It started the year with just 22 planes. It is expected to end the financial year with 42 planes, almost double. And the frequency, too, starting the year with about 800 weekly flights. It is expected to end the year with almost double that number of flights per week as well. It is also significant that by the end of the year, Vistara would have inducted its 787 widebody operations. At this point in time, there are four international points being served by Vistara. It's Dubai, Singapore, Bangkok and Colombo, which is the latest addition. So, more exciting developments from Vistara going forward.

New business. This is something that really, we are sharing more details for the first time. Let me just remind ourselves when we go into a new business, what do we have in mind? We are looking at businesses that would leverage our branding, our data, and competencies. It must be business that we have the right to play and the right to win.

The two businesses that we had previously announced are AATC, the Airbus Training Centre, and also the CAE set-up. CAE, of course, focuses on the Boeing planes while the AATC on Airbus planes. CAE is relatively new. It was only set up last year. It's still in the development stage but AATC has been around since 2016. Since then, it has made great progress. Today, it has more than 50 airline clients and is profitable. We feel it's also important that besides the financial aspects that we are doing our part, together with Airbus, contributing to the aviation safety aspect of the industry.

But I want to focus today more on two other new businesses. They are not exactly new but in a new form, I will elaborate later, that we had not previously spoken about or given too much details on.

The first one is KrisFlyer, which is of course our frequent flyer programme. Firstly, I want to share that KrisFlyer has contributed significantly to our revenue. This is a number we have not previously shared; which is that in the year just ended, which is financial year 18/19, the KrisFlyer revenue to the Group was in excess of $700 million.

What is even more important to note is as part of our transformation efforts, we have actually stepped up our efforts to increase that revenue. In fact in 18/19, the year just passed, relative to the year before, the KrisFlyer revenue has gone up by about 18%. Which is very significant on a big base, because of all the transformation efforts that we're putting in to actually enlarge both our partnership as well as merchant pools, et cetera.

And I also would like to share that up to the mid-year point, the first half year, we are seeing similar percentage increase on a year-on-year basis for this year, which is the year 19/20. So, the growth looks promising. At the same time, we are also actively increasing our membership, KrisFlyer membership.

Again, at the year that just ended, the previous year, we have seen a significant increase also in the membership because of active initiatives to acquire members and it stands at – as you can see over there, at the end of the last year – more than 4 million. And what is also very important is the quality of those members in the KrisFlyer program. You can do your arithmetic on the revenue generated per member, and you can compare it against other carriers in the industry and get the conclusion on your own. We will continue these efforts, both to increase the revenue and to acquire more members. So you can expect that quite a bit of the focus of our ongoing transformation will be in this area as well.

On KrisFlyer, it will be appropriate for me to point out and all would be aware of this — KrisPay. We launched KrisPay and it was, and remain I believe today, the first FFP loyalty wallet, digital wallet, that is based on a blockchain technology.

What is also significant is that this particular, the core technology that drives that transactions on the platform is internally developed, and it is a core technology that is able to provide secure, fast, scalable, and cost-effective transactions especially on the speed side. It is not something that is commonly seen in transactions that are based on blockchain. We filed a patent for this technology and we have exciting plans on leveraging this particular platform going forward, to expand offerings to our customers as part of this programme. So, you can hear more about it as we develop. But there will be exciting developments in this area.

The other part is KrisShop. So, KrisShop, as you all know, previously, we don't actually own it. It was mostly outsourced, the business. But we incorporated a company at the end of last year and this company is now owned 70% by SIA, because we no longer look at KrisShop as just a channel for us to sell commodities, goods on board the plane.

We are developing KrisShop into an omni-channel e-commerce retailer, which means that you are no longer limited to sales made on board a plane. We have made, and this is a separate company now, and we have made very good progress, I would say, in terms of developing KrisShop along this line.

In fact, we expect that this year, by the end of the financial year, KrisShop will be able to yield a revenue in excess of $60 million for the Group. What is the significance of this $60 million? $60 million represents an almost 30% increase in revenue relative to what KrisShop or its equivalent business used to generate the year before. So, there are aggressive plans on this and we'll continue to provide updates as it develops.

Then, I want to talk --of course, some of the things I mentioned was already part of those transformation. But I want to talk about transformation in general as well. Now, we have achieved much in the last two and a half years of transformation. I will just highlight some of the key developments and achievements in the respective areas.

Firstly, what does it mean to our offerings, to our customers? Here are some of the key highlights, put together, but most of them you'd be aware of because we have now seen progressively. Certainly, there are things that I want to point out is new products and services.

New product-wise, you know what we've launched for our A350s as well as 787-10s. But I would also like to share about the product that is currently under development for our new 777X, which we expect to come into operations in 2022. I don't believe we have previously stated the date, but anyway, in 2022, this will be one that we believe will lead the industry. We have taken in all the feedback that we have from our customers whom we have actively engaged, and those products in all the cabins will be industry leading. So look out for it!

The other thing is this tangible reduction of the time and efforts our customers spent interacting with us, more than 10 million hours per year. It's something that we'll continue to push, and we have gotten very appreciative feedback from our customers as well.

Of course, we don't particularly aim for awards, but it is a recognition of a lot of these initiatives we've put in for our customers. But to deliver all that obviously, we need to ensure that our own people and our own processes internally are effective and efficient and that is the other aspect of a transformation they have gone through. Processes, approval level, everything has been reduced. No stones unturned. And of course, everyone is aware that we have built in new channels and abilities for all of our staff to participate in contributing ideas and making them a reality.

KrisLab is one example of that, where everybody can actually contribute and actually develop those ideas with help from resources that we provide. Incidentally, 80% of our organisation has been trained in at least either data, data analytics, design thinking or agile. And we expect that, by sometime end of this financial year by March or so, 100% of our staff would have gone through that training. And that is, I think that is no mean feat given the size of our population. Of course, there is also transformation in the operational areas and the results speak for itself.

I also want to touch on sustainability. Again, it is not something that we previously presented - at least not in this comprehensive manner. I would like to give the audience a more comprehensive overview of what SIA Group has been doing in sustainability. And I welcome anyone who wishes to know more details to engage us and we'll be happy to provide.

Now, when we talk about sustainability for an airline, what comes to mind first? I think it is fair to say that people will first think about carbon emissions because we operate planes. And if we really ask ourselves - what is the most effective tangible way to reduce carbon emissions, at least in the nearer term until, of course, some biofuel or other substitute could be developed which would take quite a while for it to be really a widespread solution? The most immediate effective way, really, is about reducing those emissions for your plane. And the most effective immediate way to do so is by having new technology planes.

Now, we have mentioned earlier about the aggressive renewal and the flights on the left side. The SIA Group fleet size chart provides some idea of that rapid renewal that we're doing and that will continue as you saw in the earlier slides.

But importantly, and this is based on real data that we ourselves have on comparable routes – look at the difference in terms of fuel productivity between the older aircraft that we operate and the newer aircraft that we operate on medium routes and on long-haul routes. In the case of A330 relative to 787-10, which we deploy on medium-haul similar routes, we are seeing a 26% improvement in fuel productivity. In the case of long-haul routes, it's even bigger, almost 30%. There is no other more effective way that you could actually reduce your carbon emissions than this kind of number we're talking about in the nearer term.

So our aggressive fleet renewal process not only gives the organisation the ability to operate those fleets in a way that would reduce our fuel commitment, the fuel bill. It also enables us to have capabilities to serve markets that we wouldn't previously be able to do so. But importantly, it is a major contribution to reducing our carbon footprint. Just look at it.

Of course, it does call for a lot of capital expenditure. But I think for all those reasons that we stated, it's the right thing to do. But we're not stopping there. We continue to look at what other ways we can do to reduce, to make our operations more fuel efficient, and you can see those results as well. 55 million kg, by the way, if you convert to CO2 is equivalent to about 176,000 tons of CO2, very significant.

Another thing that we haven't quite share as much is this sponsorship that we have for reforestation of the Harapan Rainforest, which is about the size of one-and-a-half times of Singapore. And as you know, in Singapore, recently, you have articles about planting trees and that is one of the ways to address this issue about climate change. This is a major, major initiative and contribution towards greening of this part of the world that we are in.

Not only that, the Harapan Rainforest is home to almost half the species of plants and animals in the world; great biodiversity including the endangered species of Sumatran tigers. At the same time, this project also helps the human settlement within the rainforest in providing livelihood that is more sustainable and co-exists with the rainforest rather than doing forestation. Very meaningful project that we continue to be engaged in.

What about beyond fuel? Much also has been done on board the plane or at least some of them over here. We have removed completely plastic and single-use plastic for both the swizzle stick, which is the thing that you use to stir your drinks, and straws. They are replaced with bamboo sticks and also paper straws. It is completely, 100%, removed from all our flights. We have also removed the paper cups that we use to serve to our pilots when they are flying. It's now reusable so that it wouldn't be used and thrown away, we've removed the need to print documents, and we also have this concept of farm to plane.

Now, farm to plane means that we source locally for ingredients of food that would then be sent to the caterers, which then will be uplifted from the station that we fly from. And there are two things here, of course.

One, we support the local community. Secondly, it also reduces the need for transportation of those food and that transportation, which is going to be shorter if it's near the cities or in the same cities relative to a longer haul transportation. That will increase the carbon footprint. But we are not just doing conservation or sustainability on things that is visible to our customers. Those we will continue to do because it's the right thing to do.

At the same time, within our own premises, we are also doing a lot on sustainability. I mean, some of these examples here are what we have achieved. 18% of our electricity requirement for our head offices will actually be supplied through solar power. 12% of our water needs are from harvested rainwater, and we have put in place an eco-digester in our canteen.

Now, for those of you who have gone to Airline House, you'll know that we are kind of far from any eateries. So in order to provide convenience for our staff, we actually have a staff canteen. Within that canteen, we have now installed an eco-digester. What it does is that all the food waste from the canteen will be put into the eco-digester and the output of it will be energy pellets that can be reused to harness the energy. So it also saves the need, what we have to do in the past, to transport those food waste to Tuas, to Jurong, for incinerating. And that particular journey, the carbon footprint for that particular journey would be gone as well. So there are a lot of things that we are doing, and I can assure you that we will do more.

Of course, sustainability also is talking about how we can – the CSR aspect – how we can provide assistance to the less privileged segment of our society. We have always been engaged in community services of all kinds. All our staff, whether it is the Head Office staff, the pilots, the cabin crew et cetera.

You will recall that whenever possible, from time to time, we'll also provide flight experience for the less privileged. But we are also looking at how we can increasingly have collaborations that not only provides sponsorship of money or services, just go there and provide service at a point in time or a one-off event, to looking at how we can have activities that also help that particular community to have a more sustainable way of supporting themselves.

One example is this partnership that KrisShop has with the autism resource centre. That will provide an avenue for artists from that centre to sell their products on board our planes, to expose them to the entire international, not so much a plane but to our database of customers, and to expose them to a much bigger audience so that they can actually have a better income. So again, we'll do more.

That is my last slide, thank you very much.

Q&A

Mr Siva Govindasamy: Thank you, Mr. Goh. May I now invite the panellists up on stage. While they take their place, could I just go through a few house rules. Please could I request that everybody to switch off your mobile phones, or at least put them into silent mode? That would be very helpful. If you could please direct your question to me by signalling to me, raising your hand, doing something, and I will come to you. If you could identify yourself when I call on you, that would be great because we are recording this, and we need to know who you are. And if you could please, in the interest of time, limit your questions, keep to just two questions each? That would be great. And I could return to you if we have time. So, let's start. Who's first? There's the gentleman here in the front row. There'll be mics coming around so if you could just wait for that. Thank you.

Mr Eric Lin, UBS Securities: Good morning, Eric Lin from UBS. Thanks for the time as always. So two questions. The first one is actually going back to the outlook statement on, this is already mentioned about forward booking is supported by premium cabin. Somewhat, contradictory to the macro backdrop we are seeing here. So can you please elaborate where, which market, which part of the network is it coming from? So, that's my first question.

The second question is actually about cost. So we've just seen recent talk about like productivity gains, improved efficiency, et cetera. Yet unit cost has gone up in the first half. So can you please help me to understand where is it coming from? Where's the mismatch and probably my guess would be like is cost front loaded so i.e., we expect unit cost to go down going forward. So that's my two questions. Thank you.

Mr Goh Choon Phong: Okay, I think I'll get -- because Stephen actually elaborated that a little bit on that. Maybe let him clarify that and then Mak will answer the second question.

Mr Stephen Barnes: The main areas of above capacity growth, growth and costs, number one, staff cost may explain that that was really coming from the ultra-long nonstop flights to the U.S. plus increasing flight hours, plus some adjustment to allowances. So that's sort of feeding through. The training element that is part of the staff cost is indeed frontloading. So CEO mentioned the effort was going into staff training. So that's one aspect. The fleet growth is also an investment for the future, so we are taking in aircraft. When we're taking the aircraft, you have full cost. That will gradually feed its way as the deployment of the aircraft becomes more efficient. That will gradually reduce as well. So those are the two main categories. Yes.

Mr Goh Choon Phong: And if you realise, I think Stephen mentioned it, but I think it's useful to point out because I believe there were some concerns about Scoot's performance as well. If you look at Scoot, it is having some issues, transitional issues that you have to handle. One of them of course is taking over all these new routes, you have got to build the traffic or to build the presence and so forth. The other thing is that Scoot continues to have still some lingering, still some issues with the Rolls Royce engine. That will eventually come to pass but at this point in time, that's still an issue that they have to deal with.

Mr Mak Swee Wah: Yes on premium traffic, yes, we are still seeing healthy forward bookings. And of course, there are concerns given all the uncertainties in the market and whether, talk about recession and all that. But so far, bookings seem to be holding. Talking about markets, it is actually across all the major markets. The U.S. is particularly strong partly because we have introduced a lot of ultra-long-haul flights and some sectors are probably stronger than others while finance maybe a bit muted now. But we see that sectors such as IT and the professional services are still doing well. So overall, we are keeping our fingers crossed so for now, it seems okay.

Mr Siva Govindasamy: Thank you, next over here please in the middle, on the one, two, three, thank you.

Ms Aradhana Aravindan, Reuters News: Thank you. Aradhana from Reuters. Just want to check on the 737 MAX. I wanted to confirm if you have removed it from your schedules until April. And do you think you might need to extend that due to certification by the various national authorities and if you think so, until when and in particular, have Chinese and Indonesian authorities given you any guidance on their plans for approval, post FAA?

Mr Goh Choon Phong: Well, since you are talking about MAX, in case people -- most people should be aware which is that the existing six 737 MAX with us, they are now all in Alice Springs. They are parked in Alice Springs. As to the timeline for when the MAX will come back into operations really is not our call. It is the call of the regulators and you correctly pointed out that for us, it's not just the FAA. CAAS have to approve. Otherwise, you can't operate at all and of course, the other regulators. We don't have any privileged information about anything beyond what you hear in the public.

Mr Siva Govindasamy: Thank you. Right in front of her, this gentleman here. Thank you.

Mr Danny Lee, South China Morning Post: Thank you. Danny Lee. South China Morning Post newspaper in Hong Kong. I want to talk more broadly about consolidation in the industry. We've seen in the US, already very well consolidated. In Europe, we see IAG wanting to buy by Air Europa and Lufthansa signalling interest in Alitalia again. What about in the Asia Pacific? Are there really out here governments not willing to see the airlines merging to bigger across board entities? Do you see the situation is sustainable for the Asia Pacific going forward to be rather contained, or as you mentioned yourself in the slide, you highlight more to come in partnerships for example? What does that mean going forward and in terms of multi-hubs? You do have Vistara, for example as one of your growth areas. Maybe for example do you see an interest in Hong Kong Airlines. Do you see that as an opportunity?

Mr Goh Choon Phong: Consolidation. I believe I have made some comment on it before, which is of course we did observe the consolidation taking place elsewhere in the world. However, I have stated that I'm not holding my breath with regards to our part of the world because of various considerations, including many of the airlines involved here are national carriers. But I believe we can look at other ways to cooperate, and one of these ways is precisely what we've done recently with Malaysia Airlines, which is to step up commercial corporations, on a win-win basis. I think, until the regulatory environment in this part of the world allow for more liberal consolidations, this will be a good interim solution.

Mr Siva Govindasamy: Thank you. If we could just maybe go to the section right at the top there please and then to the lady here.

Mr Kaseedit Choonnawat, Citi: Thank you. Good morning. Kaseedit from Citi. Two quick questions. Number one, historically, the air cargo cycle, tends to lead passenger. Nevertheless, when we look at Singapore Airlines in general, cargo has been generally falling for 11 months now, but your passenger has been so strong. What has been the difference this time, that's question number one. And number two, what are the pros and cons from the large shareholder of SIA Engineering's point of view, if SIAEC and ST Engineering were to be together? Thank you.

Mr Goh Choon Phong: On your second question, this is something that, if we have something to announce, we will announce. We will not speculate.

Mr Mak Swee Wah: Well, I think this question. In fact, it's not just peculiar to us, the divergence between the health of the cargo and the passenger traffic. We always say that cargo is a leading indicator of what's going to happen. It may yet be. Maybe it is a question of timing, so we do not know. But there's also a theory that cargo is mainly due to trade flows, production, goods moving, whereas now the world economy is driven mainly by services and intangibles.

So, maybe the divergence is because of the health of the two different segment of the economy, while trade flows have been affected by trade wars and a lot of other woes. But as I mentioned just now in relation to question on different traffic, some of the services side are still healthy and so that could be driving passenger traffic. But that's a theory for now and plausible, yeah.

Mr Siva Govindasamy: So, we'll just go to this lady here first from --.

Ms Mayuko Tani, Nikkei: Thank you. Mayuko Tani from Nikkei. Two questions. One is about the 737 MAX, do you have so far, some sort of indication of how much the loss that was incurred from the grounding, including probably the opportunity losses. And have you considered, or have you been in talk with Boeing about the cancelation for the further, I think, 31 more planes to come? Another question is about Malaysia Airlines. You talked about a commercial partnership which is win-win. Have you been in talk about the financial part of the cooperation? Are you thinking about or talking about investing into the company? Have you done any due diligence or anything or have you decided not to?

Mr Goh Choon Phong: On the second question I can answer you. There has not been any conversation on that. The first question on the 737 MAX cost and all that. Two things maybe I will just point out. One is that of course when the 737 MAX was grounded, it presents certain aberration to our original plan. However the way we have planned our fleet is such that we've always built in some flexibility. For example, fleet extension and so forth and we can actually manage to an extent possible, minimise impact on the capacity, which we have done so. Of course, there's still some impact but it was minimised. As to any discussion that we may have with Boeing or any OEMs for that matter, that's something that we do not disclose. Any discussion will be in confidence.

Mr Siva Govindasamy: So, gentleman here in the white shirt from the third row, followed by Brendan, and so then the gentlemen behind him and then we will the move that way a little bit. Thank you.

Mr Nico Yosman, Morgan Stanley: Thank you. Nico from Morgan Stanley. One question on the passenger yield on mainline operation. It remained flat despite the record load factor. And if I see also the fact that you have been paying more commission towards your booking services like you mentioned, is this a function of intense competition or is there something else going on? And what will it take to grow passenger yield from here if you can't grow passenger yield with the current load factor. Thank you.

Mr Goh Choon Phong: Okay. For commission, I think you're referring to the presentation that Stephen had. I mean it's a volume related -- I mean you want to discuss, you want to elaborate that?

Mr Stephen Barnes: And it's the sales customer certainly volume related.

Mr Goh Choon Phong: Is that what you're referring to? That particular slide?

Mr Stephen Barnes: But I thought the question was --

Mr Nico Yosman, Morgan Stanley: Are you incrementally paying a higher fee percentage to your booking services or that's just purely volume?

Mr Goh Choon Phong: No, but why do you derive that? Why did you notice that there's been increase in --

Mr Nico Yosman, Morgan Stanley: I'm talking in a sense of percentage of revenue term.

Mr Goh Choon Phong: Sorry, can you repeat that? Sorry.

Mr Nico Yosman, Morgan Stanley: Your sales commission. Your commissions and your effort --

Mr Goh Choon Phong: That slide, right?

Mr Nico Yosman, Morgan Stanley: As a percentage of revenue term, it has been increasing both year-on-year and sequentially quarter and quarter. Is that the function that you have been paying more fee percentage to your booking services or that's just purely volume?

Mr Stephen Barnes: There are some suppliers who have indeed raised rates but it's not the norm. But there is some increase in rates.

Mr Nico Yosman, Morgan Stanley: Is there going to be a new normal for you or it's more of a one-off thing and is it because a function of intense competition?

Mr Stephen Barnes: We're always in negotiation.

Mr Goh Choon Phong: But you also might notice that increasingly, we are also having more transactions online directly with us and that is something that will continue to encourage. So, there is the other compensating effect.

Mr Mak Swee Wah: Yeah. I think this question about yield versus load factor, in a competitive market, generally if you want to increase loads, your yields drop. So, we have been able to maintain to hold the yield and increase load factor quite significantly. So, the important number to look at is not just yield per se, but what Stephen has earlier said, the RASK, the revenue per ASK. That gives you the right, it shows you whether you have got the balance between load and yield correct. If you have been able to get the balance right, then the total revenue generated for that plane is more and that's the outcome you want rather than one single dimension. So, we have been able to increase -- we have been able to hold yield, we have been able to increase RASK. Our load factor has increased and therefore the revenue has increased.

Mr Siva Govindasamy: Brendan.

Mr Brendan Sobie, Sobie Aviation: Yeah, good morning. Brendan with Sobie Aviation. I have two questions. The first one is about more colour on the route transfers from SilkAir to Scoot. I was just wondering if you could provide some information on whether that's been going maybe a little bit below expectation. I see some of the comments about how it takes time to build and Scoots yields might have been impacted. But these routes are generally secondary routes to -- and with no, limited competition with high transfer traffic and they're coming from SilkAir which is a higher yield carrier. So, in theory, you would think the Scoot yields would be increasing from -- rather than decreasing. So, if you can provide a bit more colour on how that's going, that would be appreciated.

And the second question is about SIA's parent airline yields. Impressive growth there, and I'm wondering how much of that roughly is because of the ULR and the higher premium mix on the ULR, first half of fiscal year, this is, you know, it's because the operation began on October. We're talking about the huge growth with the ULR, year over year and wonder if you could kind of just give some guidance on percentage of overall SIA yield growth, how much of that is because of that premium mix.

Mr Goh Choon Phong: Okay, I'll take the questions on the transfer [INDISCERNIBLE], so, I was referring to Scoot's general performance and not necessarily on yield itself. Meaning, why -- because when you switch, of course, from MI to Scoot, there is an increase in capacity because of the way the aircraft is configured, and if we are switching from MI to Scoot, we must believe that Scoot is a better vehicle. If MI had been able to fill up the seats at the right yield all the time, there is really no reason to do the transfer. So, therefore, there is a reason for Scoot to stimulate the market further, both for traffic that is needed to fill in the extra seats as well as fundamentally the market itself because MI was appealing to a different segment.

Mr Mak Swee Wah: The yield, actually, it's a combination of quite a few things. What you mentioned, the ultra-long haul, does give a higher yield because most of them are also premium traffic. The other one is the more general point of the strength of the premium segment that we see. So, that has obviously led to a better mix, and also, -- we also attribute part of it to what I think Choon Phong has mentioned before, our new revenue management system and practice. So, I think it's the combination of a few things that enable us to juggle the load versus yield mix and achieve a better outcome.

Mr Siva Govindasamy: Gentleman right at the end there. Then we'll go to the lady in the centre and then to --

Mr Shaurya Visen, Goldman Sachs: Hi, this is Shaurya Visen from Goldman Sachs. Thank you for taking my question. I have a quick one on associates. Now, we understand that associate loss decreased year over year but still making losses, can you just give some more colour on the associate especially Virgin Australia? Thank you.

Mr Stephen Barnes: Well, what you see in the public domain is really what we know as well. So, the operating performance for Virgin Australia was announced in August for their year. They had slight reduction in their bottom-line results, their operating results -- bottom-line was affected by assessments of the deferred tax assets, so they impaired those. They also impaired assets in Tigerair Australia. But the actual reduction or weakness at the operating level was actually not as significant as prior year. So, we are aware that there's new management in place and we understand that it is -- that new management is working through its strategies and we expect and hope to hear what that might entail for the company in due course.

Mr Siva Govindasamy: And to the lady in the fourth row in the middle please? And then the gentleman here.

Ms Anita Gabriel, The Business Times: Thank you. Hi, Anita Gabriel from The Business Times. I have some questions on your tie-up with Malaysia Airlines. Can you give us some rough estimate of when you expect that to get off the ground and maybe take full shape because you mentioned its pending regulatory approval, that's one. Two is, how do you compare this collaboration with Malaysia Airlines with the others that you have, the other airlines say, Air New Zealand, Lufthansa or any others. And lastly, you've pulled off -- both the airlines have pulled off what was earlier deemed the wishful thinking and there's a notion that this could have -- this happened because of the good rapport you have with Capt Izham. I'm just wondering if you could give us some colour on that to thank you.

Mr Goh Choon Phong: Okay. So, when will the agreement actually come to fruition? As I mentioned earlier, it depends on the regulatory approval. But now, we have no experience with regulatory approval in Malaysia, so we don't know how long that would take. But I would say that typically in such arrangement, you could take anything up to maybe nine months, a year to get all the necessary approval because it's likely that the regulators would then go to the market and ask for comments, et cetera. So it does take some process.

On the part on how the cooperation stack up against others, I think the market is very different in the case of Lufthansa, we're talking about major part of Europe. Of course, it's long haul as well. In New Zealand similarly, SK also quite similar. In the case of Malaysia Airlines is really how to cooperate and what is the best way to get a win-win for two airlines in the same region. Now, we believe and Malaysia Airlines, too, believe, that this is why we have this agreement, that the proposition is compelling, that we can offer joint products to a market that is able to provide more connectivity to both Malaysia, as well as ex-Singapore to the rest of the world for Malaysians. I think that is something of course we have continued to work on. We also talk about potentially launching an air pass to facilitate further convenience of travel.

So, the nature of the cooperation, the detail in nature may be slightly different because of network and so forth. But the spirit of the cooperation remains, and we are very determined and so too, I believe our Malaysia Airline counterpart to make it a win-win. Third question you asked was about my personal relationship or friendship with Captain Izham. Well, I know he is a very affable, very friendly person and very committed to what he is doing. So, I think we have meeting of minds when it comes to cooperation. Frankly, I don't see why not, because it is meant to be on a win-win basis.

Mr Siva Govindasamy: Thank you, just somebody here, and then we're really running out of time, so maybe just one or two more questions out there, thank you.

Mr Ian Wong, UBS: Hi, I'm just Ian Wong from UBS. Just a quick question from me moving away from the core airline businesses, I just want to know if you want to look at culmination of KrisPay and KrisShop and also KrisFlyer. If my math's not failing me, they account for roughly 5 or 6% of the group revenue, how does the management think of what that can be in terms of the total contribution to the group going forward, and a second follow up question is that notably some of the other airlines have also been trying to venture into other non-airline traditional business, most notably AirAsia hosted an Investor Day to showcase the other non-airline businesses. How do you see this kind of dynamic play in the industry with like -- appreciate your thoughts on that please?

Mr Goh Choon Phong: Well, we don't comment on what other airlines do, but the strategy that we have adopted is something -- it's not something that would be put in place just the recent month or anything. It has been in place for a while, that it has actually taken, I suppose, a much more deliberate effort to achieve –and beef it up further in the last couple of years because of the entire transformation that we are actually having. We believe that the growth potential for both our FFP program, the KrisFlyer program, coupled with KrisShop and also KrisPay, you can see that all these are somewhat linked because they also tap on each other in terms of databases and all that. And we believe that we will be able to grow them strongly. We do not, at this point give any guidance but as I say, the expectation for example for KrisShop is that this year, if you were to run it through to the end of the financial year, we expect respect the revenue to be more than $60 million, and that represents almost 30% improvement.

Mr Siva Govindasamy: Thank you. And so, the gentleman here the third row and after that the last question would be gentleman in the blue jacket.

Mr Ajith K, UOB Kay Hian: Hi, Ajith from UOB Kay Hian. Two questions from me. Firstly, during the first half, did you inject further equity into Virgin Australia? Second question is broadly under cargo front, do you see any improvement in cargo yields in the current restocking period? So, that's the two questions.

Mr Goh Choon Phong: Okay. The first question, the answer is no.

Mr Mak Swee Wah: Well, cargo I think the outlook is, I don't think it has really improved. I mean, it's a very volatile business and very short-term-ish, there are many other drivers, but I think cargo would remain depressed for a while.

Mr Ajith K, UOB Kay Hian: Volume and yield?

Mr Mak Swee Wah: It all depends on the demand and also now the abundance of capacity in the market.

Mr Siva Govindasamy: Thank you. And the last question this gentleman here --

Mr Goh Choon Phong: I would just add to that our Cargo Division will obviously be quite nimble about how they manage especially the freighter capacity and freighter deployment.

Mr Alfred Chua, FlightGlobal: Hi, Alfred from FlightGlobal. I'm seeking clarification on two points. The first is the integration of SilkAir back into SIA, you mentioned that some of the 737-800s will be retrofitted with the new product. Would you be able to say how many of the 737-800s will be retrofitted with the new cabin product? The second point is on the 777X. You said that the entry into service with SIA is 2022, is this taking into account the current production issues that Boeing is facing the 777X and if not, I mean, has having communication about the timeline? Thank you.

Mr Goh Choon Phong: I think on the exact retrofit of the number of 737-800 NG we're talking about, those are details that we will inform the market as it becomes clearer. The second part on the 777X, yes, our expectation, with all those announcements that they made up to this point in time, expectation is still 2022.

Mr Siva Govindasamy: Well, thank you gentlemen. Thank you everyone for coming for today's session and with that, we come to a close. Have a good day.