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E&OE – may be edited for grammar

Presentations

Mr Nicholas Ionides: Good morning and welcome to the analyst and media briefing for Singapore Airlines' fourth quarter and full-year financial results. My name is Nicholas Ionides and I'll be moderating this morning's session. Please allow me to go through the programme for the session. We'll begin with a presentation by our Senior Vice President Finance, Mr Stephen Barnes, who will be presenting both the Parent Airline Company results and the Group results. Our CEO, Mr Goh Choon Phong, will then be presenting an update on our strategic initiatives as well as the business outlook. We'll then move to a Q&A session, and joining Mr Goh and Mr Barnes on the stage will be Executive Vice President for HR & Operations, Mr Ng Chin Hwee, and Executive Vice President Commercial, Mr Mak Swee Wah. I'll now invite Mr Barnes to the stage.

Mr Stephen Barnes: Thanks, Nick. Good morning, everyone. It's my pleasure to present and report on the Group's results. Our financial performance for financial year 17-18, and as usual we'll start with the Parent Airline. One of the things that everyone is very aware of, I think, is that for the last three years we've actually been shrinking capacity. It's not because we've been flying less. On the contrary, we've actually been flying more frequently, but because we've been reducing the number of seats per aircraft as we introduced the Premium Economy cabin. But this year was a turning point as we begin to grow our capacity once more. We now have actually about the same capacity as we produced five years ago. However, our carriage in revenue passenger kilometres reached nearly 96 billion this year. This is the highest that we've ever achieved. In fact, the 81.1% passenger load factor is also the highest we've ever achieved in a full year. Yield, on the other hand, was down. Just by 1%, but notice that in Q4, yield was actually slightly up, which was encouraging. The growth in traffic, I should say, or carriage, was more rapid than the fall in yield and that drove up unit yield, so revenue per ASK was actually up for the full year and particularly so in Q4. Nevertheless, passenger unit costs continued to rise year-on-year. Fuel made its contribution to this, of course, but both passenger unit cost and passenger unit cost without fuel each rose by 0.1 cents per ASK. Now when yield falls and unit cost rises, the breakeven load factor also goes up. For the year, our breakeven load factor actually rose by 1.8 percentage points.

Let me give a little bit of a picture of what is actually going on here. This chart shows the dry yield statistics that I've presented just now in the prior slide. The yields that we experienced two years ago, this was in FY15-16, now feel, frankly, pretty high, but this was last year, and then in 17-18, you can see that the rate of decline has actually been falling and in February and March, yields were actually above the same months in the prior year. So, in Q4 revenue grew by 8.1% while expenditure rose by only 1.5%. That big gap enabled SIA to turn around from an operating loss in Q4 of last year of $41 million to a profit of $137 million. For the full year, revenue grew by 4.4%, while expenditure was up again by a lower percentage, 1.6%. So as a result, operating profit for the year jumped by $317 million. That's an 82% increase, and the operating profit margin rose from 3.5% to 6.1%.

Passenger flown revenue for SIA was up by about $210 million. That's thanks to, if you recall from the operating statistics, an increase of 3.2% in traffic, partially offset by the 1% reduction in yield. On the right-hand side of the pie chart, SIA benefitted from a share of the higher bellyhold profit, and we'll see cargo's performance in a moment. Passenger other revenue rose thanks to a one-off adjustment for KrisFlyer breakage revenue, higher ticket breakage revenue and higher revenue from non-scheduled services. All of this being partially offset by the absence of a one-time ticket breakage recognition in the prior year. Other revenue was also up. This was mainly in recognition of compensation we received from Airbus for giving up A350 delivery slots three years ago.

Moving to costs, fuel prices began to increase sharply in the second half of the year. In fact, fuel prices for the year were up nearly 18% adding $467 million to our fuel bill, but this increase was partially offset by gains on our fuel hedges and a weakening US dollar. Lease rentals and AMO costs fell, largely because 11 leased aircraft were returned to lessors and the provisions associated with the redelivery costs for those aircraft fell as well. I should also mention the large-ish increase in others in the bottom left-hand side. This includes the impairment of an aircraft that was damaged beyond repair and commissions and sales costs, which were up, as they should be when you're driving higher ticket sales.

So turning to the Group. This is the quarterly revenue in 16-17 and as we went through the year, we were, frankly, encouraged that we were improving every quarter, so Group revenue actually came in at $15.8 billion, an increase of over $900 million or 6.3%, with revenue improvements in all business segments. Passenger flown revenue in particular was up by over $400 million, driven by traffic growth outpacing declines in yields. All passenger airlines recorded higher revenue from increases in passenger traffic, although all airlines also suffered some offset through lower yields. Cargo and mail, on the other hand, was up by a pretty strong $266 million. This is on the back of both a yield improvement, nearly 9%, as well as load improvement of over 5%, so the total increase in cargo revenue was actually up 13.5%. Engineering services as well was up $51 million. This is the third-party revenue generated by the Engineering Company.

We have a similar picture, really, in respect of expenditure. As the year went forward, our expenditure increased throughout. It may not be very evident, but the contribution from fuel was much more marked in the third and fourth quarters, but the total outcome for the year, expenditure up to $14.75 billion, up $503 million or 3.5%. Let me focus on a few headings. Fuel was up $152 million. Handling charges were up $102 million. That's an 8%-plus increase.

Predominantly, that's driven by an increased number of flights, an even larger increase in the number of passengers handled and, indeed, of cargo loads, and so really driven by the volume of business. Staff costs up nearly $100 million, primarily driven by profit-sharing bonus but also in the SIA subsidiaries, growth in head count.

So the operating profit over the last five years has been on an uptrend, but took a large leap, I think it's fair to say, of 70% during FY17-18. It's actually the first time that we've crossed a billion since financial year 2010-11. So the question is where did it come from? It's really driven by flown revenue. You can see here an increase of nearly $700 million in flown revenue. This is coming from passenger revenue, which we've talked about, $428 million, cargo revenue, $266 million.

Here is the increase in third-party engineering revenue. The one-offs relate to this year. KrisFlyer breakage revenue, which really is driven by two things – 1) a change in our estimates of breakage and 2) changes in the member benefits during the year, particularly for PPS members, their miles no longer expire. Higher fuel costs.

Now looking at these two together, aircraft lease costs were down, so a benefit to us. On the other hand, we took delivery of 20 aircraft, which we own and therefore our depreciation charge increased. A range of operating costs. I've mentioned already, I think, all of these costs, but these are supporting the growth in business, and some other mainly revenue items.

If I may, I'll take a very quick look at fuel. As I said earlier, the nearly 18% increase in fuel price caused more than a $600 million increase in our fuel bill, but this was mitigated by a hedging gain rather than hedging losses in the prior year. Small contribution from the increase in volume. Maybe I could linger on that for a quick moment. This represents a 1.8% increase in volume, in fuel uplifted. That compares with the fact that we flew 4.7% more often and we also carried, or production in terms of capacity, was 3.1% higher, and a weaker US dollar certainly helping to mitigate the effect of our US dollar-driven fuel bill.

Now when we actually break down the contribution to operating profit by our main operating entity, we've talked a lot about Singapore Airlines already, so its contribution up $317 million. Operating profit for SilkAir was down by 58, which probably deserves some attention. So revenue was up by $30 million, which is a 3% increase, and that was led by much higher passenger carriage. In fact, passenger carriage was up 16.9%, but the revenue from that additional carriage was offset by a significant drop in yield of 11.5%. Because we had an increase in capacity of close to 13%, we, as you would expect, incurred much higher expenditure. In fact, expenditure was up 10%, mainly from fuel costs, but also other variable costs relating to basic operations. Scoot was up $10 million. Again, Scoot experienced significant growth. On the back of 11.6% capacity growth, their traffic grew by 15.9%, so load factors, a common feature across the Group this year, load factors up significantly. The increase in passenger carriage was slightly offset by a 1.7% contraction in yield. And then cargo, which we were very excited last year broke even, this year significantly improved its operating profit, to $148 million. I've already described the growth in both yield and loads. Expenditure was, of course, up through higher handling charges, staff costs and aircraft maintenance costs through more flying, but the expenditure increase was only $119 million compared to the $264 million in revenue. And then Engineering Company posting a profit of $76 million, up from last year. The operating profit rose because essentially its reduction in expenditure outpaced a reduction in revenue, so the revenue decline came from fleet management programmes as well as aircraft overhauls and component overhauls, but then that was partly offset by a much stronger line maintenance revenue.

Turning to the bottom line, Group net profit was up by $533 million or nearly 150% to $893 million. Where did that come from? Primarily, of course, it came from operating profit. Non-operating items include higher interest costs. We raised just over $2 billion of debt in the Singapore debt capital markets. This is to help fund the higher capital expenditure as we move forward over the next several years. Last year, we had a number of one-offs. We had, for example, the provision for the cargo competition fine. We had the write-down of Tigerair's brand and trademarks. We also had a one-off gain from SIA Engineering's sale of HAESL. The net effect of that last year was a drag on the bottom line net earnings of $52 million. We didn't experience that this year. This year also, we had a better outcome as we disposed of aircraft. This gain primarily coming from trade-in of 777s from SIA.

Our associates and our joint ventures also performed better. This is mainly due to the lower share of losses at Virgin Australia, but the performance of most of our investments improved. I mentioned the disposal of HAESL by SIA Engineering Company. What that did last year was to increase non-controlling interests, so therefore a reduction in our net earnings. This year, we didn't have that, so that's a small benefit for us, and others, the main contributor to others actually was, again, Engineering Company. It sold its stake in ACTS, Asian Compressor Technologies, which it sold in January, so the $18 million primarily contributed by that. And higher taxation. So the net outcome, significant improvement in the bottom line.

If I may, I'll take a very quick look at the expectations for the way in which the fleet will develop over the coming year. We start the year with 186 aircraft across the various airlines, 107 of which are in SIA. We will end the year with 205, so an increase of 19 aircraft. Ten of those are going to be in SIA. This is, primarily, if you break it down, there are two aspects to the fleet development in SIA. Eleven aircraft are essentially older aircraft primarily being used on regional or medium-haul routes that are being replaced by the 787-10s and the first three A350s in medium-haul configuration. The A350-900ULR is of course a new feature. We are looking forward to it towards the end of the year, which will fly the ultra-long-range routes, and the completion of the delivery of the A380 replacement aircraft also contributing. The other notable element I think is probably in Scoot, which is taking delivery of a total of eight A320s coming back from IndiGo in India, plus its first two A320neos during the year.

With the growth in the fleet, we'll also see growth in the ability to grow our overall capacity. As I said earlier, SIA itself has been essentially flat for five years in terms of capacity. This year, the expectation, the plan, is that we will grow at nearly 5%. This comes from a few sources. The ultra-long-range services are going to contribute a significant share of that increase. The 787s carry more seats than the aircraft that they are replacing. Similarly, the five A380s in the new configuration have more seats than the aircraft that they are replacing, so this increased density contributes another significant chunk. And finally, we do have some plans for new destinations, but we also have introduced new destinations during 17-18 and the effect of that flowing through for a full year will essentially take us up to nearly 5% growth. SilkAir, essentially looking at increased frequencies throughout its network. Scoot has announced new destinations to Berlin, Pekanbaru and recently Nanchang, and additional frequencies in other parts of its network. Overall, the Group is expected to grow by nearly 8%.

Cargo is expected to grow by around 6%. That comes from actually a reduction in freighter capacity, by about 2%, and an increase in the bellyhold, as you can imagine from the passenger numbers, an increase in the bellyhold of about 8%.

An update on the capital expenditure numbers. These are very substantially similar to the numbers that we showed you in November. A very slight increase in 18-19 and 19-20. In 18-19, it's really driven by the fact that two aircraft ultimately delivered in April rather than in March.

Our fuel hedging position is sort of where we would like it to be. In the current quarter, we are 43% hedged with a jet fuel price of $64. I think you're aware that jet fuel at the moment is in excess of $80. For the full year, we're hedged about 45%. We have about 45% of our needs hedged at these prices. It's split between jet fuel and Brent at the moment. Then we maintain the longer-term hedges on a fairly programmatic basis.

Earnings per share. Up 150%, 148% to be more exact. Last year, we paid a total dividend of 20¢ per share. We are doubling that for 17-18, so we're paying 40¢ per share.

If I may, I'd like to take a few minutes on an accounting matter. I think everyone in the room will probably be aware that from this year, Singapore-listed companies are required to adopt IFRS or International Financial Reporting Standards, and I think that since these are going to affect our results on an ongoing basis, it is appropriate that I describe what we think or estimate is likely to be the result, the effect on our results going forward. The idea behind moving to IFRS is to have Singapore's listed companies report on the same basis that companies around the globe or in most other parts of the world actually report. The USA is an exception. Now actually, Singapore's Financial Reporting Standards are very similar already to IFRS and that means that going forward we don't expect that there will be a material change to the types of choices that we need to make or the actual effect on our financial results.

For SIA, the effect of IFRS 1 will be on our results in FY2018-19, so it's going forward. Just to be very clear, it does not affect the numbers that we've just talked about. It's a forward-looking thing. However, when we do report our results this time next year, we will present this set of results that we've just looked at on a comparative basis. There are a number of options and exemptions that are available to companies. There are two that will have an impact where we are making elections that will have an impact on our financial results. These relate to the carrying values of our assets and our primary assets, the bulk of our assets are aircraft. The second much smaller impact is in relation to foreign currency translation reserve. It's a one-time opportunity to essentially zero-ise this number.

I think the reason we've elected to make an adjustment to the carrying values of our aircraft is this a one-time opportunity to more closely align the carrying value of our aircraft with the market values. By adjusting the values to market values, we will have more flexibility in deciding whether we keep or sell or how we deal with our assets. Now you may ask, 'Does this mean that actually we've been potentially overvaluing our assets up until now?' The answer is no, and I'd like to explain why. So the curve for an aircraft is typically very much like this. Over time, it'll gradually decline. The market value will decline and it'll be concave to the origin. Now the value to SIA, to any airline, is really driven by the cashflow that an aircraft is going to generate, so we can do a DCF valuation on an aircraft. And in fact this is the basis of our regular impairment tests as required under accounting standards, but economically it also makes sense. We need to look at what is the value to us of that aircraft and so we do a DCF calculation every year in order to assess whether our carrying value is above or below that DCF valuation, independent of the market value. Typically, we will try to design our depreciation policy so that the net book value will remain below the value in use. DCF valuation is, in accounting jargon, called value in use. But it may be, it may be, that the book value is above the market value at any given time. What IFRS 1 does for us now - and this is a one-time opportunity - is it enables us to bring our net book values into line with market values.

The second issue, the foreign exchange translation reserve. This arises when we revalue our investments that are denominated in foreign currencies, such as our investments in associates and joint ventures. Now at the moment, SIA's foreign currency translation reserve is a loss of about $124 million. So we have the opportunity to zero-ise this, and what that does is - we're not suggesting that we are going to take any immediate action on any of our investments - but what it does is it enables us to have a little more flexibility in thinking about how we retain or potentially dispose of relevant assets.

The numbers are quite large. You can see that the adjustment for the aircraft value is $2.1 billion. Now, as I mentioned, we actually as of the end of May, we'll have 198 aircraft in the fleet. Of these, the carrying values of 70 or 36% of the aircraft, are actually above market values. When we make the adjustment to market value, we will be writing down our reserves, so we're writing down the asset value by $2.1 billion. We do not need to do that through P&L. This is just an adjustment to our reserves. There's an adjustment also to our deferred tax liability, which reduces as a consequence of the future depreciation reducing. So you can see that the net impact as of the first of April 2017 would be a reduction in our reserves of $1.9 billion. Because there is also a change in the deprecation charge as a result of having lower book values on our aircraft, the depreciation charge is going to reduce and if we had done this a year ago, the deprecation charge would have actually been reduced by $490 million. Net of tax, that's $407 million.

I think it's then important to think about what this means for some key financial metrics. You can see from this pro forma on our 2017-18 results that our earnings per share will increase significantly. That's a consequence of the reduced depreciation charge. The net asset value, on the other hand, is going to reduce, from just over $12 to $10.55 per share. What that means to the price to book value, we know that's an important metric for a number of investors, is that it will actually rise from 0.9 to just over one. This is on the basis of the share price at the end of this financial year. What I should say is that price to book value is very much within the range that SIA has traded for many, many years, so this is not pushing us out of range.

I want to stress that the change in the deprecation charge is not a permanent change. As the aircraft we have revalued leave the fleet, the impact on deprecation is gradually going to reduce. So you can see that the $490 million becomes $425 million, $322 million, $234 million. These are estimates based on our current fleet plans. And I suppose the final thing to say is this is really an accounting change. It does not change the underlying profitability of the business. It does not change the underlying cash generation of the business. But it will affect many people's numbers and so we wanted to introduce to you now the effects that you are going to see from our first quarter results. I will stand down at this point. I would very much like to ask our CEO, Mr Goh, to kindly take the stage.

Mr Goh Choon Phong: Good morning, everyone, and again welcome to our press and media/analyst briefing this morning. I'll touch on the strategic developments and I think the very first chart you see is something that should be very familiar with everyone – the four-pronged strategy we have adopted seven, eight years ago. The first one on strengthening premium positioning is something that I think over the last few years, particularly in the last couple of years, you have seen how this has materialised in new products being launched. The A380 is one such example where we not only have introduced industry-leading products, that we believe is what you can see as the best in the industry out there. At the same time, we also took the opportunity to optimise the use of the real estate on the plane and make it a lot more efficient in terms of revenue-generating opportunities. In the case of the A380, for example, as you all know, our existing, the older version of the A380 has two configurations. We have in one configuration 441 seats and the other one, 379. In the new configuration with industry-leading products and yet we are able to optimise the use of the space to increase the number of seats to 471, which is significant, and this gives us, again, more revenue opportunities. Of course, in the process we invested a lot in the upgrading. We have announced that it's $850 million US dollars.

Similarly, for the 787, we spent $350 million to fit out the first 20 787s, which is a medium-haul product, which we believe again is defining the level of comfort for travel in the medium-haul, especially on our Business Class product. Here again the aircraft is configured in a very space-efficient manner, with 337 seats.

The investment to continue to upgrade our product and service offering continues. You can see we have announced that before, we will be introducing the A350 medium-haul product towards the end of this year as well, plus the ultra-long-rage will be introduced in the second half of the year. With that, we'll reinstate our service non-stop from Singapore to New York and Los Angeles.

The next three key strategies we have adopted are really about putting in place new growth engines for the Group. The portfolio approach was one of the three strategies and I think, again, we need not elaborate too much about it. By now everybody should be very familiar, except to say that the integration between Scoot and Tiger has gone on smoothly and we are confident that with that integration, we are better able now for Scoot to grow further with efficient and seamless feeding of traffic between its narrowbody and widebody aircraft. Again, cargo reintegration has led to streamlining of processes between cargo and also the SIA mainline. After all, at this point in time, about 75% of the cargo capacity is actually from the bellyhold. So both integration processes have gone on very well and we are already seeing results.

As a portfolio, we say that gives us flexibility and nimbleness for us to actually expand our coverage, and that is the case. At this point, we have as a Group served 29 points in China, which is very significant, and of course, remain the biggest airline group serving India in terms of number of points as well.

Then there's multi-hub as we expand beyond Singapore to establish new growth engines outside of Singapore. Here, notably, we have Vistara and NokScoot. In the case of Vistara, everybody is aware that Vistara has now 20 aircraft. It's expecting two more aircraft to be delivered by July, I think early July, and beyond that, Vistara is looking at what kind of aircraft they should bring in for further expansion. Vistara expects to go into international operations in the second half of the year. NokScoot too has taken five 777 aircraft. In fact the fifth one just joined them not to long ago. And with the lifting of the ICAO restrictions, is now able to expand to more destinations, and this includes, as we stated in here, Narita, Tokyo as well as India, Delhi.

Then we also expanded into adjacent businesses and there are two new ones this year. Our joint venture with CAE, which is to set up a training centre for Boeing aircraft, providing simulator training. As well as our set-up in the retail joint venture. This is a joint venture we have set up together with SATS as well as DFASS, and we expect to go into a lot more into the e-commerce space of selling commodities, selling merchandise to our customers. This will be both online as well as for onboard delivery and also home delivery.

But we have announced beyond that that we began a transformation exercise mainly here to focus back on our core business itself. And this is a three-year programme, of which we have completed the first year. Various initiatives have been started, more than 90 of them across the organisation. I'll just highlight a few here. Revenue generation part, we have more or less completed our implementation of what we call the Krismax 3, which is a new revenue management system, which gives us the ability to better project demand and better allocate the inventory to the different demand buckets. We have also centralised pricing functions and implemented a fare family structure that gives us a lot more flexibility in response to any changes in the market and also create new categories for customers depending on what customers would like to purchase. A lot of such analyses are very much data-driven, as you can expect and we would going forward want to be able to offer more personalised offerings to our customers depending on what they want to look for in a package.

We continued with improvement on our customer service side. Of course, we have the CEM, which we mentioned before, and with that we actually set up a new customer experience unit. It's a whole division looking at how we can further understand our customers' requirements, our customers' wants and needs, preferences, and to look at opportunities to provide a seamless service catering to their preferences. Operationally, we are looking also at various data-driven opportunities to optimise our cost structure more. Engineering of course you heard about predictive maintenance. There's a lot of work going on over there, and there are also optimisations to look at wastage reductions.

All these are supported by our digital moves. We have made an announcement on our digital blueprint. I will not elaborate further, except to say that we have had a very good response from our staff wanting to participate in this movement, and in fact, I will touch on later because part of this organisational effectiveness is about also training our staff to be equipped with a more agile approach and also design thinking, in problem solving and also addressing some of the pain points that we see. So part of this, I will give an example. For example, our staff have gotten together to look at how we can address the issue of refunds. This is a very simple example just to illustrate the point. As you can imagine, most refunds require a fair bit of investigations, after which, processes are quite manually done to actually effect the refund itself. A group of staff have come together and they have actually proposed and actually implemented a process whereby we cut down the refund process from nine days to one day through an auto-refund robot, and this actually had been implemented. Just to qualify, this refund is really in cases where there's a purchase for certain seat selections, which was not fulfilled because of some involuntary reasons, for example, aircraft change and so on. But here's an example and there are many more that we are encouraging our staff to look into and they are taking up that challenge.

We made this announcement this morning. SilkAir. Firstly, we are looking at investing, as you can see here, more than $100 million into upgrading the SilkAir product itself and in particular two aspects. One is the Business Class seats. We are going to introduce the lie-flat seats onto the SilkAir fleet and also to install in-flight entertainment systems, the seat-back in-flight entertainment systems across both cabins in the SilkAir aircraft. This will take a little bit of time, primarily because of the availability of the Business Class lie-flat seat on narrowbody aircraft and we expect that process, that seat availability is going to be sometime in 2020. Once we do that and after we have achieved a sufficient number of aircraft being retrofitted, we will be looking at fully integrating SilkAir into SIA, after which really there will not be SilkAir. It will be just SIA operating both widebody and narrowbody aircraft. This is not a consolidation exercise. It is really an exercise to ensure that we have even greater seamless connectivity between our widebody aircraft and also SilkAir's narrowbody regional routes that we currently have. With this integration, we do believe that there will be greater opportunities for the Group to grow further and this is something that the progress of this particular initiative will be something that we will get back to the public from time to time as there are significant developments. So with that, I thank you for your attention.

Q&A

Mr Nicholas Ionides: Thank you Mr Goh. We'll now move to the Q&A segment, but do bear with us for a few minutes as the tables are being moved into position. While that's taking place, allow me to make a few requests. As usual please direct your questions through me, by giving me a signal that you would like to ask a question and I will call upon you. Please also wait for one of the roaming microphones to come to you, and please state your name and the name of the organisation that you are representing. Please also limit your questions to two each time I call upon you. This is to give more people a chance to ask questions. Of course if there is time I can return to you later. I'll now invite the panellists to the stage. We'll now take the first question. You are really testing my memory this morning, as there are already six or seven sets of questions queued up. We'll start with our left side of the room, the gentlemen to the left near the aisle. Thank you.

Mr Raymond Yap, CIMB: I am Raymond from CIMB…[Inaudible]…simple about SilkAir and I think SilkAir and Scoot basically expand ASK at approximately the same rate, but Scoot really didn't have to take a big yield discount to keep its loads up, but SilkAir did. Does that say something about the full service, short haul business, whether demand might be able to sustain the capacity increases that you're putting in and what does it say about the MAX 8s that are still coming for SilkAir? Just related as well to the introduction of lie-flat Business Class on SilkAir, I don't know about other banks, but definitely my bank doesn't allow Business Class for the short haul, so given that you're using more footprint for Business Class, is that a wise decision? The second question is about Scoot. Scoot actually saw in the fourth quarter, quite a steep rise in the unit cost, whereas for the other airlines in the Group, unit cost actually was flat or down year-on-year in the fourth quarter, so just wondering what's driving the increase in unit cost at Scoot. Thanks.

Mr Goh Choon Phong: Okay, I'll take the SilkAir question. There are various parts to your question. Firstly, your observation about SilkAir yield versus Scoot yield on the regional side, you probably can see that in the region, especially Southeast Asia, I actually presented that before, there's a huge capacity from the LCC for regional. In fact, Southeast Asia penetration of LCC is probably the highest in the world. Over 50% of the market share belongs to Southeast Asia, so it is very competitive for Southeast Asia in particular, because of the LCC operations. Scoot is an LCC, so obviously, it's able to then price accordingly and the price point was already at a budget level and, therefore, any additional competitive pressure would be somewhat limited. Of course, SilkAir is pricing at the full-service level and, therefore, if there is more LCC competition, the impact on the yield would certainly be bigger. As we have stated before, the reason and the good thing about our portfolio approach is that we have the nimbleness and capability to swap routes and vehicles so that the right vehicle is deployed on the right route. That's not to say that there is no place for SilkAir. In fact, we are seeing with SilkAir there is still a lot of demand for a SilkAir type of service, especially on the bigger destinations and the bigger cities in Southeast Asia. Therefore, while we see that there are transfers of routes from SilkAir to Scoot, what was announced earlier, Palembang, Kuching and all that, SilkAir continues to have sizeable traffic on the bigger, established routes and cities. In this particular case, as we merge the two, we will still continue to look at optimisation of the deployment of vehicles to the various routes within Southeast Asia and that will be a function of the market, really. The other thing that you talked about was the lie-flat trade-off. I think one reason why we have decided at this point in time to do that particular exercise is because we're seeing the availability of lie-flat seats, which are much more space efficient, is now in the market and, therefore, we are able to make use of that availability to do the configuration without having to compromise too much in the reduction of number of seats, so that's one particular reason why we're doing so. I just wanted to address your point about the J-Class demand in the regional routes. We're still seeing very healthy J-Class demand even on SilkAir. You see the load factor is not low at all.

Mr Stephen Barnes: Just to take the Scoot question. Really two factors to point to. Number one, which is coming across the airlines, is the steep increase in fuel prices, which showed up really because it's a lean operation and, therefore, fuel price is less easy to absorb. Second is in respect to AMO costs, we periodically need to review estimates of cost relating to and the provisions relating to maintenance, which are long-term maintenance contracts and so there was a catch-up during the fourth quarter for those.

Mr Nicholas Ionides: Okay, we'll go across the aisle, third row from the back. Aisle seat, please. Yes.

Ms Karamjit Kaur, The Straits Times: Good morning. Karamjit from The Straits Times. Just on SilkAir still. You mentioned earlier that this is not a consolidation, but it's more about ensuring that there's better seamless connectivity between widebody and narrowbody aircraft within the Group. Can you explain what you mean by that? Can you also elaborate on how the Group will benefit financially from this merger and also what sort of impact this would have from a branding perspective given that SilkAir has such a long history? It started as Tradewinds and then went on to become SilkAir. Also, when you started Scoot and later when you took over Tigerair, many questions were asked about whether it makes sense for one airline to carry four separate brands. You said back then that you were very confident that it was the right thing to do because each brand, each airline has a very specific strategy and a role to play. From four you went to three and now you're talking about two. Can you take us through that process and what has led to this?

Mr Goh Choon Phong: I'll address your last question first, which is about having four brands and all that. If you can recall, the chart that we presented was in quadrants and we showed that we have vehicles to address each of the quadrants and we said that it's meaningful to be present in each of the quadrants. As we do the merger, let's say in terms of Scoot and Tiger, we did not give up any of that flexibility. In fact, what we said then was that it will enhance connectivity in the case of Scoot and Tiger because it's one entity. It's the same planning, it's the same marketing, it's the same sales and the same branding. That was the case for Scoot and Tiger. Similarly, for the case of SilkAir and SIA, I think it's fair to say that SilkAir has always been playing a very critical role as a regional feeder for SIA and that clearly still remains the case. Even with the merger, it doesn't detract from that role that the narrowbody fleet will play for SIA, which is in this case really SilkAir operations. That will continue. However, we do believe that with the merger and with the single brand, it will make it much easier for our customers to understand that both narrowbody and widebody are really belonging to the same organisation, the same brand. Now, in our part of the world, of course SilkAir is very well known, but when you talk about connectivity from Europe, from US and all that, SilkAir is admittedly much less well known simply because SilkAir doesn't have a presence in those markets. This will make it a lot better from the perspective of being able to market the brand and the connectivity.

Mr Nicholas Ionides: Same section, one row behind, please. The gentleman at the aisle. Behind, thank you.

Mr Benjamin Hartwright, Goldman Sachs: Hi, good morning. Thanks for doing the event. This is Ben Hartwright from Goldman Sachs. I had a couple of questions. First one, on the transformation programme, I think we've had a lot of different initiatives on the revenue-generating side that seems to be coming through. On the cost side, I'm wondering if you could share a little bit more colour on what's happening there and what we should expect and how we should be thinking about this sort of cost savings you might be able to achieve on productivity. Second question just on the yield. Great to see Q4 yield up. Just wondering if you could give us a little bit more colour on which routes and which regions are performing best and particularly on the Transpacific route, I know that's been challenging what you're seeing there and maybe how the ultra-long haul might affect that. Thank you.

Mr Ng Chin Hwee: I'll take the cost side of the question. We are not here to look at cutting costs per se or having cost-cutting as an objective itself on this end. Really, the whole focus is really about trying to drive 1) productivity in how we deploy our manpower, for example, 2) driving higher utilisation of our resources and 3) really cutting down on waste and avoiding duplication. To give an example in the area of our rostering. We have actually set up an integrated planning team that is using more technology and also newer systems to try to achieve higher crew utilisation on our flights for both the pilots as well as the cabin crew. In the areas, for example, of operations, we are already trying to house our control centres for most of our airlines, except for Scoot, and we are also trying to raise or rather strengthen this whole control centre with technology through use of analytics and artificial intelligence to try to minimise the frequency of delays. By doing that, we then free up more aircraft resource for better utilisation and also as well to reduce the cost of delays. In the area of engineering, for example, I think it was highlighted by Choon Phong, we are also now into predictive analytics to try to again reduce the time the aircraft is down because of an engineering fix we have by going into predictive maintenance. In-flight operations is another example. We've been using data analytics to try to reduce the use of fuel without compromising safety, mind you, in all that we do and also any regulatory requirements. These are just a few examples that we are looking at, in trying to raise productivity, improve cost efficiency, but with no compromise on safety. As you can see, the whole objective is not about brutal cost-cutting as an end, but really trying to maximise and optimise productivity here.

Mr Mak Swee Wah: On your question of yield, in fact, we are quite happy to see that the yield decline has bottomed out. In fact, there was an uptick in the last quarter. I think we can attribute this to two things. In general the market has been quite healthy. It's a reflection of the state of the world economy. We have seen improvement in the corporate market, which is rather broad-based both across industries as well as across regions and I think it's also linked to some of the new initiatives that Choon Phong mentioned just now with a more sophisticated revenue management system and with a more flexible pricing structure, we are able to generate a better – what we call – blend, a mix of different market segments. Overall, it lifts the average and we hope that this trend will continue.

Mr Nicholas Ionides: Okay, we're going to move to my right side of the room. The second row, gentleman in the blue shirt and then behind, the aisle seat.

Mr Greg Waldron, Flightglobal: Hi, Greg Waldron from Flightglobal. First question I'd like to ask relates to Scoot's 787s. I was hoping to get a sense of impact that the Trent 1000 problems you've had on Scoot itself as well as on the broader SIA network. The second question I have relates to the merger. Which functions are shared between SilkAir and SIA right now and which functions will be completely merged as a function of this merger that we're doing? Will any functions remain separate after the merger?

Mr Goh Choon Phong: I'll take the first one, which is the Trent 1000 issue, which has been widely reported. Of course, we don't like it, but overall up to this point in time, we are actually seeing not very much impact, primarily because we have been working very, very closely with Rolls-Royce and I think having the Rolls-Royce set-up in Singapore, both SAESL and also their manufacturing plant, was also helpful. We'll continue to do that, which is keeping very closely in touch with Rolls-Royce and to map out with them going forward what are the mitigation measures that need to be put in place to ensure that there is minimal disruption to our service. So far, it has been minimal.

Mr Mak Swee Wah: On the question of SilkAir merger, of course as Choon Phong said just now, this will take a couple of years and so SilkAir will still continue as SilkAir. Nothing will change until such time that the merger takes place. All the operational staff, all the pilots, the cabin crew and all that, that will happen when the merger takes place. Having said that, the integration of backroom functions, in fact, has been going on already over the last year or so. For example, revenue management had already come over. A big part of finance has already come over. In the coming months, areas where there are synergies, for example the head office commercial departments and divisions, the plan is also to move them over so that both organisations can more effectively not just go to market, but also to derive the synergies. Some of these functions will happen gradually over the coming one year or so, but the major change will only happen when the airlines are merged.

Mr Goh Choon Phong: Just for your information, Mak is the chairman for SilkAir. That's why he's answering the question on this.

Mr Nicholas Ionides: So one row behind, the gentleman in the aisle seat.

Mr K Ajith, UOB Kay Hian: Hi, this is Ajith from UOB Kay Hian and two questions from me. First on the pax yield for 4Q, notwithstanding the improvements in Q4, was there negative impact arising from a stronger SIN dollar in the quarter? Second question relates to your capex and whether you have a target debt to equity over the next three years or five years and whether you'd be averse to raising equity from the market.

Mr Stephen Barnes: Well, I'll take that last piece first. We have no plans to raise equity from the market. We don't foresee a need in the foreseeable future based on our current commitments, but it is true that we will be raising more debt from the market and so our leverage will rise. Our leverage will rise just as a result of taking advantage of the accounting change, in fact, so our leverage will rise. We think it will remain and we think it should remain within investment grade metrics, but the key to staying within our investment grade metrics is really earnings and cash generation because those are metrics that are more closely followed by rating agencies and, indeed, by debt investors. We need to actually follow through with the operational improvements in order to maintain solid metrics, but from a gearing perspective, we think we'll be okay. As to the relative strength of the Singapore dollar, no, we have not seen any adverse impact on sales. To be frank, actually, for the longest time we've actually seen the year-on-year effect of the Singapore dollar has actually helped drag down yields for a number of years and the net effect this year is pretty much flat year-on-year.

Mr Goh Choon Phong: By the way, your question on funds, your comments and all that, as you know, we have very desirable assets, 787, A350s and all that, so there are many options. Sale and lease-back is certainly one possibility as well.

Mr Nicholas Ionides: Okay, we're going to go back to the other side of the room, the gentleman in the second row.

Mr Eric Lin, UBS: Thank you. Good morning. Eric Lin from UBS. Congrats on the achievement. My two questions, first one is a follow-up on the transformation. Can you share with me the KPI for the management team at the end of, say, the three-year transformation? What should we look at? Shareholders have always been looking at like – look at the questions – unit revenue up, unit costs, hopefully down. I just want to align KPI with what the shareholders are looking at. Is that still the right metrics to appreciate the transformation three years later, two years later? That's my first question. The second question is particularly on the reintegration of SIA Cargo, which has just started. Firstly, I think the housekeeping thing from the next quarter onwards, are we still going to see SIA Cargo disclosing separately its ops stats and operating profit? That's the first question, and the other thing is on this particular integration, where can we see the synergy coming from on SIA Cargo integration? Thanks.

Mr Goh Choon Phong: Okay, I'll take the questions on the transformation KPI. Quite obviously, definitely we have internally established KPIs, but we are not making them public. However, you can be assured that at least part of those KPIs will be aligned to shareholders' interests. Overall, we have articulated three key themes under this transformation. One is to establish ourselves as the undisputed market leader with sustainable financial performance. The other aspect is to have a vibrant innovation culture. As you can see, all those initiatives, about digital and all that, of course, that ultimately will lead to initiatives that will help us address various business issues. And thirdly also to inspire passion in our people. As you know, people is our most important asset and we want to make sure that everybody is motivated and fired up to do the best they could for the business.

Mr Mak Swee Wah: Integration of cargo, cargo with the integration, is now a division within SIA Commercial. When you talk about synergies, of course that process involves many of the functions that used to be done as standalone company is now being done within the larger SIA network. Not just in terms of backroom, but also in the field sales area, so there are already synergies and, of course, as we go forward, we will also further seek ways in which the field officers act as one unit. On the reporting, there are metrics, which we will continue to measure the contribution of cargo to the overall bottom line. In terms of reporting, Stephen – you can…

Mr Stephen Barnes: Yes, we will continue to provide segment reporting for cargo's business. It will not change materially I think from what you're used to seeing, so we'll give you appropriate operational metrics and links to financial performance.

Mr Goh Choon Phong: Maybe I'll just augment what I said about the transformation metrics. Under the first part, which is about the undisputed market leadership, that really encompasses what we have been talking about in terms of revenue generation, making sure that our service standard is in a leadership position and also continuous improvement in terms of operational productivity.

Mr Nicholas Ionides: I do apologise, I'm only going to be able to take two more because we are running quite tight on time. The gentleman there in the fourth from the back, aisle seat.

Mr Daniel Lau, Morgan Stanley: Hi, good morning. I'm Daniel from Morgan Stanley. Just a small point on the innovation culture. I think my friends at SIA are quite happy, so kudos to that. Two small questions for me. On SilkAir, what were the considerations that prevented you from merging SilkAir and SIA earlier? Like why now? The second question is on Vistara. Now that it's going to fly in international routes, how does this fit into your group route portfolio from there?

Mr Goh Choon Phong: Okay, SilkAir, actually, we kind of alluded to it or mentioned it in the presentation. We first want to focus on getting SilkAir's service and product offering to be closer to that of SIA and that involves retrofitting with new Business Class products, which is the lie-flat we mentioned and also putting in place the in-flight entertainment systems. That takes time, particularly the availability of seats for narrowbody lie-flat products. At this point in time, the indication is that it will only be available sometime in 2020 and we do want to ensure that we have a sufficient number of aircraft in that product before the actual merger takes place. That's the reason why. On Vistara, you are talking about the international operations of Vistara, which will start in the second half of the year. We have always been very clear that Vistara must, first and foremost, grow in a manner that makes the most sense for Vistara itself, so from Vistara's perspective as they look at their network, the first consideration is what kind of network should Vistara have, in order for Vistara to perform best. Of course, because of the traffic between India and Singapore, we know that there will be synergies. Hence, you probably are aware that we already are codesharing on Vistara and there is similar intention for Vistara to want to codeshare on us. For the obvious reason that they can actually tap into the traffic that we can feed from Southeast Asia and Southwest Pacific, so that will be ongoing, but the growth consideration for Vistara is, first and foremost, is their own plan and what is best for itself.

Mr Nicholas Ionides: We have time for one last question, the lady at the very back row there in the aisle seat.

Ms Nisha Ramchandani, Business Times: Hi, Nisha from BT. Just another question on the SilkAir merger. Will the SilkAir staff be brought under the same employment contracts as SIA staff and also could you possibly share some numbers in terms of what kind of efficiencies you might see as a result of merging SilkAir under SIA?

Mr Goh Choon Phong: On the contract, ultimately when it is under one company, obviously it will be exactly the same terms and conditions, so that part I think is clear. We don't, at this point in time, provide any numbers for what kind of efficiency will be achieved, but you can clearly see that it is an opportunity for us actually to be, much more, as I said, effective in connecting and, therefore, with that, providing each of the entities, meaning in this case, the widebody and narrowbody to look at how to grow further.

Mr Nicholas Ionides: Alright, with that, we will bring the morning's session to a close. Thank you all for attending.

(ENDS)