

**SINGAPORE AIRLINES**

No. 05/16

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## FIRST HALF OPERATING PROFIT \$302 MILLION

- Revenue decline from yield erosion cushioned by fuel cost savings
- Second quarter results weaker in challenging environment

### GROUP FINANCIAL PERFORMANCE

#### First Half Operating Results

The Group earned an operating profit of \$302 million in the first half of the 2016-17 financial year, improving \$62 million (+25.8%) year-on-year.

Group revenue declined \$273 million from one year ago to \$7,305 million (-3.6%). Passenger flown revenue from the Parent Airline Company fell \$320 million (-6.4%), as downward pressure on yields persisted. This was partly compensated by higher flown revenue from Scoot (+\$88 million), supported by its rapid growth. Cargo and mail revenue dropped \$99 million (-9.6%), notwithstanding higher freight carriage, as cargo yield was further eroded. The decline in passenger flown revenue and cargo revenue was partly mitigated by growth in other revenue, largely arising from up-front recognition of revenue from unutilised tickets, partially offset by the absence of income earned upon the release of seven aircraft delivery slots reported last year.

Group expenditure contracted by \$335 million to \$7,003 million (-4.6%). Net fuel costs declined \$622 million (-25.2%), arising from a 21% drop in average jet fuel price (-\$411 million), lower hedging loss (-\$282 million) and weaker US Dollar against the Singapore Dollar (-\$4 million), partly offset by higher uplift (+\$75 million). Ex-fuel costs were up \$287 million or 5.9% from one year ago, partly attributable to capacity expansion by SilkAir and Scoot.

**Note 1:** The SIA Group's unaudited financial results for the half year and second quarter ended 30 September 2016 were announced on 3 November 2016. A summary of the financial and operating statistics is shown in Annex A. (All monetary figures are in Singapore Dollars. The Company refers to Singapore Airlines, the Parent Airline Company. The Group comprises the Company and its subsidiary, joint venture and associated companies).

### First Half Operating Results of Main Companies

The operating results of the main companies in the Group for the first half of the financial year were as follows:

Operating Profit/(Loss)	1st Half FY2016-17 \$ million	1st Half FY2015-16 \$ million
Parent Airline Company	276	206
SilkAir	44	26
Scoot	6	(22)
Tiger Airways	11	(10)
SIA Cargo	(45)	(12)
SIA Engineering	23	48

The Parent Airline Company registered a \$70 million year-on-year increase in operating profit for the first half of the financial year. Total revenue declined \$343 million, as passenger flown revenue dropped \$320 million on the back of a 3.2% contraction in passenger carriage (measured in revenue passenger-kilometres) and a 2.9% decline in passenger yield. Passenger load factor fell 1.9 percentage points to 78.1%, on a marginal decline in capacity (measured in available seat-kilometres) of 0.9%. Expenditure was \$413 million lower, with \$525 million savings in net fuel costs, partially offset by an exchange loss compared to exchange gain last year, higher staff costs, and higher aircraft maintenance and overhaul costs.

SilkAir reported an operating profit of \$44 million in the first half, up \$18 million or 69.2% from last year. Total revenue increased \$8 million mainly from higher other revenue, while passenger flown revenue was largely flat year-on-year. Passenger carriage increased by 8.1%, trailing capacity growth (+10.3%), leading to a lower passenger load factor of 69.9% (-1.4 percentage points). Yield was 7.5% lower compared to one year ago. Expenditure declined by \$10 million, as fuel cost savings more than offset the higher costs from expansion.

Scoot recorded an operating profit of \$6 million in the first half of the financial year, improving \$28 million year-on-year. Total revenue rose \$95 million (+45.2%), supported by substantial growth in passenger carriage (+53.2%), though discounted by a weaker yield (-5.7%). Capacity expanded more rapidly by 55.6%, and consequently passenger load factor was 1.3 percentage points lower at 81.8%. Expenditure rose \$67 million (+28.9%) largely in tandem with the increase in capacity, although unit cost was down 19.2%.

Tiger Airways achieved an operating profit of \$11 million, reversing a loss in the prior year. Passenger carriage fell 2.3% on the back of a capacity dip (-1.1%), but yield was flat year-on-year. Passenger load factor dropped by 1.0 percentage point to 82.8%. Reduced expenditure (\$24 million) more than offset the drop in revenue (-\$3 million) from lower traffic, as fuel costs shrunk.

SIA Cargo's operating loss widened by \$33 million to \$45 million. Freight carriage grew 7.3%, outpacing the capacity increase of 5.7%, resulting in an increase in cargo load factor by 0.9 percentage point to 61.6%. Revenue, however, declined \$101 million as yield dropped 16.6%. This was partly mitigated by a reduction in expenditure, which was mainly attributable to lower fuel costs.

SIA Engineering's operating profit decreased by \$25 million compared to last year. Revenue fell \$8 million, mainly from fleet management programme and line maintenance services. Expenditure rose \$17 million, largely due to higher provision for a profit sharing bonus that arose from the divestment of Hong Kong Aero Engine Services Ltd (HAESL), partly compensated by lower subcontract costs.

### First Half Net Profit

The Group reported a net profit of \$322 million for the first half, up \$17 million (+5.6%) compared to the same period last year.

In addition to improved operating results, the Group recognised a \$142 million gain from SIA Engineering's divestment of HAESL. These were partially offset by lower dividends from long-term investments (-\$100 million) [See Note 2], a widened share of losses from associates (-\$59 million), Scoot's impairment on two 777-200 aircraft (-\$21 million), and higher loss on disposal of aircraft (-\$10 million).

### Second Quarter 2016-17

Group operating profit for the second quarter declined \$20 million to \$109 million (-15.5%), as the \$174 million fall in expenditure was insufficient to cushion the \$194 million reduction in revenue.

The operating results of the main companies in the Group for the second quarter of the financial year were as follows:

**Note 2:** This was primarily due to lower dividends received from Everest Investment Holdings Limited (formerly known as Abacus International Holdings Limited), which declared a special dividend arising from sale of its 65% investment in Abacus International Pte Ltd to Sabre Technology Enterprises II Ltd last year.

Operating Profit/(Loss)	2nd Quarter FY2016-17 \$ million	2nd Quarter FY2015-16 \$ million
Parent Airline Company	79	98
SilkAir	17	21
Scoot	5	(2)
Tiger Airways	3	(10)
SIA Cargo	(11)	(3)
SIA Engineering	25	27

Most companies in the Group recorded weaker operating results amid a sluggish global economy. However, Scoot and Tiger Airways registered improvements year-on-year as the low-cost carriers continued to perform better on the back of an extended network and reduced operating expenditure.

Group net profit was \$65 million, \$149 million lower than the second quarter last year. On top of weaker operating results, lower dividends from long-term investments (-\$88 million) [see Note 2], Scoot's impairment on 777-200 aircraft (-\$21 million), and weaker results from associated companies (-\$18 million) added to the headwinds.

## INTERIM DIVIDEND

The Company is declaring an interim dividend of 9 cents per share (tax exempt, one-tier), amounting to \$106 million, for the half-year ended 30 September 2016. The interim dividend will be paid on 24 November 2016 to shareholders as of 15 November 2016.

## FLEET DEVELOPMENT

During the July-September quarter, the Parent Airline Company added two A350-900s to the operating fleet and decommissioned one A330-300 in preparation for lease return. As at 30 September 2016, the operating fleet of the Parent Airline Company comprised 104 passenger aircraft (54 777s, 26 A330-300s, 19 A380-800s and five A350-900s), with an average age of 7 years and 8 months.

SilkAir sold one A319-100 during the second quarter. As at 30 September 2016, SilkAir operated 30 aircraft – 11 A320-200s, three A319-100s and 16 737-800s – with an average age of 4 years.

In the second quarter, Scoot took delivery of one 787-8, increasing its operating fleet to 12 787s (six 787-9s and six 787-8s), with an average age of 1 year and 1 month as at 30 September 2016.

Tiger Airways operated 23 aircraft – 21 A320s and two A319s – with an average age of 5 years and 5 months.

SIA Cargo operated a fleet of nine 747-400 freighters as at 30 September 2016.

## **ROUTE DEVELOPMENT**

During the July-September quarter, the Parent Airline Company launched inaugural flights to Dusseldorf and to Wellington via Canberra. These were followed in late October by the commencement of non-stop daily A350-900 services to San Francisco, and new Manchester-Houston services upon the suspension of Munich-Manchester and Moscow-Houston services. Munich and Moscow are now served on a non-stop basis. Services to Sao Paulo (via Barcelona) were suspended, with the last flight operated on 20 October 2016. The network of the Parent Airline Company now consists of 61 destinations across 31 countries, including Singapore.

As part of the Northern Winter Schedule, more services to Adelaide, Christchurch and Kolkata will be mounted to cater to peak demand. In addition, seasonal flights to Sapporo will be operated from 1 December 2016 to 5 January 2017.

SilkAir commenced three-times-weekly circular operations to Vientiane and Luang Prabang from 31 October 2016. Fuzhou will be added to the network with effect from 21 November 2016, bringing the number of destinations to 52 across 14 countries.

Scoot started operations to Sapporo (via Taipei), Jaipur and Dalian (via Qingdao) in October 2016. It will introduce its first European long-haul service to Athens from 20 June 2017, expanding its network to 24 destinations across 10 countries.

Tiger Airways' network remains at 40 destinations in 12 countries.

Overall, including the announced new routes, the portfolio of airlines in the Group will be serving 132 destinations across 36 countries.

## OUTLOOK

The passenger airline business continues to be impacted by geopolitical uncertainty and weak global economic conditions. The outlook in most major economies remains tepid. Furthermore, excess capacity and aggressive pricing continue to persist in the market, exerting pressure on loads and yields.

The outlook for the cargo business remains challenging as yields are expected to stay under pressure due to overcapacity in the air cargo industry. Efforts will continue to be focused on higher-yielding product segments to improve the overall traffic mix.

Fuel prices remain volatile given the uncertainty over how the proposed cut in OPEC oil production would be implemented. For the second half of the financial year, the Group has hedged 29.3% of its jet fuel requirement in Singapore Jet Kerosene (MOPS) and 3.0% in Brent at weighted average prices of USD68 and USD63 per barrel, respectively.

The Group will remain nimble and flexible, leveraging its portfolio of airlines to cater to demand in different travel markets, while maintaining cost vigilance. The improved operating capability and efficiency of the growing Airbus A350 fleet is enabling the launch of previously unserved new routes, while the deep integration between Scoot and Tiger Airways continues to provide cost efficiencies and opportunities to enhance network connectivity. Both the full-service and low-cost airline segments are boosting the Group's competitiveness and are offering new opportunities for expansion.

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**GROUP FINANCIAL STATISTICS**

	1st Half 2016-17	1st Half 2015-16	2nd Quarter 2016-17	2nd Quarter 2015-16
<b>Financial Results (\$ million)</b>				
Total revenue	7,304.7	7,578.1	3,650.3	3,844.8
Total expenditure	7,002.4	7,338.1	3,541.2	3,716.2
Operating profit	302.3	240.0	109.1	128.6
Non-operating items	121.7	126.3	(26.4)	111.2
Profit before taxation	424.0	366.3	82.7	239.8
Profit attributable to owners of the Parent	321.5	304.8	64.9	213.6
<b>Per Share Data</b>				
Earnings per share (cents)				
- Basic <sup>R1</sup>	27.2	26.1	5.5	18.3
- Diluted <sup>R2</sup>	27.0	26.0	5.5	18.2
	As at 30 Sep 2016	As at 31 Mar 2016		
<b>Financial Position (\$ million)</b>				
Share capital	1,856.1	1,856.1		
Treasury shares	(194.8)	(381.5)		
Capital reserve	(150.9)	(129.2)		
Foreign currency translation reserve	(155.2)	(151.3)		
Share-based compensation reserve	82.0	123.7		
Fair value reserve	(68.7)	(498.6)		
General reserve	11,867.2	11,935.5		
Equity attributable to owners of the Parent	13,235.7	12,754.7		
Total assets	23,739.9	23,769.7		
Total debt	1,161.6	1,347.5		
Total debt : equity ratio (times) <sup>R3</sup>	0.09	0.11		
Net asset value (\$) <sup>R4</sup>	11.20	10.96		

<sup>R1</sup> Earnings per share (basic) is computed by dividing profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue less treasury shares.

<sup>R2</sup> Earnings per share (diluted) is computed by dividing profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue less treasury shares, adjusted for the dilutive effect on the exercise of all outstanding share options granted.

<sup>R3</sup> Total debt : equity ratio is total debt divided by equity attributable to owners of the Parent.

<sup>R4</sup> Net asset value per share is computed by dividing equity attributable to owners of the Parent by the number of ordinary shares in issue less treasury shares.

## OPERATING STATISTICS

	1st Half 2016-17	1st Half 2015-16	2nd Quarter 2016-17	2nd Quarter 2015-16
<b><u>SIA</u></b>				
Passengers carried (thousand)	9,435	9,549	4,804	4,976
Revenue passenger-km (million)	46,163.8	47,690.5	24,026.9	25,176.9
Available seat-km (million)	59,072.1	59,602.4	29,884.2	30,081.6
Passenger load factor (%)	78.1	80.0	80.4	83.7
Passenger yield (cents/pkm)	10.2	10.5	10.0	10.4
Passenger unit cost (cents/ask)	8.0	8.6	8.1	8.7
Passenger breakeven load factor (%)	78.4	81.9	81.0	83.7
<b><u>SilkAir</u></b>				
Passengers carried (thousand)	1,967	1,866	973	942
Revenue passenger-km (million)	3,415.4	3,159.4	1,702.4	1,635.3
Available seat-km (million)	4,885.9	4,429.6	2,443.7	2,254.7
Passenger load factor (%)	69.9	71.3	69.7	72.5
Passenger yield (cents/pkm)	12.4	13.4	12.4	13.3
Passenger unit cost (cents/ask)	8.3	9.3	8.4	9.1
Passenger breakeven load factor (%)	66.9	69.4	67.7	68.4
<b><u>Scoot</u></b>				
Passengers carried (thousand)	1,562	1,054	824	572
Revenue passenger-km (million)	5,711.8	3,728.5	3,057.5	2,012.4
Available seat-km (million)	6,986.7	4,489.2	3,762.0	2,381.7
Passenger load factor (%)	81.8	83.1	81.3	84.5
Revenue per revenue seat-km (cents/pkm)	5.0	5.3	5.0	5.4
Cost per available seat-km (cents/ask)	4.2	5.2	4.2	5.1
Breakeven load factor (%)	84.0	98.1	84.0	94.4
<b><u>Tiger Airways</u></b>				
Passengers carried (thousand)	2,526	2,568	1,250	1,284
Revenue passenger-km (million)	4,666.9	4,777.5	2,295.2	2,389.9
Available seat-km (million)	5,639.0	5,699.8	2,795.6	2,840.9
Passenger load factor (%)	82.8	83.8	82.1	84.1
Revenue per revenue seat-km (cents/pkm)	6.7	6.7	6.7	6.6
Cost per available seat-km (cents/ask)	5.4	5.9	5.5	6.0
Breakeven load factor (%)	80.6	88.1	82.1	90.9
<b><u>SIA Cargo</u></b>				
Cargo and mail carried (million kg)	613.2	564.6	306.3	282.5
Cargo load (million tonne-km)	3,368.1	3,140.0	1,700.0	1,571.6
Gross capacity (million tonne-km)	5,468.1	5,174.6	2,777.6	2,607.7
Cargo load factor (%)	61.6	60.7	61.2	60.3
Cargo yield (cents/ltk)	25.2	30.2	25.2	29.9
Cargo unit cost (cents/ctk)	16.9	19.4	16.4	19.2
Cargo breakeven load factor (%)	67.1	64.2	65.1	64.2
<b><u>Group Airlines (Passenger)</u></b>				
Passengers carried (thousand)	15,490	15,037	7,851	7,774
Revenue passenger-km (million)	59,957.9	59,355.9	31,082.0	31,214.5
Available seat-km (million)	76,583.7	74,221.0	38,885.5	37,558.9
Passenger load factor (%)	78.3	80.0	79.9	83.1



**GLOSSARY***SIA*

Revenue passenger-km	=	Number of passengers carried x distance flown (in km)
Available seat-km	=	Number of available seats x distance flown (in km)
Passenger load factor	=	Revenue passenger-km expressed as a percentage of available seat-km
Passenger yield	=	Passenger revenue from scheduled services divided by revenue passenger-km
Passenger unit cost	=	Operating expenditure (less bellyhold revenue from SIA Cargo) divided by available seat-km
Passenger breakeven load factor	=	Passenger unit cost expressed as a percentage of passenger yield. This is the theoretical load factor at which passenger revenue equates to the operating expenditure (less bellyhold revenue from SIA Cargo)

*SilkAir*

Revenue passenger-km	=	Number of passengers carried x distance flown (in km)
Available seat-km	=	Number of available seats x distance flown (in km)
Passenger load factor	=	Revenue passenger-km expressed as a percentage of available seat-km
Passenger yield	=	Passenger revenue from scheduled services divided by revenue passenger-km
Passenger unit cost	=	Operating expenditure (less cargo and mail revenue) divided by available seat-km
Passenger breakeven load factor	=	Passenger unit cost expressed as a percentage of passenger yield. This is the theoretical load factor at which passenger revenue equates to the operating expenditure (less cargo and mail revenue)

*Scoot*

Revenue passenger-km	=	Number of passengers carried x distance flown (in km)
Available seat-km	=	Number of available seats x distance flown (in km)
Passenger load factor	=	Revenue passenger-km expressed as a percentage of available seat-km
Revenue per revenue seat-km	=	Passenger revenue from scheduled services divided by revenue passenger-km
Cost per available seat-km	=	Operating expenditure divided by available seat-km
Passenger breakeven load factor	=	Cost per available seat-km expressed as a percentage of revenue per revenue seat-km. This is the theoretical load factor at which passenger revenue equates to the operating expenditure

*Tiger Airways*

Revenue passenger-km	=	Number of passengers carried x distance flown (in km)
Available seat-km	=	Number of available seats x distance flown (in km)
Passenger load factor	=	Revenue passenger-km expressed as a percentage of available seat-km
Revenue per revenue seat-km	=	Passenger revenue from scheduled services divided by revenue passenger-km
Cost per available seat-km	=	Operating expenditure divided by available seat-km
Passenger breakeven load factor	=	Cost per available seat-km expressed as a percentage of revenue per revenue seat-km. This is the theoretical load factor at which passenger revenue equates to the operating expenditure

*SIA Cargo*

Cargo load	=	Cargo and mail load carried (in tonnes) x distance flown (in km)
Gross capacity	=	Cargo capacity production (in tonnes) x distance flown (in km)
Cargo load factor	=	Cargo and mail load (in tonne-km) expressed as a percentage of gross capacity (in tonne-km)
Cargo yield	=	Cargo and mail revenue from scheduled services divided by cargo load (in tonne-km)
Cargo unit cost	=	Operating expenditure (including bellyhold expenditure to SIA) divided by gross capacity (in tonne-km)
Cargo breakeven load factor	=	Cargo unit cost expressed as a percentage of cargo yield. This is the theoretical load factor at which cargo revenue equates to the operating expenditure (including bellyhold expenditure to SIA)

*Group Airlines**(Passenger)*

Revenue passenger-km	=	Number of passengers carried x distance flown (in km)
Available seat-km	=	Number of available seats x distance flown (in km)
Passenger load factor	=	Revenue passenger-km expressed as a percentage of available seat-km