

**SINGAPORE AIRLINES LIMITED**  
(Incorporated in the Republic of Singapore)  
Company Registration No.: 197200078R

**ANNOUNCEMENT**

**PROPOSED RENOUNCEABLE RIGHTS ISSUE -  
ADDITIONAL INFORMATION IN RESPONSE TO QUESTIONS FROM SIAS**

*Unless otherwise defined, all terms and references used herein shall bear the same meanings ascribed to them herein and in the Offer Information Statement (as defined below).*

**1. INTRODUCTION**

The Directors refer to the Company's announcement on 28 May 2021 in relation to the lodgement and dissemination of the offer information statement dated 28 May 2021 (the "**Offer Information Statement**") in relation to the renounceable rights issue (the "**Rights Issue**") of up to S\$6,196,793,517 in aggregate principal amount of mandatory convertible bonds (the "**Rights 2021 MCBs**") in the denomination of S\$1.00 for each Rights 2021 MCB, at an issue price of 100 per cent. of the principal amount of the Rights 2021 MCBs.

**2. RESPONSE TO QUESTIONS FROM SIAS**

The Company has received certain questions from Securities Investors Association (Singapore) ("**SIAS**") in relation to the Rights Issue and Rights 2021 MCBs, and has prepared and is releasing with this announcement, responses to the said questions.

**By Order of the Board**

**Brenton Wu**  
**Company Secretary**

1 June 2021  
Singapore

**IMPORTANT NOTICE**

This advertisement has not been reviewed by the Monetary Authority of Singapore.

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In addition, until 40 days after the settlement of the Rights, the Rights 2021 MCBs and the Rights 2021 MCB Conversion Shares, any offer, sale or transfer of the Rights, the Rights 2021 MCBs or the Rights 2021 MCB Conversion Shares in or into the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

**RESPONSES TO QUESTIONS BY SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE) ON THE ISSUANCE OF RIGHTS 2021 MANDATORY CONVERTIBLE  
BONDS BY SINGAPORE AIRLINES**

1. **Regarding your intentions to exercise the rights Mandatory Convertible Bond (MCB) issue of S\$6.2 billion, in a bid to strengthen the Singapore Airlines (SIA) Group's financial foundation and secure its industry-leading position, how critical is this issuance for SIA as a Group over the near- and longer-term?**

The Covid-19 pandemic has led to a global collapse in the demand for air travel and resulted in a significant decline in passenger revenues across all three airlines within the SIA Group. Without a domestic segment, the Group is vulnerable to restrictions on the free movement of people across national borders.

During FY2020/21, the Group's airline passenger traffic (*measured in revenue passenger-kilometres or RPKs*) shrank 97.9% from a year before. The significant decline in passenger revenue has materially and adversely affected the Group's financial position. The Group recorded a net loss of S\$4,271 million for the financial year ended 31 March 2021 (FY2020/21).

To address the collapse in demand for air travel, the Group scaled back operations in April 2020 and cut capacity to only 3% compared to pre-Covid-19 levels (*i.e. January 2020*). The Group subsequently grew its passenger capacity in a calibrated manner, reaching 23% of pre-Covid-19 levels at the end of March 2021.

While the growing pace of vaccinations gives hope, new waves of infections around the world mean that international travel and immigration restrictions remain largely in place and it remains uncertain as to when air traffic will recover to pre-Covid-19 levels.

As a result, we have been actively taking steps to build up our liquidity and the Rights Issue is a crucial component of such measures. Given the uncertain recovery trajectory, we believe it is the prudent approach to proceed with the issuance of the Rights 2021 MCBs. We have taken a multi-year view with this fundraising, combining the need to manage the crisis on hand and the need to invest for the future.

The proceeds from the Rights Issue will be treated as equity in the balance sheet, allowing us to maintain a strong equity base and creating options for raising further debt financing as necessary.

The proceeds will strengthen the Group's financial foundations to meet ongoing financial commitments, allow us to make the necessary investments and capitalise on any opportunities that may arise so as to secure our industry-leading position, and provide resources for growth as we navigate through the ongoing crisis. The successful implementation of the Group's strategy is also dependent on its ability to retain its talented and motivated employees, and to continue having a strong employer brand to attract new talent.

2. **The response to the last MCB issuance was tepid, where Temasek ended up holding c. 96% of the MCBs issued (despite its 55.4% shareholdings). This signifies that most investors as well as directors chose to lapse their rights MCBs. Many believe that the MCB has a suboptimal return-risk profile – where it provides no income, and with a paltry payoff of 4-6% per annum upon redemption after some years.**
- a) **What were the lessons learnt from the previous MCB exercise, and what is done differently this time round?**

SIA sought and obtained strong shareholder support for the additional MCBs at the April 2020 Extraordinary General Meeting (EGM), with 99.66% of shareholders approving the resolution. This was subsequently renewed at the July 2020 Annual General Meeting (AGM), where 99.76% of shareholders approved the resolution to issue the additional MCBs before the next AGM in July 2021.

The terms and conditions of the Rights 2021 MCBs, as approved by shareholders at both the April 2020 EGM and the July 2020 AGM, are substantially similar to the MCBs issued in 2020, save that the Rights 2021 MCBs have a tenor of slightly less than nine years while having the same maturity date as the MCBs issued in 2020.

**b) Can SIA share the merits of the MCB issuance, and why eligible shareholders should take up this offer?**

Eligible shareholders should evaluate whether an investment in the Rights 2021 MCBs is suitable for them and consult their financial advisers.

While the Group has the option to redeem the Rights 2021 MCBs, shareholders have an opportunity to hold an instrument with yields to call that step up from 4% to 6% per annum (compounded on a semi-annual basis) depending on when it is redeemed.

On the maturity date of 8 June 2030, the Rights 2021 MCBs that have not been redeemed or purchased and cancelled will be converted to ordinary shares, based on the Final Accreted Principal Amount (*S\$1.69797 in respect of each S\$1.00 in principal amount of Rights 2021 MCBs*) divided by the Conversion Price of \$4.84 (*subject to adjustments*), with no further cash outlay required from Rights 2021 MCB Holders. For illustration purposes only, assuming there is no adjustment to the Conversion Price, a shareholder who holds S\$1,000 in principal amount of MCBs can expect to receive 350 ordinary shares upon conversion.

**c) On the technicalities and the mathematical aspects, are there any differences between the MCBs issued in 2020 and those eligible shareholders are entitled to this time round, i.e. Rights 2021 MCBs?**

The terms of the Rights 2021 MCB were approved by shareholders at the April 2020 EGM and subsequently by shareholders at the July 2020 AGM. These terms are substantially similar to the MCBs issued in 2020.

Given that the MCBs issued in 2020 and the Rights 2021 MCBs to be issued would have the same maturity date, the tenor for the Rights 2021 MCBs will be marginally shorter, at slightly less than nine years. As a result, assuming the Rights 2021 MCBs are issued on 24 June 2021, the Final Accreted Principal Amount in respect of each S\$1.00 in principal amount of Rights 2021 MCBs on the Maturity Date will be S\$1.69797, as compared to S\$1.80611 for the MCBs issued in 2020.

**3. We note that this MCB issuance was approved by shareholders during an EGM held on 30 April 2020, with a 15-month timeframe from the date of the EGM. What factors influenced SIA in making the decision to go for this MCB issuance? Are these more of circumstantial or structural factors?**

At the April 2020 EGM, shareholders approved the issuance of additional MCBs. This was subsequently renewed at July 2020 AGM, when shareholders approved a resolution to issue the additional MCBs before the next AGM in July 2021.

Given the uncertain recovery trajectory, we believe it is prudent to proceed with the issuance of the additional MCBs. We have taken a multi-year view with this fundraising exercise, combining the need to manage the crisis on hand with the need to invest for the future.

Additionally, the Rights 2021 MCBs are not immediately dilutive and will provide the Company with the flexibility to manage its capital structure, with partial or full redemption allowed on every six-month anniversary of the issue date at the Company's discretion.

Temasek's undertaking to subscribe for its pro-rata entitlement and any remaining balance of this issuance provides certainty of funding through the issuance of the Rights 2021 MCBs.

4. **According to the announcement, of the S\$6.2 billion to be raised, 32% will be used for operating purposes; the remaining 44% and 24% will be used for capital expenditure (CAPEX) and other commitments, respectively. This marks a departure from last year, where respective allocations stood at 42%, 38% and 20%. Plain reading of these figures suggests the shift in SIA's focus – where it is looking beyond this pandemic to secure its longer-term future. Can SIA comment on the thought process behind the allocation of funds? Also, can SIA briefly outline the deployment schedule for the proceeds?**

Over the last year, the SIA Group has taken steps to ensure that it is ready to emerge stronger and fitter as it recovers from the pandemic. This includes investing in new-generation aircraft, having a strong presence in both the full services premium and budget travel segments, the flexibility to offer the right products to match demand when it recovers, and a new Transformation programme that aims to drive digital leadership and excellence in product and services while prioritising health and safety measures. We will also actively pursue new engines of revenue growth, and initiatives to achieve a more competitive cost base to secure financial sustainability for the future.

The proceeds from the MCBs will be used to fund fixed costs and other operating expenses, aircraft and aircraft related payments, investments in digital capabilities, and debt service and other contractual payments.

As disclosed during the media and analyst briefing on 20 May 2021, the operating cash burn has improved during the course of FY2020/21. This reduces the amount that we need to allocate to operating purposes, and enables us to allocate more of the proceeds to meet capital expenditure and debt servicing requirements.

We expect the proceeds to last us well into FY2022/23.

5. **The issuance of MCBs will be treated as equity in the group's balance sheet. On paper, the expansion of the equity base reduces gearing and leverage ratios – even though debt levels effectively remain the same, i.e. creditworthiness still stays the same. Moreover, this MCB issuance opens up further debt headroom for SIA.**

- a) **Is there an optimal capital structure that SIA is looking at?**

Pre-Covid-19, we had moved towards holding a lower cash balance and complementing it with lines of credit. Given the uncertain operating environment due to the Covid-19 outbreak, we intend to hold higher levels of cash to cushion the potential operating volatility during this period.

Having said that, we do not have a specific target leverage ratio or other financial metrics. Given the high degree of uncertainty due to the Covid-19 outbreak, we need to have some degree of flexibility that allows us to be nimble in our response.

In the longer term, we will review our liquidity and capital structure strategies based on the trajectory of the eventual recovery and prevailing market conditions.

- b) **Does SIA have sufficient operating cash flow and/or free cash flow to service its existing interest payments – bearing in mind freight operations is the major contributor currently?**

We are currently experiencing operating cash burn, and hence it is important to shore up liquidity especially during this period of high uncertainty. Raising additional liquidity through the Rights 2021 MCBs is a critical part of this strategy. The absence of a cash coupon on the MCBs is also an attractive feature for the Company as it would not contribute to the cash burn.

We have been reducing our cash burn during the course of FY2020/21, with strong cargo revenue performance being a key contributor. To further manage the operating cash burn, we have taken steps to contain costs and conserve cash.

These include deferring non-essential capital expenditure, imposing tight controls on discretionary expenditure, deferring non-critical projects, renegotiating contracts with suppliers, implementing staff measures such as an early retirement scheme, a voluntary release scheme for crew, salary cuts, and a manpower rationalisation exercise, and deferring more than S\$4 billion of capital expenditure between FY2020/21 and FY2022/23 to later years through the revision of aircraft purchase agreements with Airbus and Boeing.

## **SIA's Strategy and Outlook**

### **6. It was announced that SIA expects passenger capacity to be around 28% and 32% of pre-Covid-19 levels by June and July, respectively. Assuming this is the base case, what is the worst-case scenario assumed by SIA? What would be the impact to SIA's operating performance as well as its financial position under such scenario?**

To address the collapse in demand for air travel, the Group scaled back operations in April 2020 and cut capacity to only 3% of pre-Covid-19 (*i.e. January 2020*). The Group subsequently grew its passenger capacity in a calibrated manner, reaching 23% of pre-Covid-19 levels at the end of March 2021. The Group expects capacity to reach around 32% of pre-Covid-19 levels by end of July 2021.

While the Group has resumed selected services, it remains uncertain as to when air traffic will recover to pre-Covid-19 levels. According to industry forecasts, global passenger traffic will not return to pre-Covid-19 levels until the 2023-2024 time period.

While the growing pace of vaccinations gives hope, new waves of infections around the world mean that international travel and immigration restrictions remain largely in place. As a result, the demand for international travel remains constrained due to the ongoing border restrictions. That means there is still a high degree of uncertainty about the recovery trajectory, and the road to recovery will be uneven with stops and starts as we have seen over the last year.

As a result, we have been actively taking steps to build up our liquidity and the Rights Issue is a crucial component of such measures. It provides the foundation to meet ongoing financial commitments amidst the severe disruption to global air travel caused by the Covid-19 pandemic, and the resources for growth as we navigate through the ongoing crisis.

At the same time, we have actively taken steps to contain costs and conserve cash. These include deferring non-essential capital expenditure, imposing tight controls on discretionary expenditure, deferring non-critical projects, renegotiating contracts with suppliers, implementing staff measures such as an early retirement scheme, a voluntary release scheme for crew, salary cuts, and a manpower rationalisation exercise, and deferring more than S\$4 billion of capital expenditure between FY2020/21 and FY2022/23 to later years through the revision of aircraft purchase agreements with Airbus and Boeing.

Recent increases in fuel price will also lead to lower losses or even gains on settlement of fuel hedges, thus helping to reduce cash burn further.

Since the beginning of the Covid-19 pandemic crisis, our monthly operating cash burn has dropped to current levels of around S\$100 million – S\$150 million per month, from around S\$350 million at the start of the pandemic. We will continue to pursue reduction in cash burn through revenue generation (*for example, strong cargo revenue and gradual improvement in passenger flown revenue through more flying activities*). In addition, we will continue to maintain stringent cost management.

Strong fundamentals continue to drive air cargo demand, with healthy Purchasing Managers' Index readings across many key export economies. Demand from the e-commerce and pharmaceutical segments, among others, remains robust. SIA is well positioned to capture more Covid-19 vaccine shipments into the Asia Pacific region as vaccine production ramps up and exports grow.

7. **As the adage goes, the only certainty is uncertainty. Such uncertainty is evident in SIA's Offer Information Statement lodged for MCB 2020, where it is noted that "there is no assurance that travel will rebound to pre-outbreak levels". Furthermore, the changes to the travel and aviation industry remain to be seen – it could possibly come to the point of lower passenger load factor and lesser business travels. What are the steps taken or to be taken by SIA to mitigate these risks and uncertainties?**

SIA has had a long track record of profitability spanning decades, and have been profitable even through various crises (*Global Financial Crisis, SARS, etc.*).

Strong pre-Covid-19 fundamentals, enhanced by the first three-year transformation programme, resulted in record highs in capacity (*measured in available seat-kilometres or ASKs*) of 45,506 million ASKs, revenue (S\$4,470.6 million) and passenger uplift (10.1 million) for the Q3 FY2019/20 results. The passenger load factor for Q3 FY2019/20 of 85.6% came in a close second, compared to the highest PLF record in previous quarter Q2 FY2019/20 at 85.7%. Margins were rising in the three financial quarters immediately preceding Covid-19. The Covid-19 pandemic however has led to a global collapse in the demand for air travel and resulted in a significant decline in the Group's passenger revenue from February 2020.

While the growing pace of vaccinations has given us hope, new waves of infections around the world mean that restrictions on international travel largely remain in place. SIA has grown its passenger capacity and resumed selected services in a safe and calibrated manner, but industry bodies forecast that air traffic is not expected to recover to pre-Covid-19 levels until the 2023-2024 time period.

Given the uncertainty over any changes in the demand and market patterns, the SIA Group has taken concrete steps to ensure that we are ready to respond in a nimble and flexible manner to the new operating environment.

The liquidity that we will raise through the Rights 2021 MCBs will fortify our financial position during these times, while providing the resources to position the SIA Group for growth and leadership. This would allow the Group to make the necessary investments to secure its industry-leading position.

The Group's portfolio strategy, with a presence in both the full services premium and budget travel segments, provides flexibility to offer the right products to match demand when it recovers. Our fleet modernisation plan to replace older aircraft with new-generation aircraft will allow us to deliver greater comfort and innovative products to customers, and help to drive operating efficiency and lower carbon emissions.

SIA's Transformation programme aims to drive digital leadership and excellence in product and services while prioritising health and safety measures. We will also actively pursue new engines of revenue growth, and initiatives to achieve a more competitive cost base to secure financial sustainability for the future. We have also worked hard to retain and prepare our talented people to continue delivering the world-class service that SIA is renowned for.

The strong foundations that the SIA Group had when we first faced Covid-19, the investments and changes that we made to strengthen our operational capabilities as we navigate this crisis, our world-class brand and customer loyalty, as well as the continued support of all stakeholders, shareholders, customers and staff members, gives us the confidence that we will emerge stronger from this crisis.

8. **Notwithstanding the different industries, we have seen large, established heavyweights in the Singapore economy making strategic changes and/or conducting strategic review on its asset composition (e.g. Keppel, Sembcorp, CapitaLand, and SPH). Most of them are targeted at streamlining its asset base, to one that is “asset-light”. Seeing the success in its recent sale-and-leaseback programme that raised S\$2 billion, would this be an avenue to which SIA can achieve dual goals of raising fund and streamlining its asset base? Could you elaborate?**

SIA has traditionally had a mix of both owned and leased aircraft, giving us flexibility on operations, cost and aircraft residual value risk management.

Since 1 April 2020, we have raised approximately S\$2.0 billion from aircraft sale and leaseback transactions and we will continue to evaluate more opportunities for such transactions along with other appropriate financing strategies.

Leased aircraft are held on the balance sheet as right-of-use (ROU) assets, in accordance with IFRS 16, meaning that operating leases do not contribute to an asset light strategy.

### **SIA's Financials**

9. **It was reported that SIA has managed to slash its monthly cash burn rate to the range of S\$100-150 million, from S\$350 million a year ago. How long will this S\$6.2 billion raised last? Would there be a need for further fund-raising?**

The additional liquidity that we will raise through the Rights 2021 MCBs will fortify our financial position during these uncertain times, while providing resources to position the SIA Group for growth and leadership as we emerge from the current challenges.

Including the existing cash reserves, we expect the liquidity to sufficiently cover our financial needs well into FY2022/23.

The proceeds from the Rights Issue will be treated as equity in the balance sheet, allowing us to maintain a strong equity base and creating options for raising further debt financing as necessary.

10. **As far as shareholders are concerned: they operate with finite amount of resources and expect a commensurate payoff when the dust settles.**

- a) **Some shareholders have asked whether SIA is considering privatisation and/or delisting (e.g. SMRT)? Has SIA any such plan?**

Privatisation is not a matter for SIA to consider as it is a shareholder action. Accordingly, SIA is not in a position to comment.

- b) **How does SIA look to balance/align its business interests and that of the shareholders?**

SIA is grateful to all shareholders, including retail investors, for their strong support over the years and especially since the start of the Covid-19 pandemic.

Our goal is to provide long-term value for shareholders by ensuring that the Company returns to profitability, and remains a leader in the airline industry as we navigate the challenges posed by the Covid-19 pandemic.

The Group's portfolio strategy, with a presence in both the full services premium and budget travel segments, provides flexibility to offer the right products to match demand when it recovers. Our fleet modernisation plan to replace older aircraft with new-generation aircraft will



allow us to deliver greater comfort and innovative products to customers, and help to drive operating efficiency and lower carbon emissions.

SIA's Transformation programme aims to drive digital leadership and excellence in product and services while prioritising health and safety measures. We will also actively pursue new engines of revenue growth, and initiatives to achieve a more competitive cost base to secure financial sustainability for the future. We have also worked hard to retain and prepare our talented people to continue delivering the world-class service that SIA is renowned for.

**c) Notwithstanding that the dilution of shareholdings will only take place sometime later, i.e. upon conversion of MCB, were there other less-dilutive fund-raising means considered as well?**

We would like to reiterate that the Rights 2021 MCBs are not immediately dilutive. Tapping the Rights 2021 MCBs thus provides certainty of funding, while incorporating flexibility to manage the Company's capital structure with the MCB redemption feature.

The proceeds from the Rights Issue will be treated as equity in the balance sheet, allowing us to maintain a strong equity base and creating options for raising further debt financing as necessary.

Since 1 April 2020, the SIA Group has raised fresh liquidity through a variety of sources including the 2020 Rights Issue, bond issuances, secured financing, and sale-and-leaseback transactions. The Group will continue to explore all financing options as necessary.

**d) Has the risk profile of SIA changed, following the corporate actions?**

Shareholders should refer to the Offer Information Statement on the risk factors and seek their own investment advice.

Broadly speaking, given that the proceeds from the Rights Issue will be treated as equity in the balance sheet, this allows us to maintain a strong equity base and creates options for raising further debt financing as necessary.

Given the uncertain recovery trajectory, we believe it is prudent to proceed with the issuance of the additional MCBs. We have taken a multi-year view with this fundraising exercise, combining the need to manage the crisis on hand with the need to invest for the future.