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## **FIRST QUARTER OPERATING PROFIT UP \$82 Million TO \$193 MILLION**

- Passenger airlines' profits advance on lower fuel prices
- Industry capacity injection continues to outpace market demand, creating severe competitive pressure on yields and loads
- Gain from divestment of long-term investment lifted net profit

### **GROUP FINANCIAL PERFORMANCE**

#### First Quarter 2016-17

The Group reported an operating profit of \$193 million in the April-June 2016 quarter, an improvement of \$82 million or 73.9% year-on-year.

Group revenue declined \$79 million (-2.1%) to \$3,654 million. Passenger flown revenue fell \$75 million (-2.6%), mainly attributable to lower revenue from the Parent Airline Company, partially compensated by an improved performance from Scoot and SilkAir on the back of growth in operations. Other passenger revenue increased by \$54 million (+21.4%) largely due to a one-time credit upon a change in the timing of recognising revenue from unutilised tickets, partially offset by the absence of income earned upon the release of seven aircraft delivery slots which was recorded last year. Cargo revenue decreased \$60 million (-11.6%) largely due to a 17.4% contraction in cargo yield.

Note 1: The SIA Group's unaudited financial results for the first quarter ended 30 June 2016 were announced on 28 July 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).

Group expenditure declined \$161 million (-4.4%) to \$3,461 million. Net fuel cost fell \$357 million, arising from a 28% drop in average jet fuel price (-\$287 million) and lower hedging loss (-\$122 million), partially offset by the strengthening of the US Dollar against the Singapore Dollar (+\$6 million), and higher volume uplifted (+\$46 million). Ex-fuel costs rose by \$196 million, partly due to capacity expansion at SilkAir and Scoot, and the exchange impact of the stronger US Dollar year-on-year.

Group net profit for the quarter was \$257 million, an improvement of \$166 million (+182.4%) over last year. On top of a better operational performance (+\$82 million), the Group recorded higher non-operating income (+\$133 million). This was mainly due to SIA Engineering's gain on divestment of its 10.0% stake in Hong Kong Aero Engine Services Ltd (HAESL) (+\$142 million), coupled with \$36 million in special dividends received from HAESL following the sale of HAESL's 20.0% stake in Singapore Aero Engine Services Ltd. These were partially offset by a higher share of losses from Virgin Australia (-\$41 million), mainly due to restructuring costs.

### First Quarter Operating Results of Main Companies

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

	1 <sup>st</sup> Quarter FY2016-17 \$ million	1 <sup>st</sup> Quarter FY2015-16 \$ million
Operating Profit/(Loss)		
Parent Airline Company	197	108
SIA Engineering	(2)	21
SilkAir	27	5
SIA Cargo	(34)	(9)
Scoot	1	(20)
Tiger Airways	8	0

Operating profit for the Parent Airline Company was \$89 million higher compared to the same quarter last year. Revenue declined by \$112 million, mainly due to a reduction in passenger revenue stemming from a 3.7% contraction in passenger yield and a 1.7% fall in passenger carriage (measured in revenue passenger-kilometres). Capacity (measured in available seat-kilometres) declined by 1.1%, hence passenger load factor decreased 0.5 percentage points to 75.8%. Expenditure was down \$201 million, with \$296 million in savings coming from a reduction in net fuel costs, offset by higher ex-fuel costs (+\$95 million).

SIA Engineering recorded an operating loss of \$2 million compared to a \$21 million operating profit a year ago. Revenue declined \$7 million, mainly from its fleet management programme, partially offset by an increase in line maintenance services, and airframe and component overhaul revenue. Expenditure increased \$16 million largely due to higher staff costs (+\$23 million) arising from an increase in provision for profit sharing bonus that pertains to the divestment of HAESL, partially mitigated by a foreign exchange gain compared to a loss last year (-\$6 million).

SilkAir recorded a more than five-fold increase in operating profit (+\$22 million) year-on-year. Revenue rose \$14 million, boosted by a 12.4% increase in passenger carriage, partially offset by an 8.2% reduction in passenger yield. Despite capacity growth (+12.3%), expenditure contracted by \$8 million (-3.6%) and this was largely attributable to lower fuel costs. Passenger load factor was maintained at 70.1%.

SIA Cargo's revenue fell by \$60 million as a result of a yield decline of 17.4%, which was partially mitigated by 6.4% growth in freight carriage (in load tonne - kilometres). Capacity increased by 4.8%; consequently cargo load factor increased by 0.9 percentage points to 62.0%. Expenditure declined by \$35 million mainly due to lower fuel costs. The reduction in expenditure could not fully compensate for the reduction in revenue and, consequently, SIA Cargo's operating loss widened to \$34 million from \$9 million a year ago.

Scoot recorded an operating profit of \$1 million compared to an operating loss of \$20 million last year. Revenue (+\$46 million) was boosted by 54.7% growth in passenger carriage, outstripping its 53.0% capacity expansion, notwithstanding a 3.8% decline in yield. This was partially offset by higher expenditure (+\$25 million) from growth in operations. Unit costs fell by 18.9%, benefitting from lower fuel prices, and partly from the deployment of the more fuel efficient 787s in the quarter. Scoot's passenger load factor increased by 0.9 percentage points to 82.3%.

Tiger Airways achieved an \$8 million improvement in operating profit compared to its break-even result in the previous year. The better performance arose mainly from expenditure falling \$7 million, with benefits from fuel cost savings being partly eroded by higher lease rentals and maintenance costs. Passenger carriage declined 0.7% against a 0.5% reduction in capacity. Passenger load factor fell marginally by 0.1 percentage points to 83.4%.

## **FLEET DEVELOPMENT**

During the April-June quarter, the Parent Airline Company took delivery of three A350-900s, of which two aircraft entered into service, and removed one A330-300 from service in preparation for lease return. As at 30 June 2016, the operating fleet of the Parent Airline Company comprised 103 passenger aircraft (54 777s, 27 A330-300s, 19 A380-800s and three A350-900s), with an average age of 7 years and 7 months.

SilkAir took delivery of two 737-800s during the quarter. As at 30 June 2016, SilkAir operated 31 aircraft – 11 A320-200s, four A319-100s and 16 737-800s – with an average age of three years and 11 months.

During the first quarter, Scoot took delivery of one 787-8. As at 30 June 2016, Scoot's operating fleet consisted of six 787-9s and five 787-8s, with an average age of 11 months.

Tiger Airways operated 23 aircraft (21 A320s and two A319s) with an average age of 5 years and 2 months.

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

## **ROUTE DEVELOPMENT**

The Parent Airline Company commenced new services to Dusseldorf from 21 July 2016. This will be followed by the launch of new services to Canberra and Wellington from 20 September 2016. In addition, the Parent Airline Company will launch non-stop daily flights between Singapore and San Francisco using A350-900s from 23 October 2016, and will add a second daily service to Los Angeles, in an expansion of its US operations. Services to Sao Paulo (via Barcelona) will be suspended and the last flight will be operated on 20 October 2016.

From 30 October 2016, the Parent Airline Company will fly non-stop to Manchester, with the service continuing on to Houston which is currently served via Moscow. With the launch of the Singapore-Manchester-Houston service, existing Moscow-Houston and Munich-Manchester services will be suspended. Both Munich and Moscow will continue to be served, however, on a non-stop basis to and from Singapore.

In addition, as part of the Northern Winter Schedule, services to Adelaide, Christchurch and Kolkata will increase during peak periods, while seasonal services to Sapporo will be operated from 1 December 2016 to 5 January 2017.

SilkAir will commence operations to Vientiane and Luang Prabang in Laos via a circular routing with effect from 31 October 2016, along with Fuzhou in China with effect from 21 November 2016. This will grow SilkAir's network to 52 destinations across 14 countries, including Singapore.

Scoot commenced new services to Jeddah on 2 May 2016, its first destination in the Middle East. The airline also made its first foray into India, with its inaugural services to Chennai and Amritsar on 24 May 2016. On 20 July 2016, Scoot added a second daily service to Tokyo (via Bangkok), complementing Tokyo services that are operated via Taipei. In October 2016, Scoot will introduce new services to Sapporo (via Taipei), Jaipur and Dalian. With these new destinations, Scoot's network will expand to 24 destinations across 9 countries.

Tiger Airways commenced new services to Zhengzhou, China on 28 June 2016, bringing the airline's network to 40 destinations in 12 countries.

## OUTLOOK

The business outlook for the Parent Airline Company remains challenging amid economic weakness and geopolitical concerns in some markets. Competition remains intense with aggressive capacity injection, and yields will continue to remain under pressure. Yields will be further diluted if key revenue-generating currencies depreciate against the Singapore Dollar.

The Parent Airline Company looks forward to the expansion of its fleet of A350-900 aircraft to 11 by the end of the financial year. These more fuel efficient aircraft will offer new opportunities to grow long haul operations, and further strengthen the Singapore hub.

The purchase of all the ordinary shares of Tiger Airways and the establishment of Budget Aviation Holdings to own and manage Scoot and Tiger Airways, during the quarter, lays the foundation for the integration of commercial and operational synergies between the two low cost subsidiaries.

The cargo market remains soft, with economic uncertainty in Europe and China. Cargo yields are expected to remain under pressure as overcapacity persists in the industry.

The Group has hedged 37.5% of its jet fuel requirements for the second quarter at a weighted average price of USD81 per barrel.

The Group's balance sheet remains strong and will position the Group to weather the many challenges ahead.

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A STAR ALLIANCE MEMBER



**GROUP FINANCIAL STATISTICS**

	1st Quarter 2016-17	1st Quarter 2015-16
<b>Financial Results (\$ million)</b>		
Total revenue	3,654.4	3,733.3
Total expenditure	3,461.2	3,621.9
Operating profit	193.2	111.4
Non-operating items	148.1	15.1
Profit before taxation	341.3	126.5
Profit attributable to owners of the Parent	256.6	91.2
<b>Per Share Data</b>		
Earnings per share (cents)		
- Basic <sup>R1</sup>	21.7	7.8
- Diluted <sup>R2</sup>	21.6	7.8
	As at 30 Jun 2016	As at 31 Mar 2016
<b>Financial Position (\$ million)</b>		
Share capital	1,856.1	1,856.1
Treasury shares	(154.0)	(381.5)
Capital reserve	(135.6)	(129.2)
Foreign currency translation reserve	(178.4)	(151.3)
Share-based compensation reserve	96.3	123.7
Fair value reserve	(126.1)	(498.6)
General reserve	12,206.8	11,935.5
Equity attributable to owners of the Parent	13,565.1	12,754.7
Total assets	24,283.0	23,769.7
Total debt	1,195.8	1,347.5
Total debt : equity ratio (times) <sup>R3</sup>	0.09	0.11
Net asset value (\$) <sup>R4</sup>	11.44	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 Quarter 2016-17	1st Quarter 2015-16
<b><u>SIA</u></b>		
Passengers carried (thousand)	4,631	4,573
Revenue passenger-km (million)	22,136.9	22,513.6
Available seat-km (million)	29,187.9	29,520.8
Passenger load factor (%)	75.8	76.3
Passenger yield (cents/pkm)	10.3	10.7
Passenger unit cost (cents/ask)	8.0	8.5
Passenger breakeven load factor (%)	77.7	79.4
<b><u>SilkAir</u></b>		
Passengers carried (thousand)	994	924
Revenue passenger-km (million)	1,713.0	1,524.1
Available seat-km (million)	2,442.2	2,174.9
Passenger load factor (%)	70.1	70.1
Passenger yield (cents/pkm)	12.3	13.4
Passenger unit cost (cents/ask)	8.2	9.5
Passenger breakeven load factor (%)	66.7	70.9
<b><u>Scoot</u></b>		
Passengers carried (thousand)	738	482
Revenue passenger-km (million)	2,654.3	1,716.1
Available seat-km (million)	3,224.7	2,107.5
Passenger load factor (%)	82.3	81.4
Revenue per revenue seat-km (cents/pkm)	5.0	5.2
Cost per available seat-km (cents/ask)	4.3	5.3
Breakeven load factor (%)	86.0	101.9
<b><u>Tiger Airways</u></b>		
Passengers carried (thousand)	1,276	1,284
Revenue passenger-km (million)	2,371.7	2,387.7
Available seat-km (million)	2,843.4	2,858.9
Passenger load factor (%)	83.4	83.5
Revenue per revenue seat-km (cents/pkm)	6.7	6.7
Cost per available seat-km (cents/ask)	5.4	5.7
Breakeven load factor (%)	80.6	85.1
<b><u>SIA Cargo</u></b>		
Cargo and mail carried (million kg)	306.9	282.1
Cargo load (million tonne-km)	1,668.1	1,568.4
Gross capacity (million tonne-km)	2,690.5	2,566.9
Cargo load factor (%)	62.0	61.1
Cargo yield (cents/ltk)	25.2	30.5
Cargo unit cost (cents/ctk)	17.3	19.5
Cargo breakeven load factor (%)	68.7	63.9
<b><u>Group Airlines (Passenger)</u></b>		
Passengers carried (thousand)	7,639	7,263
Revenue passenger-km (million)	28,875.9	28,141.5
Available seat-km (million)	37,698.2	36,662.1
Passenger load factor (%)	76.6	76.8



**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