Mr Simon Israel, Chairman of SingPost
Speech at the 24th SingPost Annual General Meeting, 14 July 2016

Good afternoon, shareholders,

I am honoured to have become a Director of SingPost and your Chairman.

Like you, I wish the circumstances were different.

I have been Chairman for just two months and have been on a steep learning curve trying to fully understand SingPost's business.

I have some initial thoughts and comments that I wish to share with you today. Some of these comments may include forward-looking statements, and so trading of SingPost shares has been suspended as a precautionary measure for the duration of this meeting.

The three areas that I'll be covering today are:

• First: the disruptive forces our postal business is facing and how these influence the priorities that drive your Board and management;
• Second: how we are addressing the gaps in our corporate governance; and
• Third: the appointment of the new Group CEO and other questions that one may expect you to be asking today.

1. Disruptive forces

Let us look first at our response to the forces of disruption:

From the presentation on last year's results by Mervyn, our Covering Group CEO, we can see that SingPost has a sound business.

Looking forwards however, we need to recognise that our domestic mail business, on which we are still highly dependent, is a burning platform, subject to the forces of digital disruption. I want to commend management for an outstanding job of managing the decline in our domestic mail business while growing our international mail business at the same time. International mail includes eCommerce packages and this business, while growing strongly, comes with lower profit margins.

Let us take a step back and look at this in perspective: Globally, SingPost is recognised as a leader in postal services, one that has better managed disruption, when compared to most other postal services in the world.

BUT – the risk of disruption to mail is real and disruption is rarely linear in nature.

As corporate Singapore becomes increasingly digital and as the Government leads us towards a Smart Nation, we will see a tipping point in the domestic mail business and an accelerating decline - this may well come sooner rather than later and we need to be prepared for it.

It is in this urgent context that your Board committed the Company to a transformation to help us build new and alternative sources of growth and profits. This is needed to ensure that SingPost remains a sustainable business, is able to surmount the challenges ahead of it and continues to create value for shareholders in the long term.

Our transformation is built on extending our foundation into the high growth area of eCommerce logistics. Over the last 24 months, the Company has invested about S$636 million in acquisitions to build a network, and the infrastructure to support it. Others in the international marketplace have recognised the potential of what we are building and this has led to Alibaba becoming an important shareholder and valued customer.

At a high level our transformation is strategically sound. The challenge before us now is in the execution of the strategy. We need to:

- Deliver on the business plans that supported these investments;
- Evolve the businesses we have acquired into a truly integrated network;
- Ensure we have a compelling value proposition for our customers; and
- Create value for our shareholders in the years to come.

2. Corporate governance

Let's turn to the issue of Governance:

At the last AGM, a number of important governance questions were put to the Board which unfortunately were not answered fully and may have raised further concerns. SingPost's reputation has since suffered from a very public crisis surrounding our Board governance. We have seen the resignation of the Group CEO, a Special Audit, a Corporate Governance Review and resignations from the Board. Our share price reflects this.

The Special Audit found governance concerns and the Corporate Governance Review has made recommendations for improvement.

As a Board we recognise this, our Directors acknowledge their collective responsibility for the governance of SingPost, and we are making every effort to setting this right by improving our policies, processes and procedures to prevent a recurrence.

You will all have had an opportunity to review and consider the findings and recommendations of the Corporate Governance Review. I will not go through them today, though I will touch on some aspects to address concerns that have been raised.

As a Board, we have adopted all of the recommendations of the Special Audit and Corporate Governance Review except one. This is the recommendation to deem any Director serving more than nine years as non-independent. This recommendation has become irrelevant, because we have put in place a rule that no Director will serve for more than nine years. We are well on the way to implementing all the other recommendations.

Our adoption of the Directors' Code of Business Conduct and Ethics sets the tone under which SingPost will be governed going forward. It is complemented by our policies on Directors' Conflicts of Interest and Board Renewal and Tenure. These are key foundation policies, which will support the implementation of the recommendations of the Special Audit and Corporate Governance Review in both form and spirit.

We are fully committed to implementing these recommendations no later than the end of September this year. The timing of some recommendations is contingent on the appointment of new Directors before they can be put into effect. We will update you once the implementation is fully completed.

We are now in the process of building a stronger Board, fit for purpose and aligned to our strategy for business transformation and sustainability. We have a search in progress for new Directors against the profiles recommended in the Corporate Governance Review. A number of candidates have been identified and we expect to make appointments, subject to regulatory approval. You will have the opportunity to vote on the re-election of these new Directors at next year's AGM.

3. Appointment of Group CEO and other questions

The Board is well aware that any business without a strong leader for an extended period could lead to a crisis in the business and we recognise the need to get a Group CEO appointed as soon as possible. Let me reassure you that this matter is receiving our fullest attention and that we have candidates in the process of due diligence. It's important to remember these senior candidates have extended notice periods. Realistically, given where we are in the process, we should expect the next Group CEO to take up the appointment at the end of the year. Until then, we will manage SingPost through our covering Group CEO and management committee.

I would now like to address questions that you are likely to be raising today:

The first is: Why did Dr Wolfgang Baier resign?

In his own words, Dr Baier said he was moving to new endeavours after leading SingPost's transformation for five years. The Corporate Governance Review makes reference to the partnership between Board and management. In its survey of our Directors, the lowest scoring item in the section was the statement: The partnership between Board and management is effective with a high level of trust, openness and transparency. The Review suggested that more could be done at the Board level to recognise and distinguish between the Board's stewardship role and the role of the Group CEO and management in executing the Company's strategy. I think we can assume that this may have influenced Dr Baier's decision.

Dr Baier is to be commended for being the architect and driver of SingPost's transformation, and I thank him on behalf of all of us.

After this period of acquisitions, we are now in an integration phase. This calls for a leader with strong operational skills to integrate what we have acquired, drive operational excellence, deliver value to our customers, create one culture out of a diverse group of employees, and strengthen the management bench. These are fundamental to delivering the value from our transformation.

Questions have been asked, whether SingPost overpaid for its acquisitions. This is a highly subjective area, so I will spend some time on it.

A good starting point is to remind ourselves that it is very unlikely that a Board would knowingly approve overpaying for an acquisition.

When approving an acquisition, the Board will consider the price to be paid, the business case and the return to shareholders.

The price is a function of what can be negotiated with the seller, and but is also tested against the range for comparable industry norms using various valuation metrics.

The business case is built by management, based on their assumptions of the future of the business under their management – it reflects expected growth, revenue and cost synergy assumptions among other matters. It is the business case which defines the value that will be created for shareholders and justifies the value of the business.

The reasonableness of management's assumptions and the business case is reviewed by the Board before it approves a transaction. The Board approves an acquisition only when it is comfortable with the business case, shareholder returns, due diligence findings and risk mitigations.

Finally, the reasonableness of the assumptions is reviewed once more by the Auditors during the signing off on the annual accounts. The Auditors test for impairment and have to be satisfied that the carrying value of the investments on the books is fully justified.

The key take away from all of this is: the assumptions that underpin the business case play a critical role in valuation – more so, when you are taking a five-year view in an increasingly disruptive and unpredictable world. The bottom line is: While you try your best to make reasoned and robust assumptions, you will know only over the course of time whether you have paid the right price, overpaid or got a bargain.

Our investments in transformation are very recent so the assumptions have yet to stand the test of time. Let me give you a flavour of our progress:

The Famous acquisitions and our investments in 4PX are both performing well: We are ahead of the business case for those transactions. Famous Holdings and its freight forwarding operations provide the important international transportation leg for our eCommerce logistics ecosystem. 4PX gives us critical reach into China, the world's fastest growing, and now also the world's biggest eCommerce market.

We are slightly behind the business case on Couriers Please, which gives us crucial last mile access in Australia. Since acquiring it in December 2014, we have been integrating the last mile delivery business of Couriers Please with SingPost's logistics warehousing operations in Australia. We expect to close the gap in the business case by realising planned synergies as we continue to integrate these operations into our network.

Our US acquisitions of Trade Global and Jagged Peak were completed less than a year ago. These give us a vital foothold in one of the world's most important eCommerce markets. A key part of the business case is to help our US clients expand their businesses into Asia through our network. We have owned Trade Global for just eight months and Jagged Peak, four months. It is premature to take stock and reach conclusions on their progress at this early stage as the two US businesses are highly seasonal. They peak sharply in November and December, leading into Christmas. It is this peak season that generates a large part of profit and cash flow in a given year and we still have this ahead of us.

Please be assured that the Board is closely monitoring the performance of these acquired businesses and will update shareholders in due course. We should recognise that eCommerce is a rapidly changing space, exposed to disruption from innovation and competitors. Success depends on our ability to achieve scale, stay ahead of the game and manage the businesses well.

Regarding our relationship with Alibaba and the pending transactions previously announced:

The further placement to Alibaba and a Joint Venture with Quantium Solutions were announced subject to conditions precedent. The timeline has been extended until 31 October 2016 to allow these conditions to be fulfilled.

The additional placement is subject to Alibaba obtaining regulatory approval to increase their stake and being satisfied on any conditions that might be imposed.

The proposed Alibaba joint venture with Quantium Solutions is also subject to conditions precedent. Additionally, we are presently working on a joint business plan. This is taking some time to arrive at, as it is complex and commercial terms need to be thoroughly addressed. Alibaba's recent acquisition of Lazada has added to both opportunity and complexity.

In the interim Alibaba remains an important and growing customer for SingPost and we value and appreciate our partnership.

As is the case with all conditional transactions, shareholders should exercise caution in assuming transactions will be completed. We will keep you updated when appropriate.

I will now comment on what to expect going forward as a shareholder:

Our postal business has been our historical source of profit and cash flow and I have highlighted the potential risks of disruption to this business.

SingPost's transformation is a journey to be completed and will take some time to accomplish. To finance this transformation, we have raised new capital and taken on debt.

As with most transformations, there are risks, notably around the acquired businesses and our ability to create value from them. There are lower risks in logistics and significantly higher risks in eCommerce.

While we expect strong revenue growth in eCommerce logistics, it will take a number of years before our acquired businesses contribute materially to the bottom line.

At the same time, we will be funding the operational losses from our investments in eCommerce start-ups, and infrastructure associated with eCommerce logistics - notably the upcoming Regional eCommerce Logistics Hub and IT systems. We are also foregoing a significant portion of rent from SingPost Centre while it is being redeveloped. And depending on whether new capital comes in and whether we are able to divest other non-core assets, we may have to take on more debt which will then need to be serviced and paid down.

The Group has enjoyed a historical ROE of 17 to 21 per cent, attributed to our legacy Postal business. We can't expect this level of ROE from our recently acquired businesses, so you should expect the blended ROE of the Group to decline over time as the new businesses grow.

These comments raise the importance of ensuring that our dividend policy is sustainable. The policy needs to be reviewed to ensure there is a clear link to underlying earnings, so that it is sustainable through our transition and provides for future growth.

So please have realistic expectations for the next few years as we navigate through our transformation. I can assure you that your Board is very conscious of the challenges. When we have rebuilt the Board and have our Group CEO in place, we will conduct an in depth review of the business.

I will conclude here for us to commence with the business of the AGM.