Mr Simon Israel, Chairman of SingPost
Speech at the 25th SingPost Annual General Meeting, 20 July 2017

(Delivered by Mrs Fang Ai Lian, Lead Independent Director of SingPost)

Good afternoon,

On behalf of the Board I would like to welcome all our shareholders to today's meeting.

This has been a very challenging year for SingPost. While we made significant progress in the transformation of our business, issues in the US with TradeGlobal were a major setback.

I expect you to have come here today with a number of concerns in respect of:

- The governance at SingPost;
- The impairment of assets;
- The plunge in profit for the last financial year;
- The drop in the dividend; and
- The drop in our share price.

All of these are inter-related.

You will also be asking: What does the future hold?

I am going to address all these points but before doing so, I want to assure you that your Board shares your concerns and fully appreciates how difficult this is for shareholders.

Over the last year, your Board has been dealing with a number of important issues, setting things right and ensuring that we have a strong foundation on which to grow our business.

Governance

As you are aware, the Board conducted a major review last year of our corporate governance with the support of external advisers. This identified a number of governance weaknesses, some of which were systemic in nature.

Based on the recommendations of the review, we put in place a new corporate governance framework based on best practices, established appropriate governance policies and improved Board and Management processes. We now have a Code of Ethics and Conduct for Directors, policies on matters such as conflict of interests, Board renewal and Director tenure, as well as clear policies and procedures for M&A.

Since May last year, seven new Directors were appointed to the Board. They bring needed skill sets based on the recommendations of the Corporate Governance Review. The Board profiles are featured on Pages 18 to 23 of the annual report. We will continue with renewal and add additional skill sets.

Today, we have a strong governance foundation in place, a renewed Board and we look forward to working with Paul Coutts, our new Group CEO, to take SingPost forwards.

Impairment and TradeGlobal

A company is required to test for impairment of assets every year. There are defined processes around this and accounting standards which we have to comply with. Management makes recommendations to the Board on impairment where necessary, based on the value derived from future business plans. The auditors have to sign off on the impairment which requires the approval of the Board.

Of the $208.6 million impairment charge last year, $185 million related to the impairment of TradeGlobal, a US eCommerce business SingPost acquired in October of 2015. The Board had announced the risk of significant impairment at our Q3 results, following a disappointing critical peak season. The peak season is when TradeGlobal is expected to make most of its money for the year. For the full year, TradeGlobal made a loss of $25.8 million versus an expected profit of $9.4 million.

These results were very far removed from the business case that justified the investment.

Given our concerns, the Board formed an Independent Committee comprising Directors who were not on the Board at the time of the transaction to conduct a thorough review of the circumstances surrounding SingPost's consideration and approval of the TradeGlobal acquisition.

The review by our legal advisers is at an advanced stage of completion. A full report is being finalised and, based on legal advice, will be provided to the relevant regulatory authorities for their review. In order to update shareholders in time for the AGM, the Board has released a summary report that sets out observations and recommendations from the review via SGXNet. This has been reported on by the media.

The review has made nine observations concerning the TradeGlobal acquisition process, in the areas of corporate governance; due diligence; valuation; and the consideration of mitigation measures to address risks identified in the due diligence and valuation process. I am not going to take you through the details of the executive summary as it would take too long, but if you have not read it, it can be found on SingPost's website.

I appreciate that, as shareholders, you may have many questions in relation to the summary report. As we have stated, we will be handing the full report to the regulators for their review. They are the best people to follow through with it.

While I will try to answer your questions, please understand we cannot comment beyond what is disclosed in the summary report as we need to respect due process and be fair to all parties involved.

You should also take into account the broader context around the transaction and post acquisition integration. The acquisition was in line with strategy and there were a number of post acquisition issues. Most of these have been reported on, including the Group CEO resigning soon after the transaction closed, the resignation of other key managers, the loss of one of the two key founders of TradeGlobal for medical reasons, the escalation of labour costs, the loss of two key customers accounting for 30 per cent to 40 per cent of revenue, all contributed to the challenges.

The task before us now is to turn around the business of TradeGlobal and recover as much value as possible for you, our shareholders. Our Management is committed to this.

I want to assure you that the corporate governance framework we have since put in place will avoid potential shortcomings in the future. We are very clear on the respective roles and responsibilities of the Board and Management and those of the Chairman and Group CEO. We have strengthened Board and Management processes and have in place what would be regarded as best practice. There is always room to improve and we will continue to do so.

Profit, dividend and share price

Mervyn will be making a presentation of the Group's results so you will have the full picture after my speech. I would suggest that you focus on underlying net profit, which excludes impairment and best reflects the performance of the underlying business and its cash generating capacity.

You will see that underlying net profit dropped by $38.0 million to $115.6 million last year. There were three drivers for this:

- Headwinds our postal business is facing on declining domestic mail, partly offset by the growth of international mail;
- Planned operational losses we are incurring from our investments in building out our eCommerce logistics platform; and
- Performance issues, notably with TradeGlobal, where we had a large unplanned loss.

As you know, the Board last year put in place a new dividend policy to ensure that future dividend payments are sustainable. Our dividend policy is to pay out 60 per cent to 80 per cent of underlying net profit. This means impairment does not affect your dividend.

Your Board fully appreciates that this policy has resulted in paying a significantly lower dividend, but this also reflects the reality that the past dividend policy was not sustainable and dividends were being paid partly out of reserves, for example in FY 2014/15. The past dividend policy is also no longer appropriate when raising new capital for growth.

To grow our future dividends, we need to grow our underlying profit. While we are committed to this, our shareholders need to be mindful of the challenges our postal business faces and that it will take a number of years before our investments in eCommerce logistics contribute to profitability.

A number of negative factors have affected our share price: governance issues, impairment, lower earnings, reduced dividend, lower growth expectations, the absence of a Group CEO, questions on the ability to execute our strategy and so on.

With a new governance framework in place, renewal of the Board and the appointment of Paul Coutts as our Group CEO, we can put a number of these issues behind us. The focus is now on the review and execution of our strategy, improving the performance of the Group and rebuilding the confidence of investors in the Company. I have every confidence in Paul's ability to do this and he will have the full support of the Board.

Paul brings seniority and experience from an extensive career in the logistics and postal industries. He has served in several global leadership roles and his experience will be critical to the acceleration of SingPost's transformation and improvement of the Group's performance.

Please join me in welcoming Paul to SingPost. The Board would like to thank Mervyn for covering the GCEO role since December 2015.

What does the future hold?

The transformation imperative remains. Our postal business, our historical source of profit and cash flow, is in a structural decline in the face of digital disruption. It is vital we advance our transformation into an eCommerce logistics enabler, leveraging on our strategic location and core assets to serve the region's growing eCommerce markets.

While we have had several major setbacks, we should not lose sight of the good progress that we made on our transformation last year.

Our Alibaba partnership was further strengthened as our joint venture with Alibaba in Quantium Solutions was completed, and as Alibaba increased its shareholding in SingPost to 14.4 per cent. Through Quantium, both Alibaba and SingPost will establish an innovative and class-leading platform to serve the region's rising eCommerce logistics needs. Alibaba's partnership is important to our transformation and will help fund the building out of our eCommerce logistics business.

We made good progress in building out our eCommerce logistics network. Our Regional eCommerce Logistics Hub, the centrepiece of our Asia-Pacific network, was officially opened. It is fully automated and integrates warehousing and parcel sorting operations, enabling faster and more efficient order fulfilment. It has all the advantages of Singapore's regional connectivity and has been designed to be scalable for our future needs. Already, it has secured several important customers, including Lazada, which has moved all of its Singapore warehousing operations to our Log Hub.

In eCommerce, we gained technologies, customers and market knowhow that position us well to pioneer omni-channel retail solutions that will drive volumes on to our logistics network. Jagged Peak performed outstandingly. It posted robust revenue and earnings growth that far surpassed the business plan, winning several major customers that are among the world's most recognisable brands in the fast moving consumer goods sector.

On the postal front, we have been relatively successful in actively managing the decline of the business. We are harnessing technology to improve operational efficiency and ensure our services meet the evolving needs and expectations of our customers. We are developing digital versions of the mail and the post office, and rolling out SmartPost – which harnesses wireless and digital technologies to increase productivity and service quality. Some of these innovations have gained international recognition, with our omni-channel SAM platform winning a prestigious World Post and Parcel Award last month.

As part of Singapore's Smart City drive, we are exploring how drone technology may be used in a commercially viable way. We are working with Airbus on their Skyways initiative to develop solutions that meet the demand for faster and more flexible deliveries amid resource constraints.

The new retail mall at SingPost Centre will be opening in October and this will give us new revenue streams. CapitaLand will be managing the mall for us to help us realise the full potential of the property. The new mall will also be a test bed for new retail concepts that combine the best of online and offline shopping.

Transformation is a journey and it will take years and further investment before our eCommerce logistics business achieves scale and grows our profits. Your Board and Management are committed to seeing through this journey to build new and alternative sources of growth and profit. This is key to growing our dividend and vital in creating value for you, our shareholders, in the long term.