COVERING GCEO REVIEW

"The focus for SingPost moving forward is to drive traffic and volumes onto our eCommerce logistics network and increase utilisation of existing infrastructure, so as to benefit from greater economies of scale and operating leverage."

I have been appointed by the SingPost Board since December 2015 to cover the position of Group CEO as the Board searched for a new chief executive. As Covering Group CEO, my focus in the past year has been to continue executing the transformation strategy as set by the Board, and to monitor the performance of our investments and acquisitions.

Together with my colleagues, we continued to advance the three core components of our transformation journey – Protecting the Core, Growing the Wings and Unlocking Value.

PROTECTING THE CORE

Our Postal Services division remains the core of SingPost. Although domestic mail revenue continues to decline, SingPost has successfully grown its international mail business to help mitigate the impact.

International mail revenue rose 17.4 per cent in FY2016/17 as we delivered higher volumes of cross-border eCommerce items, providing eCommerce retailers with a cost-efficient means of reaching their global customers.

The international mail segment however is highly competitive, and margins are relatively low. With the shift in our business mix towards lower margin international mail, Postal margin declined to 27.7 per cent for FY2016/17, from 29.3 per cent the year before. Despite this, our Postal margins remain one of the highest globally compared to other postal organisations, which demonstrates the efficiency of our postal operations.

To mitigate margin pressures, we will continue to focus on improving productivity and efficiency while maintaining service quality. This includes upskilling our workers and deploying technology to drive innovative solutions.

Our POPStation smart lockers are now pervasive throughout Singapore at a distance of less than two kilometres between each locker facility. During the year we rolled out 300 new feature-enhanced self-service automated machines or SAMs. The majority of our post offices have also been remodelled into 24-hour hubs with integrated automated self-service lobbies.

In FY2016/17, SingPost's Public Postal Licence was renewed for a 20-year period starting from 1 April 2017. We are strongly cognizant of the key role that we play as the nation's postal service provider and service quality will remain as our top priority.

GROWING THE WINGS

With the rapid growth of eCommerce, especially in the Asia Pacific, we have a valuable opportunity to build new revenue streams in eCommerce logistics and create sustainable growth for the future.

Over the past few years, we have built out an eCommerce logistics network spanning 19 markets. Partly as a result of higher costs from planned investments in our network, Logistics margins declined to 3.7 per cent in FY2016/17, from 6.2 per cent the year before.

The focus for SingPost moving forward is to drive traffic and volumes onto our eCommerce logistics network and increase utilisation of existing infrastructure, so as to benefit from greater economies of scale and operating leverage.

To grow volumes, we will seek to expand our customer base, and develop collaboration and alliances with strategic partners. One of our major strategic partners is the Alibaba Group. Our relationship has come a long way. Alibaba first began as SingPost's customer before they took an equity stake of 10.2 per cent in SingPost in 2014, starting a strategic collaboration with us. This collaboration has resulted in new business opportunities for SingPost over the years.

In FY2016/17, we further strengthened our partnership with the Alibaba Group as they took a 34 per cent stake in our subsidiary Quantium Solutions International (QSI), and increased their holdings in SingPost to 14.4 per cent. The deepening relationship provides a solid foundation on which we will continue to grow our business together.

On top of building strategic alliances with key partners, we also strengthened and enhanced our eCommerce infrastructure and capabilities during the year.

Our Regional eCommerce Logistics Hub was officially opened on 1 November 2016. This Hub is a key asset and the cornerstone of our eCommerce logistics strategic plan. The automated facility supports customers in the region, leveraging Singapore's strategic location, infrastructure and global connectivity.

In May 2017, we announced that Lazada Singapore has moved its entire warehouse operations to the Logistics Hub. This collaboration sees Lazada's eCommerce platform and SingPost's logistics capabilities coming together and it will result in scale and efficiencies for both of us.

In our eCommerce segment, we are helping leading international brands with front-end web store solutions including design, marketing, and payments management. With this, SingPost offers a full suite of end-to-end eCommerce logistics solutions that is able to serve customers across different parts of the value chain.

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UNLOCKING VALUE
SingPost regularly reviews all our non-core assets as part of our ongoing efforts to enhance shareholder returns.

We are redeveloping the SingPost Centre retail mall, which will nearly double our net lettable area to about 175,000 square feet. This allows us to capitalise on the opportunities around our location, Paya Lebar Central, a region earmarked by the Urban Redevelopment Authority for development into a commercial hub.

SingPost's flagship General Post Office will be located within the retail mall. We have also secured key anchor tenants Golden Village, NTUC Fairprice and Kopitiam, as well as leading retail brands, family entertainment outlets and enrichment centres.

In March 2017, we appointed CapitaLand as the retail mall manager, which will help optimise yields while we focus on our core competencies in postal and eCommerce logistics services.

MONITORING THE PERFORMANCE OF OUR INVESTMENTS AND ACQUISITIONS
All our investments are regularly monitored and their performance matched against the underlying

From left: Mr Paul Coutts (incoming GCEO), Mr Simon Israel (Chairman), Mr Mervyn Lim (covering GCEO) assumptions of Management's future plans for each of the businesses. This is to ensure that fair value is reflected on our balance sheet.

Following a review at the close of FY2016/17, SingPost recognised impairment charges amounting to S$208.6 million net of tax, made up largely of S$185 million for TradeGlobal, S$20.5 million for Postea and S$9.3 million for an industrial building at Toh Guan Road East.

TradeGlobal had significantly underperformed the business case which supported the investment, and is facing operational and structural challenges. More details are included in the Chairman's Letter to Shareholders and in the Financial Review section of this annual report.

Given the extent of the impairment to SingPost's investment in TradeGlobal, SingPost appointed FTI Consulting, an independent global business advisory firm, which has verified that the impairment provision was properly calculated following an appropriate review process and that the assumptions adopted were reasonable.

For Postea, the carrying value was no longer supported by the value in use following material changes to the company's business projections; while for the Toh Guan Road property, the impairment charge recognised the decline in its market valuation against the purchase price.

The impairment charges were partially offset by a S$108.7 million fair value gain on Investment Properties, largely for SingPost Centre, where the redevelopment of the retail mall is near completion.

FINANCIAL PERFORMANCE FOR FY2016/17

SingPost closed the year with revenue of S$1.35 billion, a 17.1 per cent growth over the previous financial year, driven mainly by the inclusion of our US eCommerce subsidiaries.

Net profit attributable to shareholders however decreased 86.6 per cent to S$33.4 million, due largely to exceptional items such as impairment charges.

Underlying net profit declined 24.7 per cent, reflecting the impact of planned investments, associates which are investing for growth, higher losses in the US eCommerce business and a decline in Postal operating profit.

STRONG CASH FLOW AND BALANCE SHEET

SingPost continued to generate strong cash flows. Net cash from operating activities rose to S$200.1 million from S$131.4 million the previous year, boosted by positive working capital movements.

With lower capital expenditure recorded in FY2016/17 with the completion of the Regional eCommerce Logistics Hub, the Group returned to positive free cash flow after two years of high capital expenditure.

As at 31 March 2017, SingPost's cash and cash equivalents stood at S$366.6 million, resulting in a net cash position. Our cash balances include proceeds from Alibaba, which are to be used in accordance with the investment agreements to strengthen the Group's network.

REVISED DIVIDEND POLICY TO ENSURE SUSTAINABILITY

The Board conducted a review of the dividend policy during the year.

SingPost's dividends were previously supported largely by the domestic mail business which continues to see declining volumes. To provide future sources of earnings, we have made significant

COVERING GCEO REVIEW

transformational investments in eCommerce and eCommerce logistics, as well as in the redevelopment of the SingPost Centre retail mall.

These investments will impact earnings in the short term, and the review of the dividend policy should be understood in this context.

To ensure that the dividends are sustainable, the dividend policy has been changed from an absolute amount to one based on a payout ratio ranging from 60 per cent to 80 per cent of underlying net profit for each financial year.

For FY2016/17, the interim dividends and proposed final dividend amount to 3.5 cents, which represents 66 per cent of underlying net profit for the year.

BUILDING ONE TEAM

Over the last 18 months, I have been supported in my role by a Management Committee. As a team, we work to encourage and motivate all our colleagues to live out SingPost's core value of being One Team.

The move of our business units and HQ support functions into a fully open concept office at SingPost Centre has helped reinforce team spirit. In order to build staff camaraderie, we held a Leadership Bonding Day in October 2016. We also launched a new programme where our employees organise their own regular community outreach initiatives as part of team building.

In addition, SingPost is developing a structured approach to address sustainability issues in the organisation, paving the way towards sustainability reporting. As a corporate citizen, we are also developing a more strategic approach in our corporate giving initiatives.

APPRECIATION

From 1 June 2017, SingPost will have a new Group CEO, Mr Paul Coutts, and I will return to my role as Deputy Group CEO (Corporate Services) and Group CFO.

I wish to thank our Chairman and our Directors for their support and guidance given to me and my team over the last 18 months. My appreciation also goes to all my colleagues who worked with me to advance SingPost on its transformation journey.

Yours sincerely,

MERVYN LIM
Covering GCEO