

## GCEO REVIEW

The transformation of a well-loved and trusted national icon is a tremendous journey and it is an honour to be leading SingPost at this crucial time of our history. Since joining in June 2017 as Group Chief Executive Officer, I have seen how SingPost is well positioned to capitalise on the global growth of eCommerce to build a future in the digital age.

I spoke of three priorities at the Annual General Meeting last July and I am pleased we are making good progress on all of them. The first was the integration of our investments to create an eCommerce logistics network across markets, products and geographies. We have begun the process at the last mile in Singapore, and across our global eCommerce businesses.

On the second priority, we have reviewed the Group's strategy and developed a roadmap to strengthen the execution of our transition and to improve performance. Completed in November 2017, the review affirmed our vision to be a strong postal and eCommerce logistics player, with key transformation initiatives that we have since begun to implement.

Finally on good stewardship, I am pleased that operating profit excluding exceptional items has been on a healthy trajectory, up 21.1 per cent in the third quarter, and 18.0 per cent in the fourth. For the full year ended 31 March 2018, revenue grew 8.6 per cent to S\$1.46 billion, while net profit rose to S\$126.4 million, in the absence of one-off impairment charges in the prior year. We continued to generate strong free cash flows, which rose to S\$136.1 million from S\$0.3 million the previous year.

### DELIVERING TRUSTED COMMUNICATIONS IN THE DIGITAL AGE

Postal services remain at the core of our business, along with our central commitment to the community. Our Public Postal Licence was renewed on 1 April 2017, and we have embarked on several initiatives to digitalise our postal operations for Singapore's postal needs in the digital age.

Our Smart Post Office network, where physical branches are augmented by the SAM Omni-channel platform, will provide 24/7 access to postal and other essential services. We are rolling out SmartPost, equipping our postmen



with proprietary smartphone apps to improve delivery efficiency and tracking visibility.

Enhancing productivity and service quality are crucial as our business shifts towards more contested segments of eCommerce logistics.

The 15.0 per cent increase in postal revenue was driven by a 37.4 per cent rise in international mail revenue, which benefitted from continued strong growth in cross-border eCommerce deliveries, particularly for the Alibaba Group. Operating profit, however, was impacted as the overall revenue mix transitioned away from the higher-margin domestic mail business, which continues to decline.

Furthermore, changes in the international terminal dues system came into effect in the fourth quarter, impacting what we pay to other postal organisations for mail delivery in their country. We have implemented mitigating measures and expect the full extent of these efforts to come into effect progressively.

### BUILDING A FUTURE IN ECOMMERCE LOGISTICS

As we manage the disruption of our postal business, we are building out our eCommerce logistics business to create new revenue streams and establish a new growth trajectory for SingPost. We are focused on driving traffic onto our network, increasing utilisation of our infrastructure to achieve greater economies of scale and operating leverage.

At the last mile, we captured increasing eCommerce deliveries in Australia and Singapore. CouriersPlease recorded good growth and opened three new depots, in

Adelaide, Melbourne and Perth, in anticipation of future demand. In Singapore, SP Parcels achieved a 16.6 per cent increase in revenue. It also launched several services and features that provide eCommerce marketplaces and their customers with lower costs, greater flexibility and increased visibility.

Parcel lockers continued to be an important channel within our last mile delivery network, and we will be adding between 50 and 100 locations to our POPStation network in the coming year. On top of this, our participation in the Singapore Government's Federated Locker Pilot Trial, will extend our reach to HDB blocks and MRT stations.

Quantum Solutions, our logistics joint venture with Alibaba, achieved several milestones in Singapore at the Regional eCommerce Logistics Hub. Utilisation of warehousing capacity exceeded 90 per cent as Lazada Singapore moved its entire warehousing operation, including fulfilment activities, to the facility. In the rest of Southeast Asia, there were several customer wins though North Asia remains a challenging market.

We are reshaping the Quantum Solutions business, enhancing capabilities and capacity, to better serve the eCommerce businesses of both Alibaba and SingPost in the region – and to improve profitability. On top of cost optimisation, we are introducing new business streams and reviewing customer contracts to ensure they deliver suitable returns.

In the US, our eCommerce businesses turned in a strong performance that reduced operating loss by more than 50 per cent. Jagged Peak and TradeGlobal secured new customers and processed higher volumes, especially during the peak holiday season. Notably, TradeGlobal's customer wins saw it overcome the loss of two major customers in the previous year to post revenue growth. The plan to turnaround TradeGlobal's business is on track, with good cost controls helping to narrow operating losses.

Key to the turnaround has been the implementation of Jagged Peak's EDGE technology at TradeGlobal. The proprietary software is an integrated platform that enables eCommerce, providing end-to-end services, from web store creation to order management, warehouse management and customer service.

Among our non-core assets, the redevelopment of the SingPost Centre retail mall has enhanced yield, driving rental and property revenue up 29.9 per cent, and operating profit by 16.8 per cent. Since opening in October 2017, committed occupancy has grown, as we work with CapitaLand as retail mall manager, to 96 per cent as at 31 March 2018.

## STRATEGY TO LEAP AHEAD

Looking ahead, our global footprint, proprietary technology and strategic partners place us well to take hold of the tremendous potential in eCommerce. Execution is key and our strategy for transformation, which we have called Leap23, is focused along four key themes.

Firstly, we want to win in our home market, extending our lead as Singapore's premier provider of last-mile delivery, and driving scale of our eCommerce warehouse and fulfilment operations.

Secondly, we will ignite future growth engines by increasing global eCommerce flows on our network. What will differentiate and give us the edge over the competition is our end-to-end solutions that harness proprietary technologies to enable retailers big and small to establish and grow eCommerce operations in the region.

Thirdly, we will extract full value from our investments, especially from our international subsidiaries and associates. With TradeGlobal's turnaround well on track, we will be integrating and scaling our eCommerce business in the US and Southeast Asia.

Underpinning these strategies is our drive to cost leadership. We are undergoing cost transformations to optimise our cost base and give us a competitive edge in the market.

Execution is key to the success of any strategy and we have established a Group Transformation Office, led by our Group Transformation Officer, to coordinate and drive transformation initiatives across SingPost. A global conference gathering over 400 leaders from across the Group was held in April 2018 to formally launch the strategy and kick off initiatives that will involve all 7,500 SingPosters around the world.

It has been an exciting and fruitful first year at SingPost, and I would like to thank the Board for their guidance, as well as our partners and shareholders for their support. Appreciation is also owed to the SingPost team, whose unstinting dedication and teamwork will take us forward in our transformation.

Yours sincerely,



**PAUL COUTTS**  
Group Chief Executive Officer