CTT – Correios de Portugal

1H15 Results Presentation

29 July 2015

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Agenda

I	Key highlights
II	Business units performance
III	Guidance update
IV	Appendix

Better than expected 1H15 performance in Mail and Financial Services results in…

Financial and operational performance

€ million, except when indicated otherwise

Financial indicators:	1H14	1H15	Δ%
Reported revenues	**356.5**	**367.1**	**+3.0%**
Reported operating costs [1]	287.8	296.7	+3.1%
Reported EBITDA	68.7	70.4	+2.4%
Recurring EBITDA [2]	**66.3**	**75.5**	**+14.0%**
Reported net profit	36.1	39.2	+8.6%
Recurring net profit [3]	**36.7**	**44.7**	**21.8%**
Operating free cash flow [4]	65.9	21.6	-67.1%

Operational indicators:	1H14	1H15	Δ%
Addressed mail volumes (m items)	**431.1**	**420.8**	**-2.4%**
Unaddressed mail volumes (m items)	251.1	224.8	-10.5%
Parcels volumes (m items)	**13.3**	**13.7**	**+3.0%**
Savings flows (€ bn) [5]	**2.9**	**3.6**	**+23.1%**

…strong growth in the recurring profits of the business

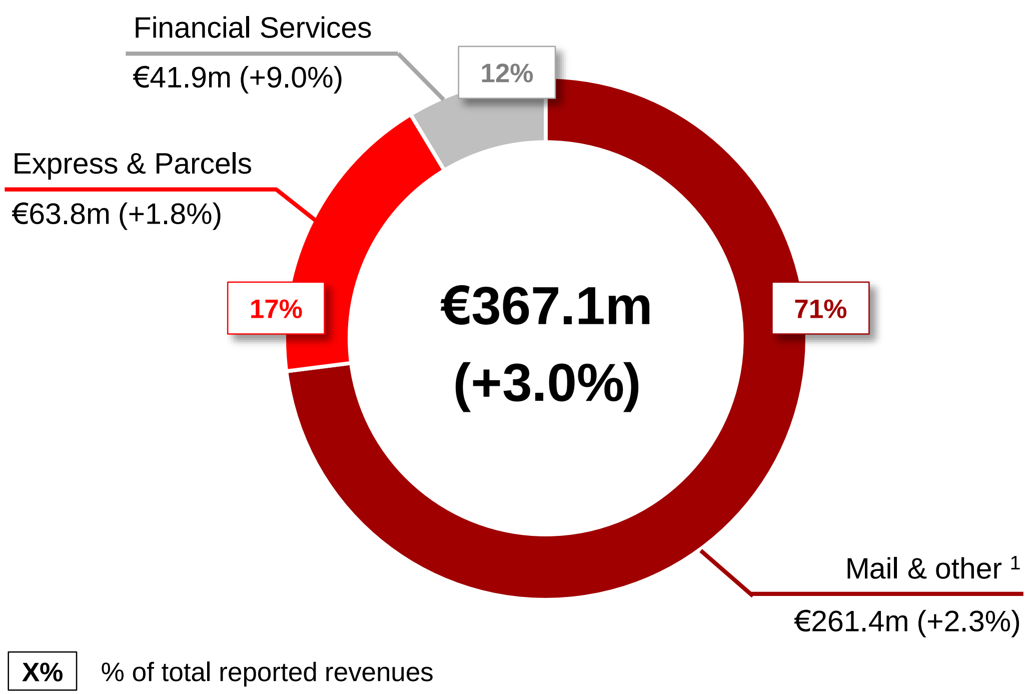
[1] Excluding amortisation, depreciation, provisions and impairment losses.
[2] Excluding non-recurring revenues of €3.0m in 1H14 and non-recurring operating costs of €0.5m in 1H14 and €5.1m in 1H15, €2.3m of the latter related to the Postal Bank set-up costs.
[3] Excluding non-recurring revenues of €3.0m in 1H14 and non-recurring costs of €3.4m in 1H14 and €4.8m in 1H15, €2.3m of the latter related to the Postal Bank set-up costs.
[4] Cash flow from operating and investing activities excluding changes in net Financial Services payables of +€125.6m (from Dec-13 to Jun-14) and +€58.0m (from Dec-14 to Jun-15).
[5] Amount of savings and insurance placements and redemptions.

Key highlights

Revenues continue the growth trend, driven by strong performance in most areas

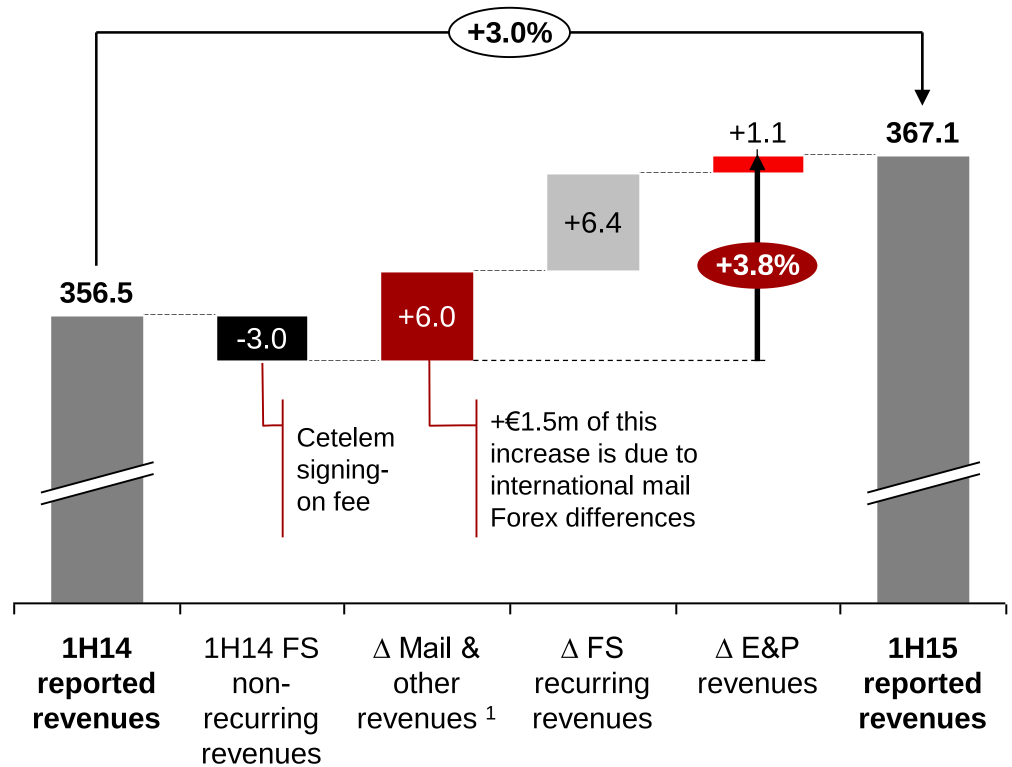
1H15 reported revenues

€ million, % change vs. prior year, % of total reported revenues



Revenues breakdown

€ million



- **Mail revenues growth driven by lower than expected addressed mail volumes decline** and also **€1.5m of other income from international mail Forex differences**
- **Financial Services benefit from strong growth in savings inflows**, especially in 1Q15 (helped by exceptional factors already explained)

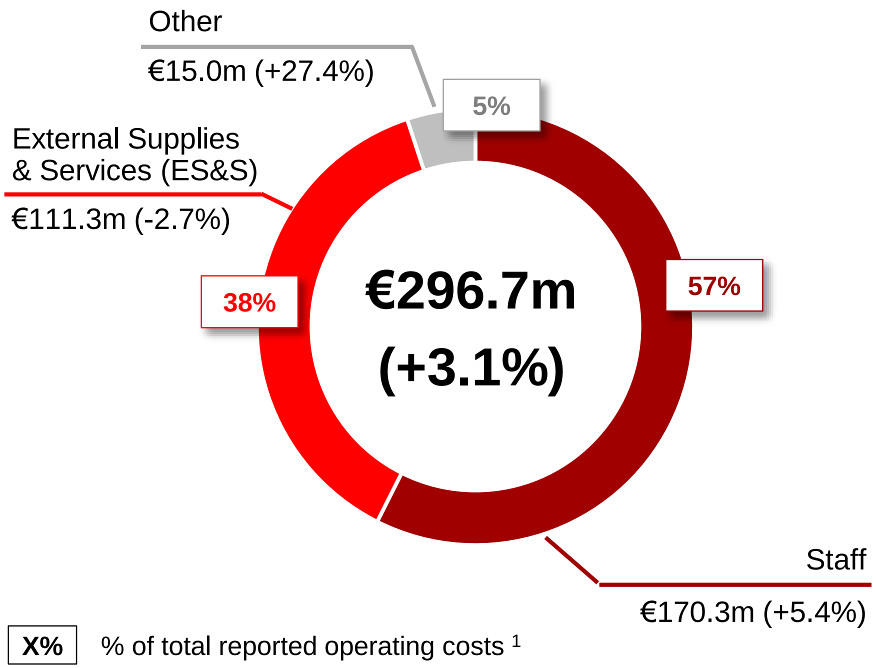
Revenues grow 3.8% on a recurring basis, with positive contribution from all businesses

[1] Including income related to CTT Central Structure and Intragroup Eliminations amounting to -€12.7m in 1H14 and -€17.2m in 1H15.

Operating costs increase mainly as a function of growth and Postal Bank set-up costs

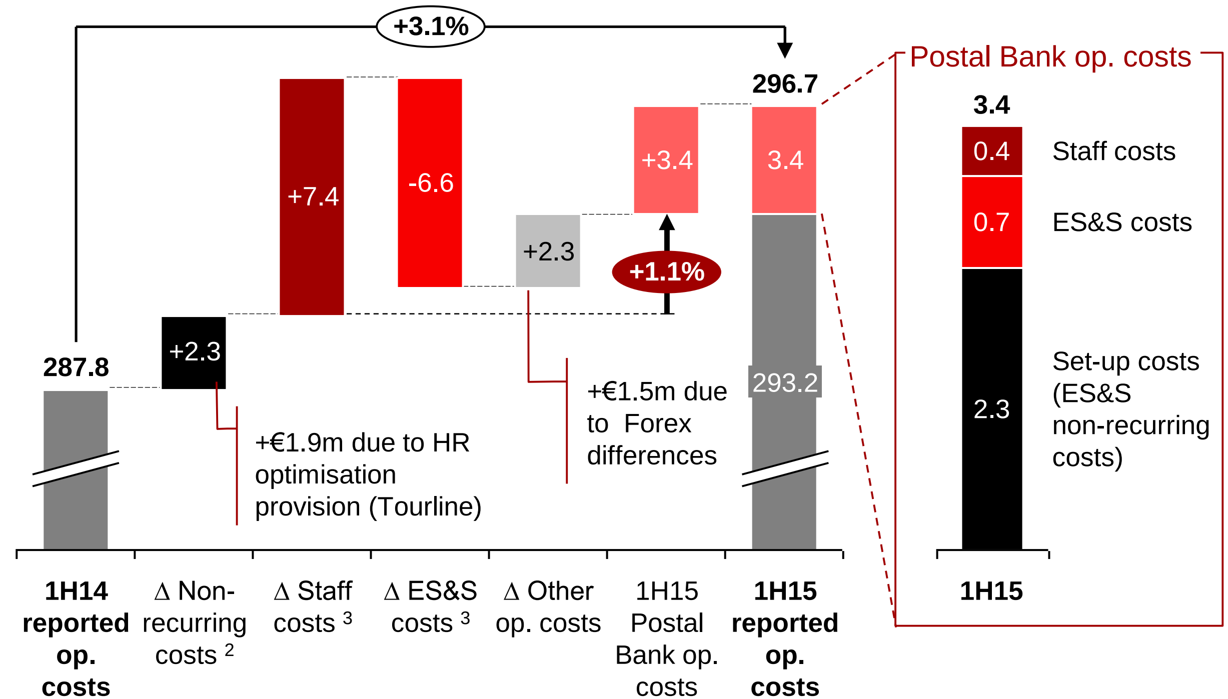
1H15 reported operating costs [1]

€ million, % change vs. prior year, % of total op. costs



Operating costs [1] breakdown

€ million



- **Staff costs increase** due to the **reintroduction of variable remuneration as a recurring cost** (+€5.3m estimate in 1H15, not in the 1H14 accounts) and the **increase in fixed salaries, partially offset by the impact of the revision of the Healthcare Plan and the new Company Agreement** which will result in decreasing costs along the next two years
- **ES&S costs decrease** due to **lower outsourcing costs** as a result of the revised IT and communication services contract, while other operating costs increase mainly due to i**nternational mail Forex differences** (+€1.5m, with similar impact on other revenues)

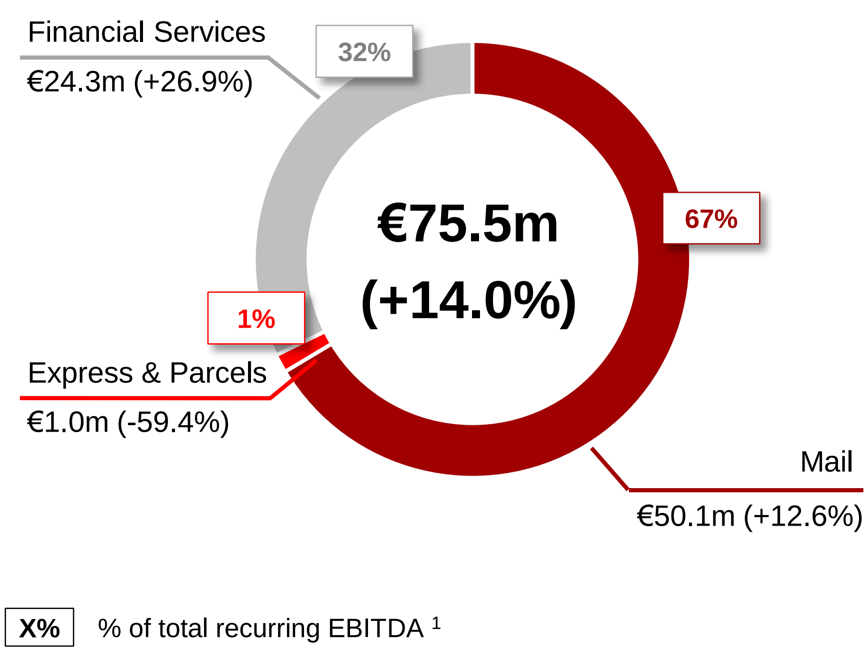
Excluding Postal Bank costs and non-recurring items, the operating costs increase by only 1.1%

[1] Excluding amortisation, depreciation, provisions and impairment losses.
[2] Excluding Postal Bank set-up costs. Total non-recurring operating costs: €0.5m in 1H14 and €5.1m in 1H15, €2.3m of the latter related to the Postal Bank set-up costs.
[3] Excluding Postal Bank recurring operating costs.

Strong growth in recurring 1H15 EBITDA, exceeding expectations

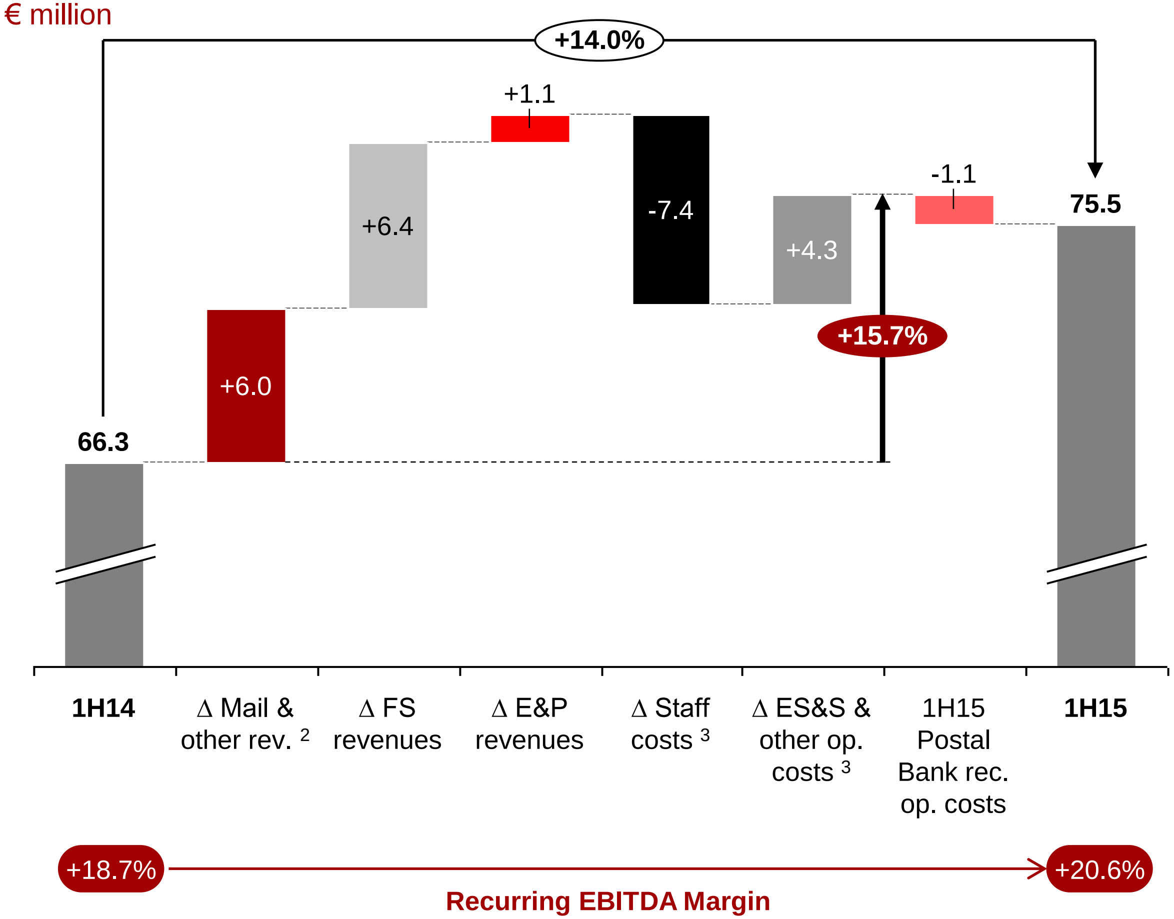
1H15 recurring EBITDA [1]

€ million, % change vs. prior year, % of total recurring EBITDA [1]



Recurring EBITDA [1] breakdown

€ million



Recurring EBITDA grows at high double-digit rates; and margin up +1.8 p.p. due to strong growth in FS

[1] Excluding total non-recurring operating costs: €0.5m in 1H14 and €5.1m in 1H15, €2.3m of the latter related to the Postal Bank set-up costs.
[2] Including income related to CTT Central Structure and Intragroup Eliminations amounting to -€12.7m in 1H14 and -€17.2m in 1H15.
[3] Excluding Postal Bank recurring operating costs.

Operating free cash flow impacted by special factors

Cash flow
€ million

	Reported			Adjusted [1]		
	1H14	1H15	∆ %	1H14	1H15	∆%
From operating activities	**187.8**	**95.8**	**-49.0%**	**62.2**	**37.8**	**-39.2%**
From investing activities	**3.7**	**-16.2**	**N/A**	**3.7**	**-16.2**	**N/A**
Of which: Capex payments	-3.7	-17.9	N/A	-3.7	-17.9	N/A
Operating free cash flow	**191.4**	**79.7**	**-58.4%**	**65.9**	**21.6**	**-67.1%**
From financing activities	**-59.7**	**-69.8**	**+16.9%**	**-59.7**	**-69.8**	**+16.9%**
Of which: Dividends	-60.0	-69.8	+16.3%	-60.0	-69.8	+16.3%
Net change in cash [2]	**131.0**	**9.9**	**-92.4%**	**5.5**	**-48.1**	**N/A**
Cash at the end of the period	675.9	674.5	-0.2%	242.3	230.8	-4.8%

- €9.0m variable remuneration paid in 1H15
- €4.2m EAD sale in 1H14
- €15.2m increase in Accounts receivable in 1H15

- Capex payments presented in table
- Accounting Capex was €2.7m in 1H14 and €10.9m in 1H15, with €6.7m of the latter related to the Postal Bank project

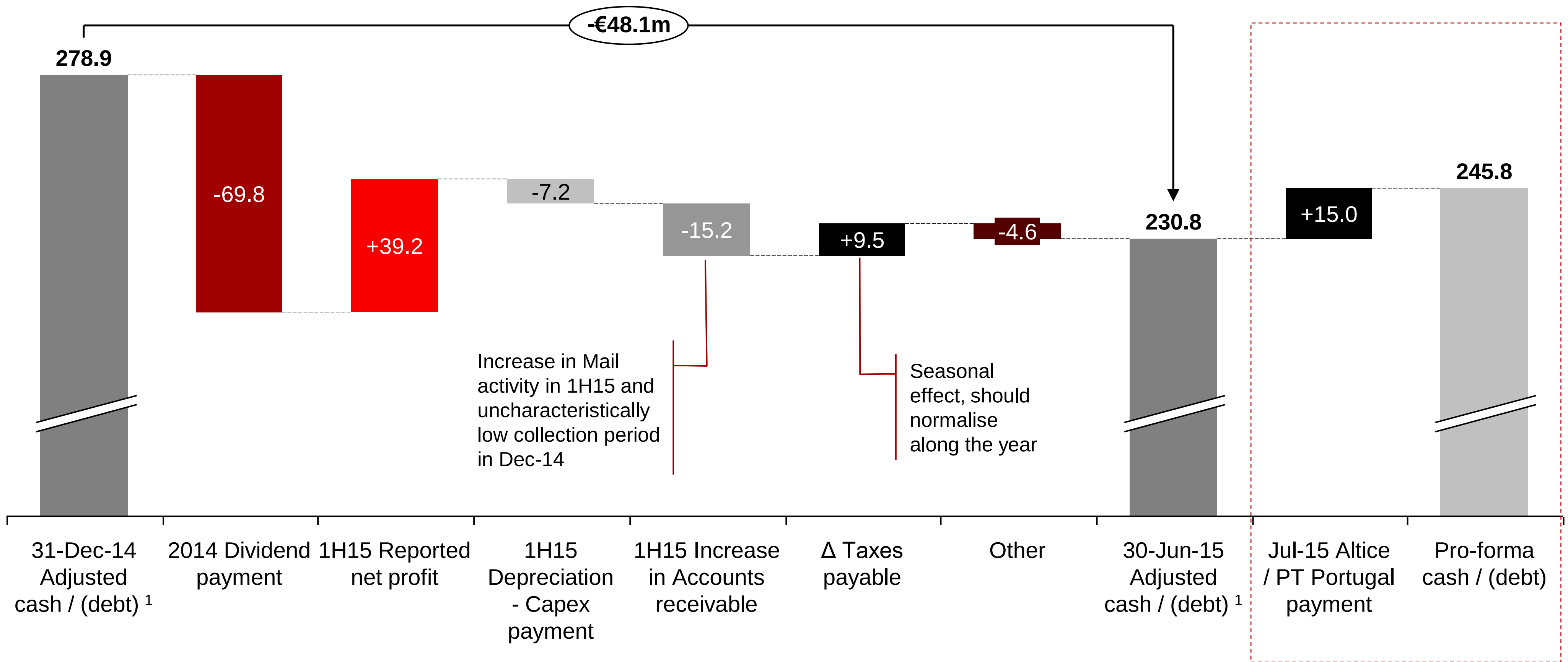
Cash remains at high levels, post dividend and variable remuneration payments in 2Q15

[1] Cash flow from operating activities excluding changes in net Financial Services payables of +€125.6m (from Dec-13 to Jun-14) and +€58.0m (from Dec-14 to Jun-15). Cash at the end of the period excluding net Financial Services payables of €433.6m (Jun-14) and €443.7m (Jun-15).
[2] Including -€0.7m change in the consolidation perimeter in 1H14.

Cash at the end of the period impacted by the 2014 dividend payment in May

Adjusted cash at the end of the period [1]

€ million

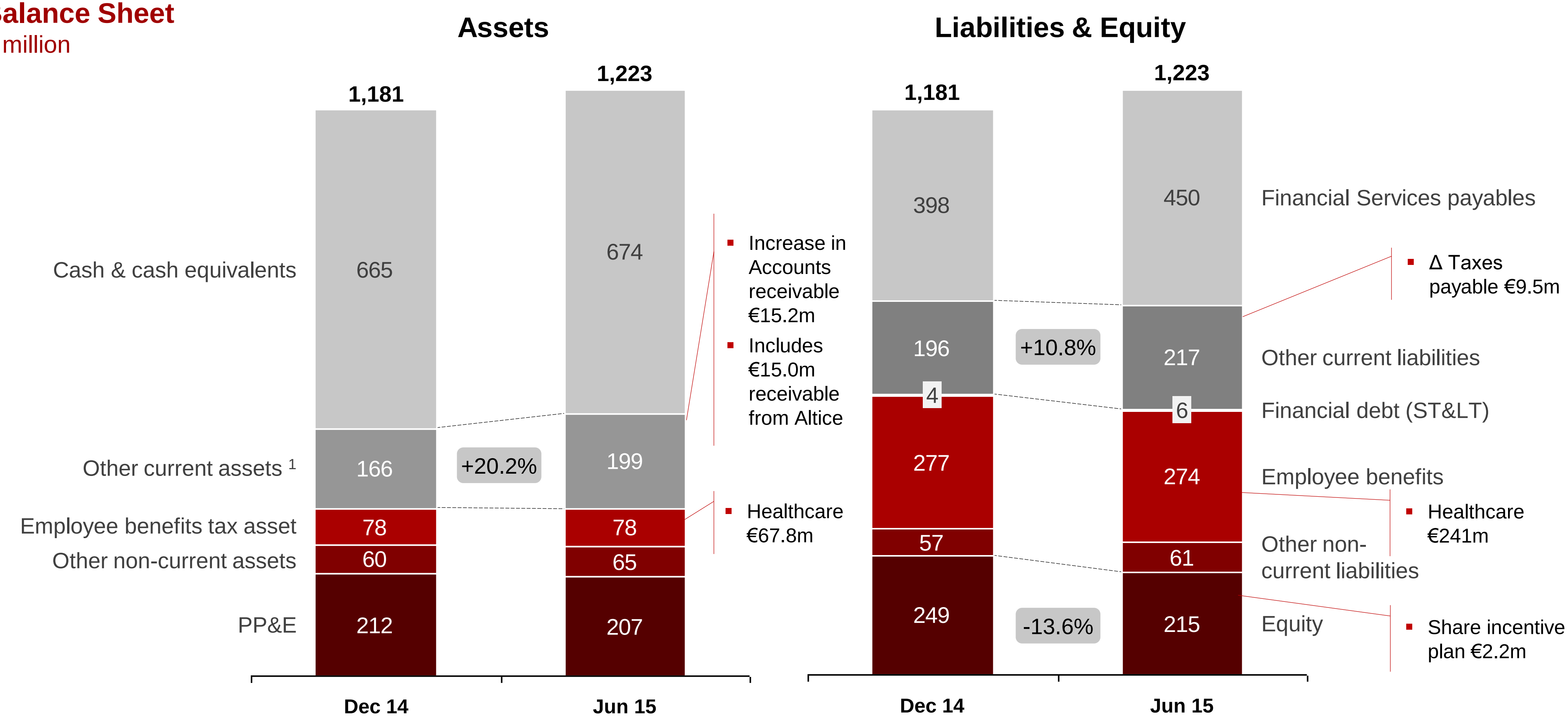


€15m payment from Altice / PT Portugal received in July

[1] Cash and equivalents excluding net Financial Services payables of €385.7m (Dec-14) and €443.7m (Jun-15).

The Balance Sheet reflects a seasonal increase in FS payables

Balance Sheet
€ million



- **Net financial debt (cash)** =ST&LT Debt of €5.9m + Net Financial Services payables of €443.7m - Cash and cash equivalents of €674.5m = **€(224.8)m**
- **Net debt (cash)** = Employee benefits of €274.3m + Share incentive plan of €2.2m - Employee benefits tax asset €77.8m - Net cash of €224.8m = **€(26.0)m**
- **Strong liquidity position:** Current assets / Current liabilities = **126%**

Solid net cash and liquidity position maintained

[1] Including Financial Services receivables of €12.4m and €6.1m as at Dec-14 and Jun-15, respectively.

Chosen strategy actively pursued

1 Mail

- Updated prices, in effect from 1 March 2015, corresponding to an **average price increase of 2.3% of the basket of non-bulk letter mail, editorial mail and parcels services**, which results in a total 2015 **average price increase of circa 4.0%** with lower volume decline
- **New Company Agreement** (valid for the next two years) **and revised Social Works Regulation (Healthcare Plan) signed on 9 February 2015**, enabling a sustainable level of services, employer flexibility, and good social climate

2 Express & Parcels

- **Ongoing integration of the Express & Parcels and Mail distribution networks** in Portugal to achieve synergies between the businesses
- **Human resources optimisation initiated at the subsidiary Tourline Express** in June in order **to increase its operational efficiency**, as well as to improve and simplify processes in the context of the ongoing restructuring plan

3 Financial Services

- **Postal Bank launch expected by the end of 2015 with set-up initiatives in several fronts**
- **IGCP (Portuguese Treasury and Debt Management Agency) updated the interest rates offered on savings and treasury certificates** from 1 February 2015; the rates continue to be above market average for the same tenors

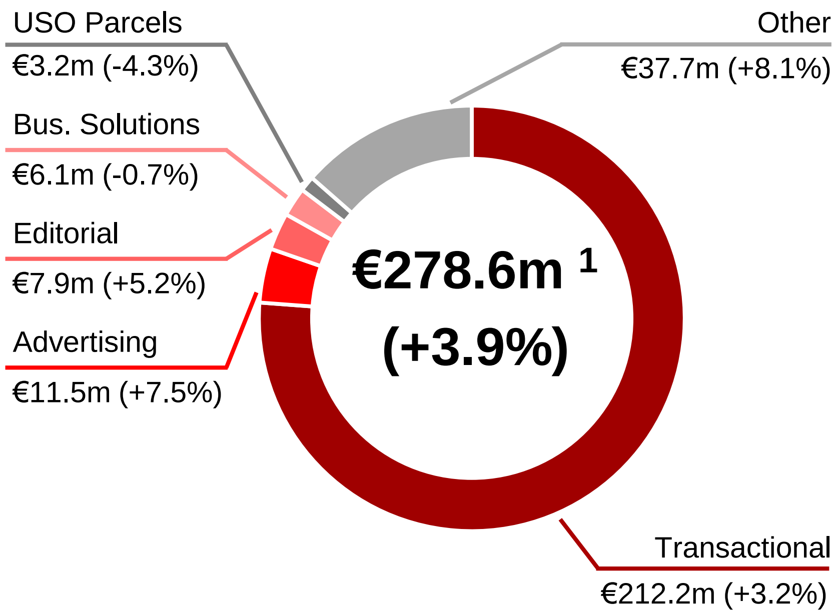
Other

- **Altice finalised its acquisition of PT Portugal in June.** As per the terms of the MoU signed with Altice, **CTT received (in July) a payment of €15 million. Now the parties will start negotiations for the signing of a framework agreement for further business partnerships**

1 Mail benefits from a low volume decline in the addressed mail

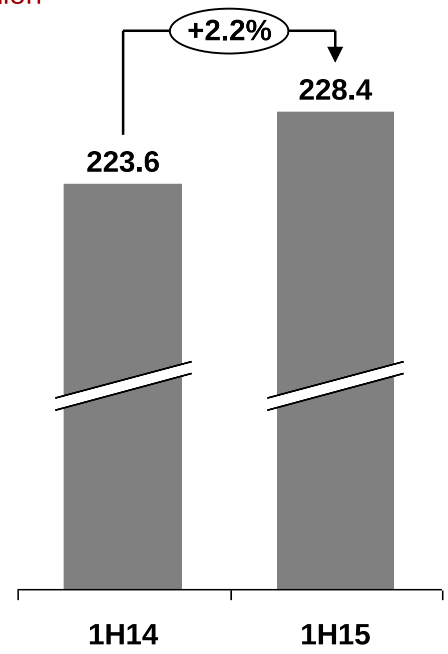
1H15 Mail revenues by type

€ million, % change vs. prior year



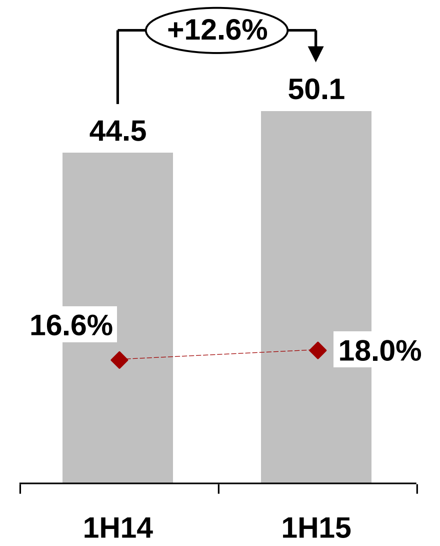
Recurring operating costs [1,2]

€ million



Recurring EBITDA [2]

€ million



Mail volumes by type

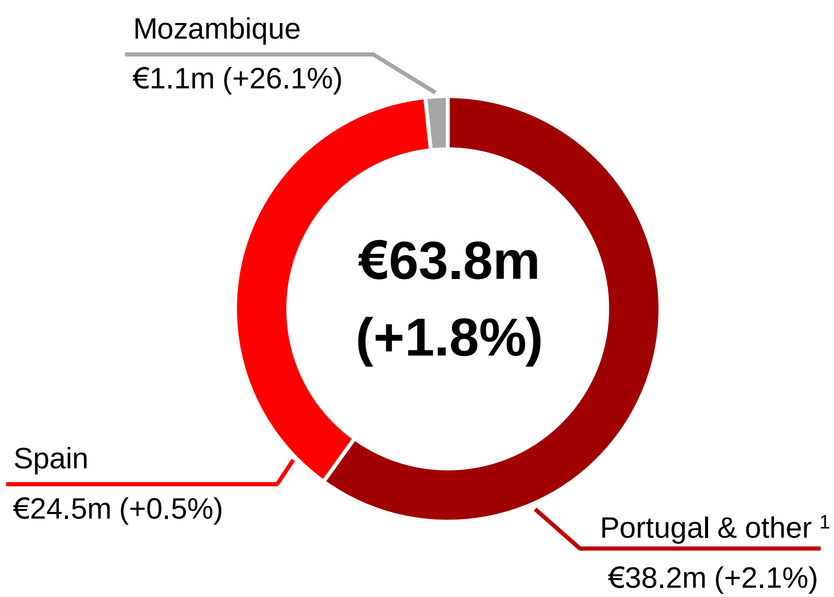
Metric	Avg. mail prices [4]	Addressed mail	Transactional	Advertising	Editorial	Unaddressed mail
1H15 volumes [3]	N/A	420.8	357.6	39.9	23.3	224.8
1H15 vs. 1H14	+4.1%	-2.4%	-3.1%	+4.1%	-1.7%	-10.5%

[1] International mail exchange rate fluctuations drove an increase in revenues (€1.5m) and an increase in operating costs (€1.5m).
[2] Excluding amortisation, depreciation, provisions, impairment losses & non-recurring costs. Including €0.04m set-up ES&S costs related to Postal Bank in 1H15.
[3] Million items.
[4] USO, excluding international inbound mail.

2 E&P results continue to be impacted by the restructuring process in Spain

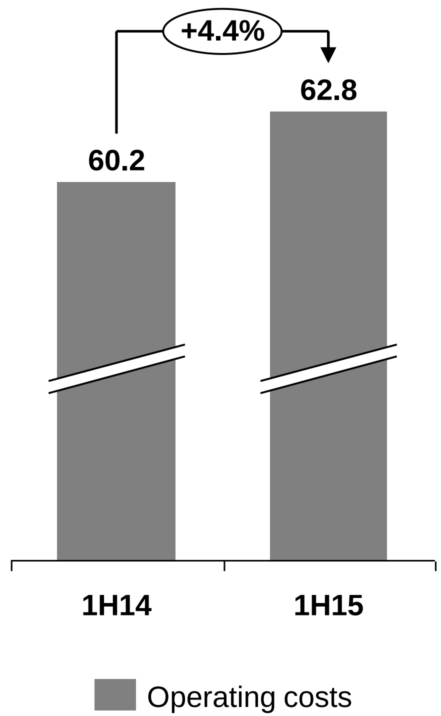
1H15 E&P revenues by region

€ million, % change vs. prior year



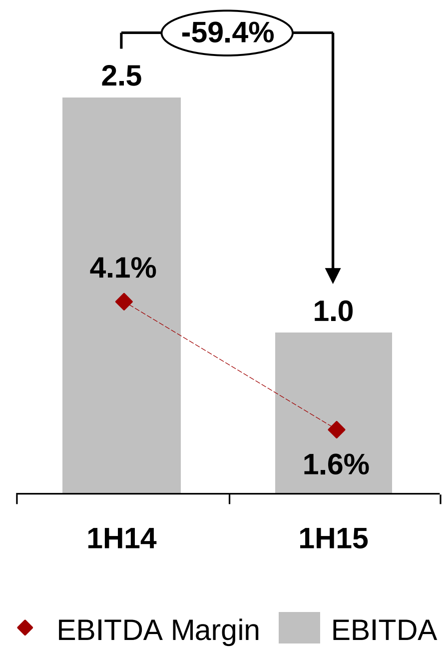
Recurring operating costs [2]

€ million



Recurring EBITDA [2]

€ million



E&P volumes by region

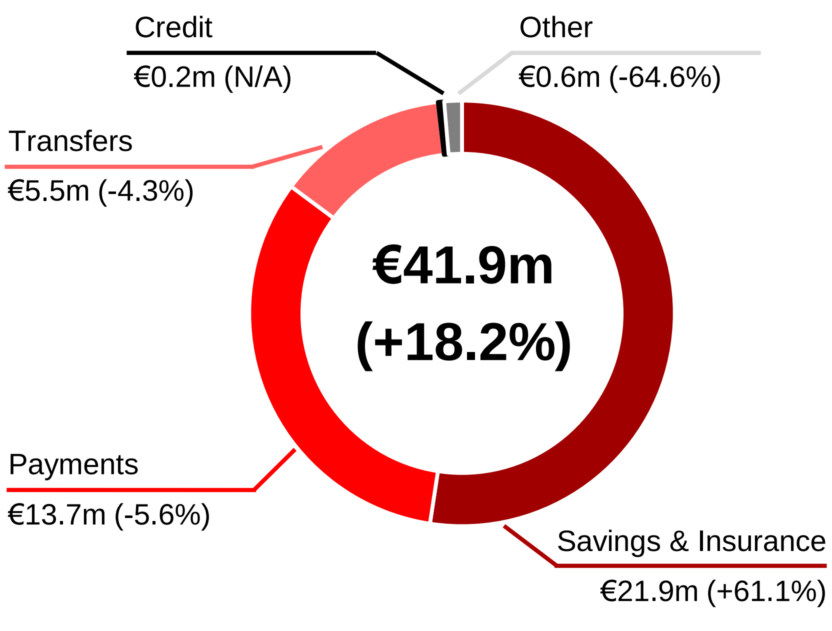
Period	Total	Portugal	Spain	Mozambique
1H15 volumes [3]	13.7	7.0	6.7	0.04
1H15 vs. 1H14	+3.0%	+4.0%	+2.7%	N/A [4]

[1] Including internal and other revenues, and internal transactions with Spain and Mozambique.
[2] Excluding amortisation, depreciation, provisions, impairment losses & non-recurring costs.
[3] Million items.
[4] Change in methodology, comparison to 2014 not meaningful.

3 Strong FS results easily absorb the initial Postal Bank recurring operating costs

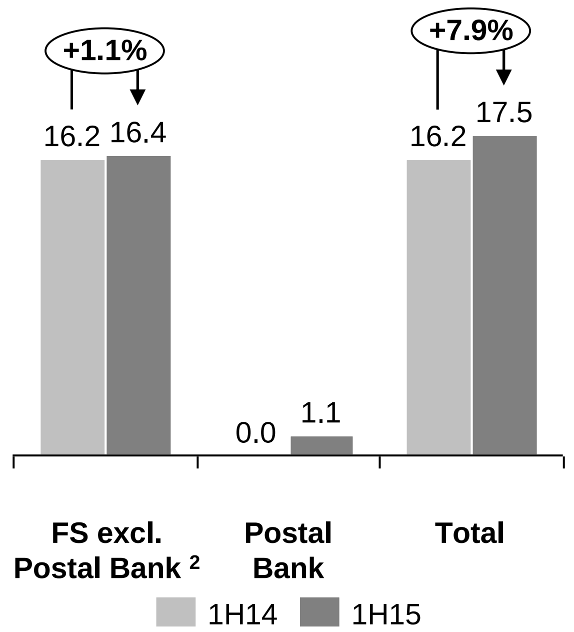
1H15 FS recurring revenues by type

€ million, % change vs. prior year



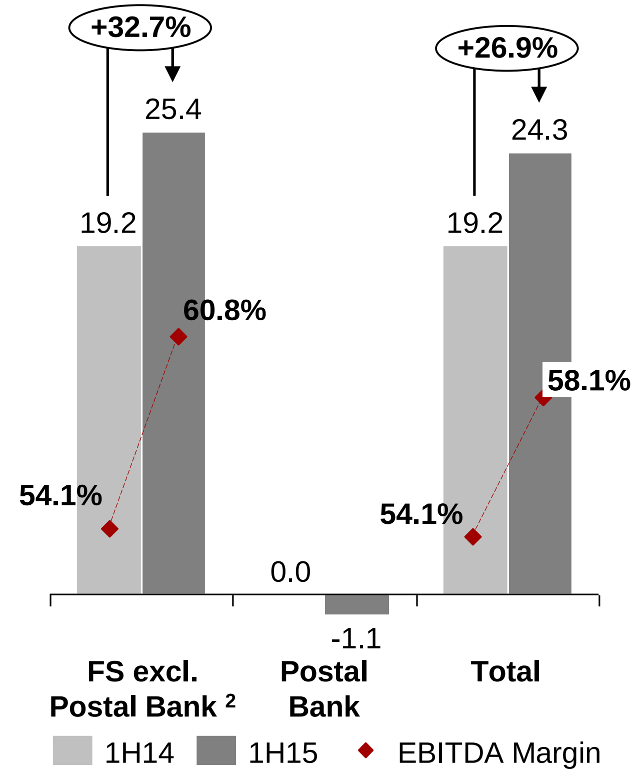
Recurring operating costs [1]

€ million



Recurring EBITDA [1]

€ million



FS volumes by type

Period	Savings flows [3]	Payments [4]	Money orders & transfers [4]	Credit [5]
1H15 volumes	3.6	31.4	9.8	4.3
1H15 vs. 1H14	+23.1%	-5.0%	+3.6%	N/A

[1] Excluding amortisation, depreciation, provisions, impairment losses & non-recurring costs.
[2] Excluding €1.1m operating costs related to the Postal Bank.
[3] € billion, amount of savings and insurance products placements and redemptions.
[4] Million operations.
[5] € million, new credit production.

Postal Bank launch expected by the end of 2015

Key recent developments

- **Relevant deliverables** for the setting-up of the Postal Bank and for its registration were **submitted to the Bank of Portugal** (namely considering the conditions established in the authorisation issued in Nov-14) and now to be verified by the regulator
- The indicative **resources sharing model between CTT and the Postal Bank** (physical, technical and human resources) presented to the regulator **is in line with the objectives** (i.e. leveraging on the recognition of the CTT brand, the extensive Retail Network and its available capacity and the financial services area track record)
- **The indicative updated business plan** [1] presented to the regulator **assumes a faster branches rollout in order to achieve a wider geographical presence** from the day of launch to the general public
- **The overall commitment and objectives of the Financial Services business unit** (including the Postal Bank) **remain on track**
- **Set-up costs (Opex and Capex) are on budget**, having reached circa €10m in 1H15

Key next steps

- Ongoing development of **state-of-the-art processes and systems** (mainly of the core banking system's requirements)
- **Launching envisaged by the end of 2015 and a two-phase branches rollout under evaluation** (soft opening promoting efficient processes and systems prior to the opening to the general public)
- Clear articulation of the key elements of the **client acquisition strategy and the brand awareness** initiatives
- Ongoing implementation of the **HR organisational structure, recruitment and training** and of the indicative resources sharing model with CTT
- **Definition and execution of product business partnerships** (impacting the Postal Bank's portfolio and its go-live)
- **In-depth review of the indicative** [1] **business plan is expected** considering the abovementioned steps (mainly with regard to the IT implementation, processes, rollout strategy and portfolio), regulatory impacts and market conditions

Launch of the Postal Bank planned by year-end

Two-phase rollout solution under evaluation – soft opening followed by massive general public opening later on – **could ensure that all processes and systems are functioning correctly** by the time clients acquisition starts

Further information to be provided at the CTT Capital Markets Day on 19 November in Lisbon

[1] As stated before, the key financial targets / estimates presented on 4 November 2014 should be viewed as indicative and not as firm forward-looking guidance.

Upgrade to the 2015 outlook

Revenues & Volumes

- **FY 2015 addressed mail volumes decline likely to be better than -5% initial target,** closer to the long-term structural decline **(upgrade)**
- **Growth in revenues,** supported also by MoU with Altice

Costs

- **Like-for-like (excluding Postal Bank) recurring costs to decline**
  - Integration of Mail and Express & Parcels distribution networks to result in cost savings in 2H15 and going forward
  - Positive impact of the revision of the Healthcare Plan and the new Company Agreement to crystallise in 2H15 and 2016
  - Tourline HR restructuring with a 6-month payback period

Earnings & Dividend

- **High single-digit growth in recurring EBITDA,** based on the observed 1H15 mail volume trend **(upgrade)**
- Dividend not impacted by the Postal Bank set-up costs, as previously committed

Non-recurring items affecting the results

€ million

	1H14	1H15	Δ
Reported EBITDA	**68.7**	**70.4**	**1.7**
Non-recurring items affecting EBITDA	**-2.5**	**5.1**	**7.6**
Revenues	-3.0	0.0	3.0
Staff costs	0.4	1.3	0.9
ES&S & other op. costs	0.1	3.8	3.7
Recurring EBITDA	**66.3**	**75.5**	**9.3**

€3.0m non-recurring FS revenues in 1H14

€1.9m provision for Tourline HR optimisation (6-month payback)

€2.3m Postal Bank set-up costs

Reported EBIT	**54.9**	**59.9**	**4.9**
Non-recurring costs affecting only EBIT	**2.9**	**-0.3**	**-3.3**
Provisions (net movement)	0.4	-0.2	-0.6
Labour contingencies	-0.1	-0.2	-0.2
Onerous contracts [1]	0.5	0.0	-0.5
Restructuring for network optimisation	2.5	-0.1	-2.6
Non-recurring items affecting EBITDA & EBIT	**0.4**	**4.8**	**4.3**
Recurring EBIT	**55.4**	**64.6**	**9.3**

[1] Rents from vacant / non-operational real estate with long-term leases (present value of future rents).

The Postal Bank has a slight impact on the CTT financial performance in 1H15

Financial performance – Postal Bank impact

€ million	Including Postal Bank [1] 1H14 CTT	Including Postal Bank [1] 1H15 CTT	Including Postal Bank [1] Δ %	1H15 Postal Bank	Excluding Postal Bank 1H15 CTT	Excluding Postal Bank Δ %
Reported revenues	**356.5**	**367.1**	**3.0%**	**0.0**	**367.1**	**3.0%**
Reported operating costs [2]	**287.8**	**296.7**	**3.1%**	**3.4**	**293.2**	**1.9%**
Staff costs	161.6	170.3	5.4%	0.4	169.9	5.2%
ES&S costs	114.4	111.3	-2.7%	3.0	108.3	-5.4%
Other op. costs	11.8	15.0	27.4%	0.0	15.0	27.4%
Reported EBITDA [2]	**68.7**	**70.4**	**2.4%**	**-3.4**	**73.8**	**7.4%**
Non-recurring revenues & costs	**-2.5**	**5.1**		**2.3**	**2.8**	
Non-recurring revenues	-3.0	0.0		0.0	0.0	
Non-recurring costs	0.5	5.1		2.3	2.8	
Recurring EBITDA	**66.3**	**75.5**	**14.0%**	**-1.1**	**76.7**	**15.7%**
Capex	**2.7**	**10.9**	**297.2%**	**6.7**	**4.2**	**54.6%**

Most of the Postal Bank costs in 1H15 are set-up costs (non-recurring)

[1] Postal Bank project without impact in 2014.
[2] Excluding depreciation, amortisation, provisions and impairments.

CTT Investor Relations

Upcoming events:

4 Sep. – Stockholm Roadshow
9 Sep. – JP Morgan Small / Mid Cap Conference
11 Sep. – XII BPI Iberian Conference
15 Sep. – London Roadshow
16 Sep. – Kepler Cheuvreux Autumn Conference
19 Nov. – CTT 2015 Capital Markets Day

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