

CTT – Correios de Portugal

1H15 Results Presentation



29 July 2015

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I

Key highlights

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Guidance update

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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.

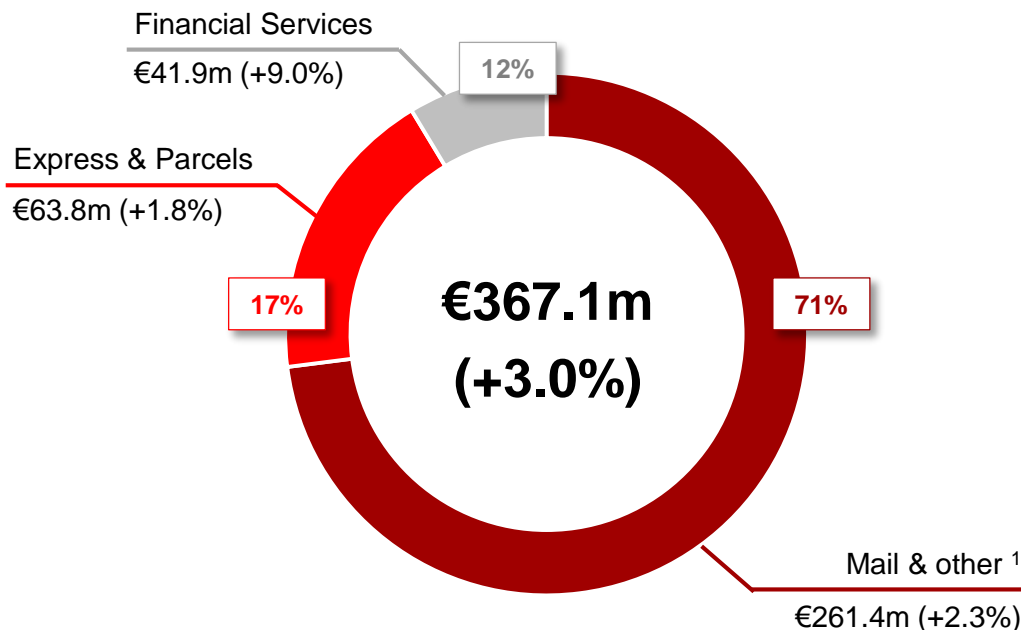
⁴ Cash flow from operating and investing activities excluding changes in net Financial Services payables of +€125.6m (from Dec-13 to Jun-14) and +€58.0m (from Dec-14 to Jun-15).

⁵ Amount of savings and insurance placements and redemptions.

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

1H15 reported revenues

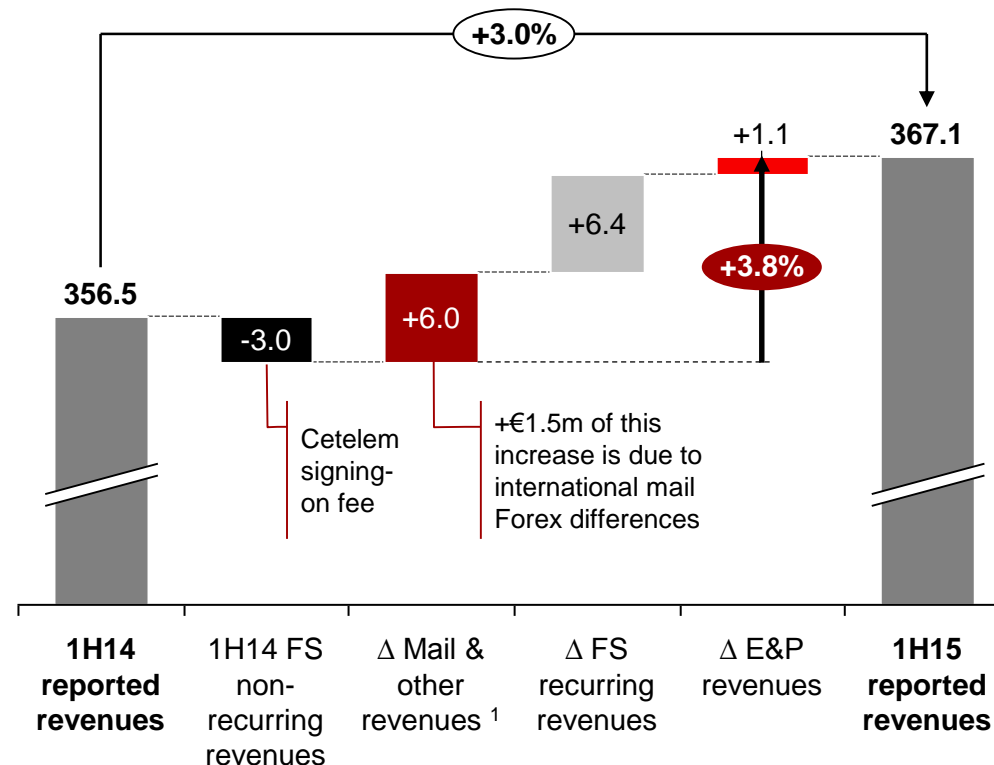
€ million, % change vs. prior year, % of total reported revenues



X% % 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)**

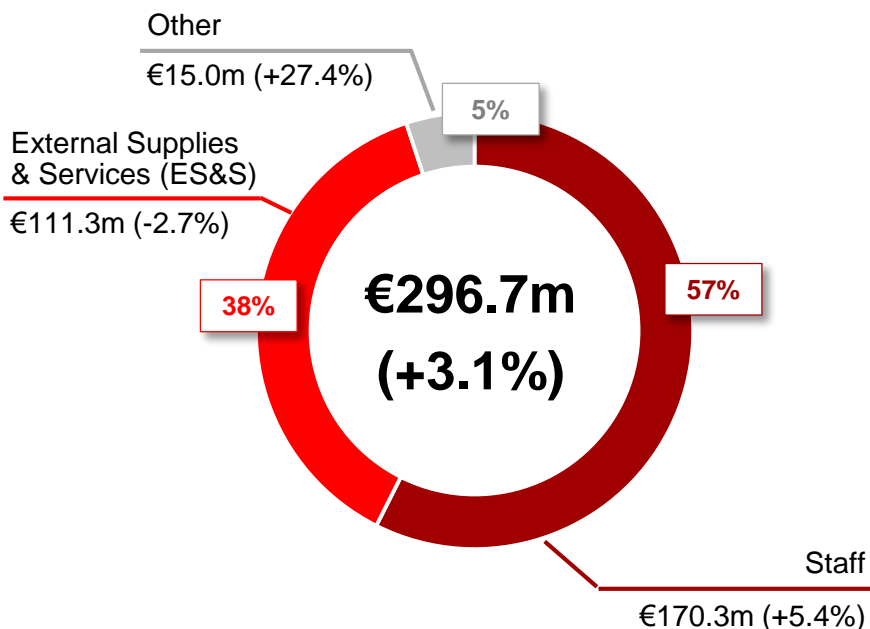
Revenues grow 3.8% on a recurring basis, with positive contribution from all businesses

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

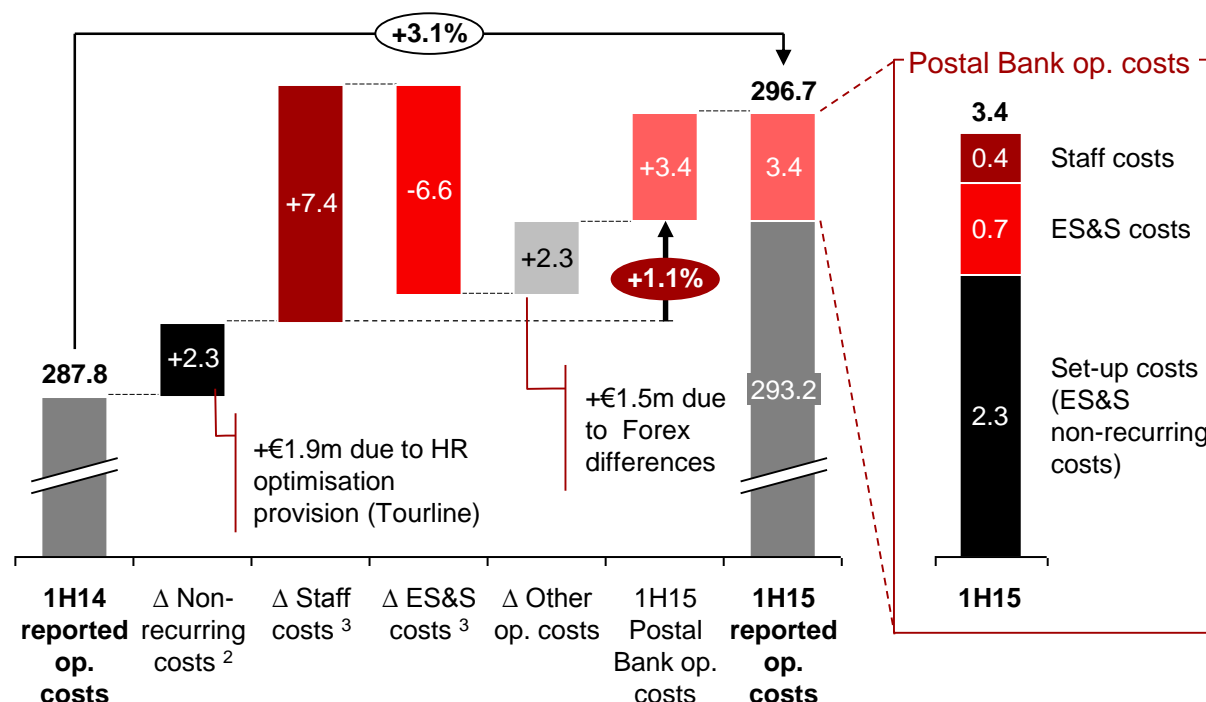
€ million, % change vs. prior year, % of total op. costs



X% % of total reported operating costs ¹

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 international 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.

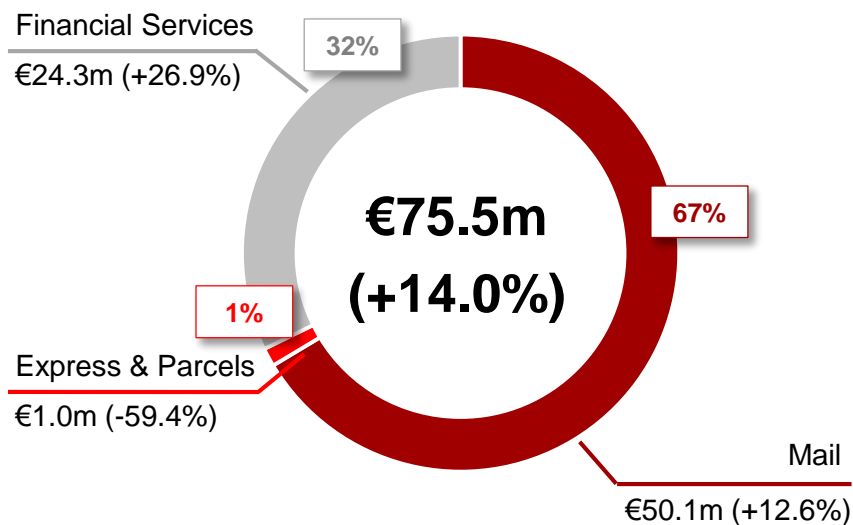
² Excluding Postal Bank set-up costs. Total non-recurring operating costs: €0.5m in 1H14 and €5.1m in 1H15, €2.3m of the latter related to the Postal Bank set-up costs.

³ Excluding Postal Bank recurring operating costs.

Strong growth in recurring 1H15 EBITDA, exceeding expectations

1H15 recurring EBITDA ¹

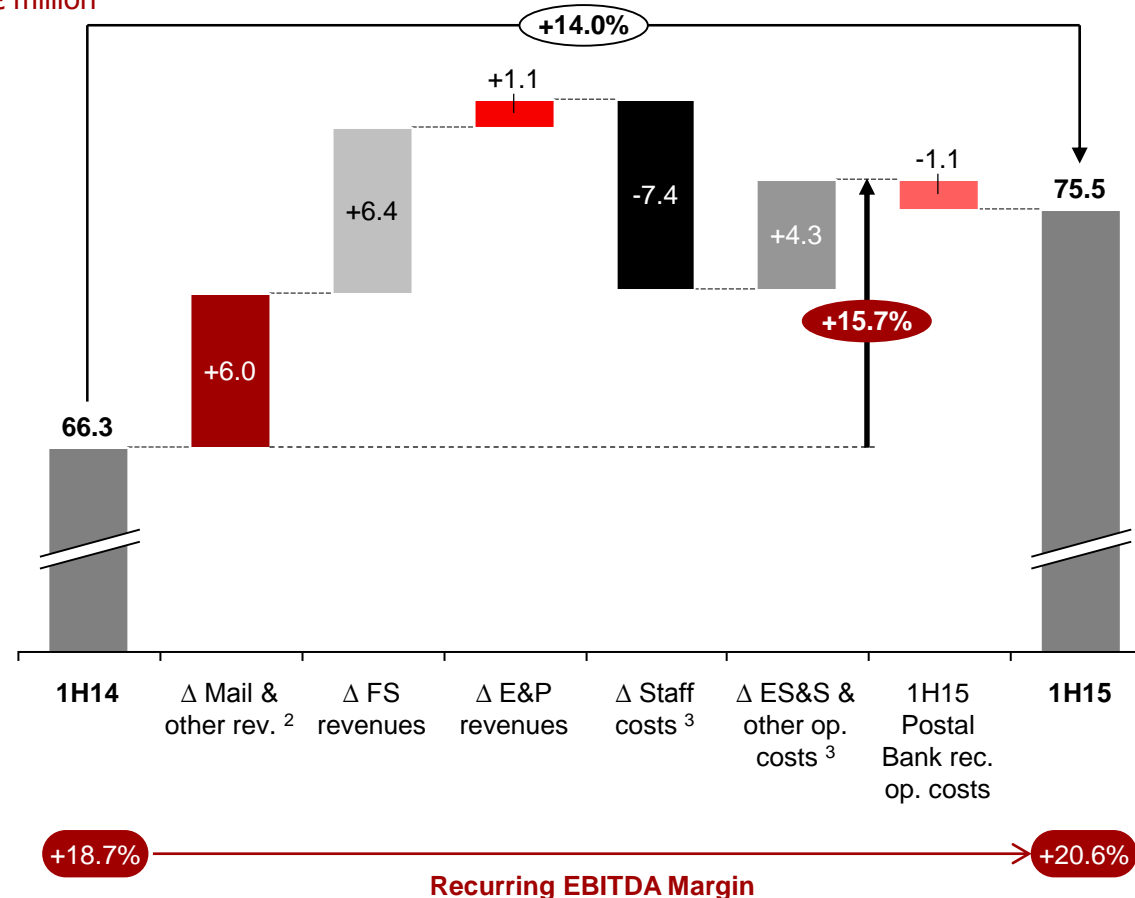
€ million, % change vs. prior year, % of total recurring EBITDA ¹



X% % 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	Δ %	1H14	1H15	Δ%	
From operating activities	187.8	95.8	-49.0%	62.2	37.8	-39.2%	<ul style="list-style-type: none"> ▪ €9.0m variable remuneration paid in 1H15 ▪ €4.2m EAD sale in 1H14 ▪ €15.2m increase in Accounts receivable in 1H15
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	<ul style="list-style-type: none"> ▪ Capex payments presented in table
Operating free cash flow	191.4	79.7	-58.4%	65.9	21.6	-67.1%	<ul style="list-style-type: none"> ▪ Accounting Capex was €2.7m in 1H14 and €10.9m in 1H15, with €6.7m of the latter related to the Postal Bank project
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%	

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

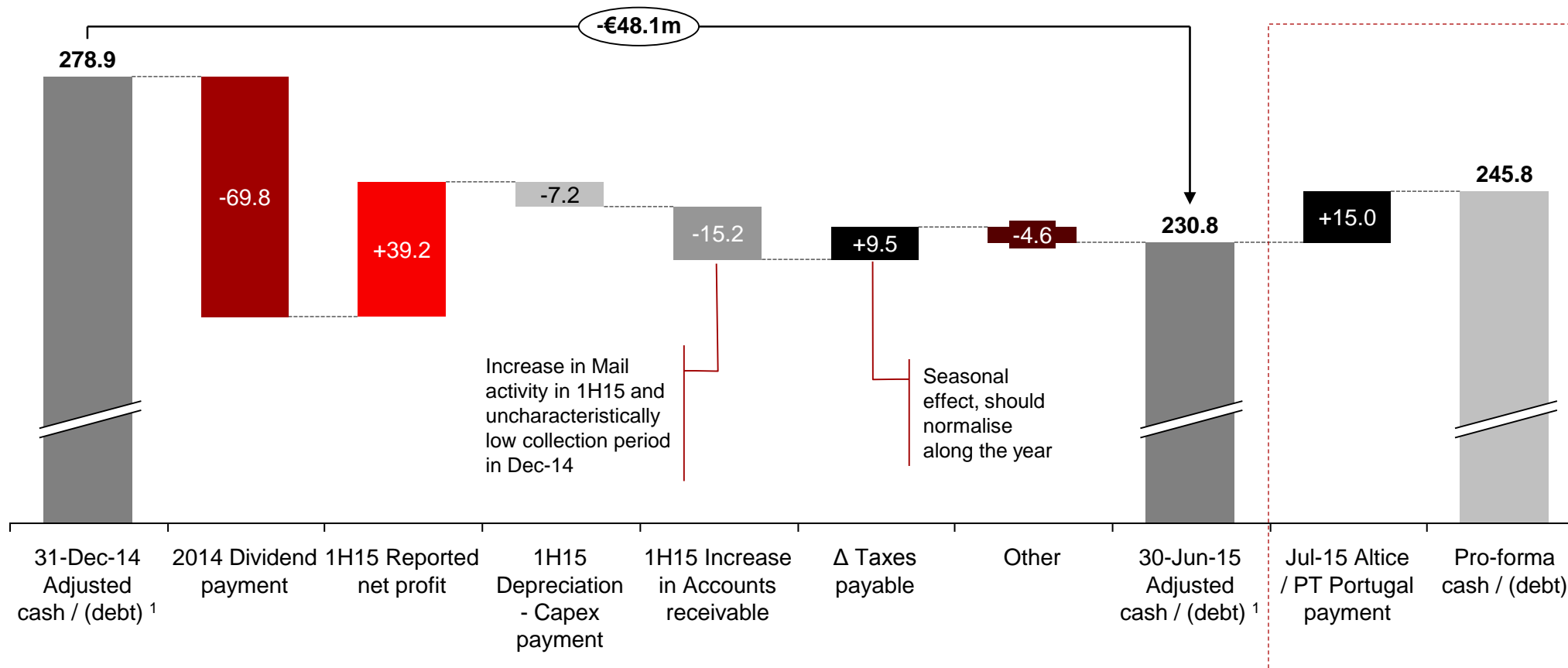
¹ Cash flow from operating activities excluding changes in net Financial Services payables of +€125.6m (from Dec-13 to Jun-14) and +€58.0m (from Dec-14 to Jun-15). Cash at the end of the period excluding net Financial Services payables of €433.6m (Jun-14) and €443.7m (Jun-15).

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

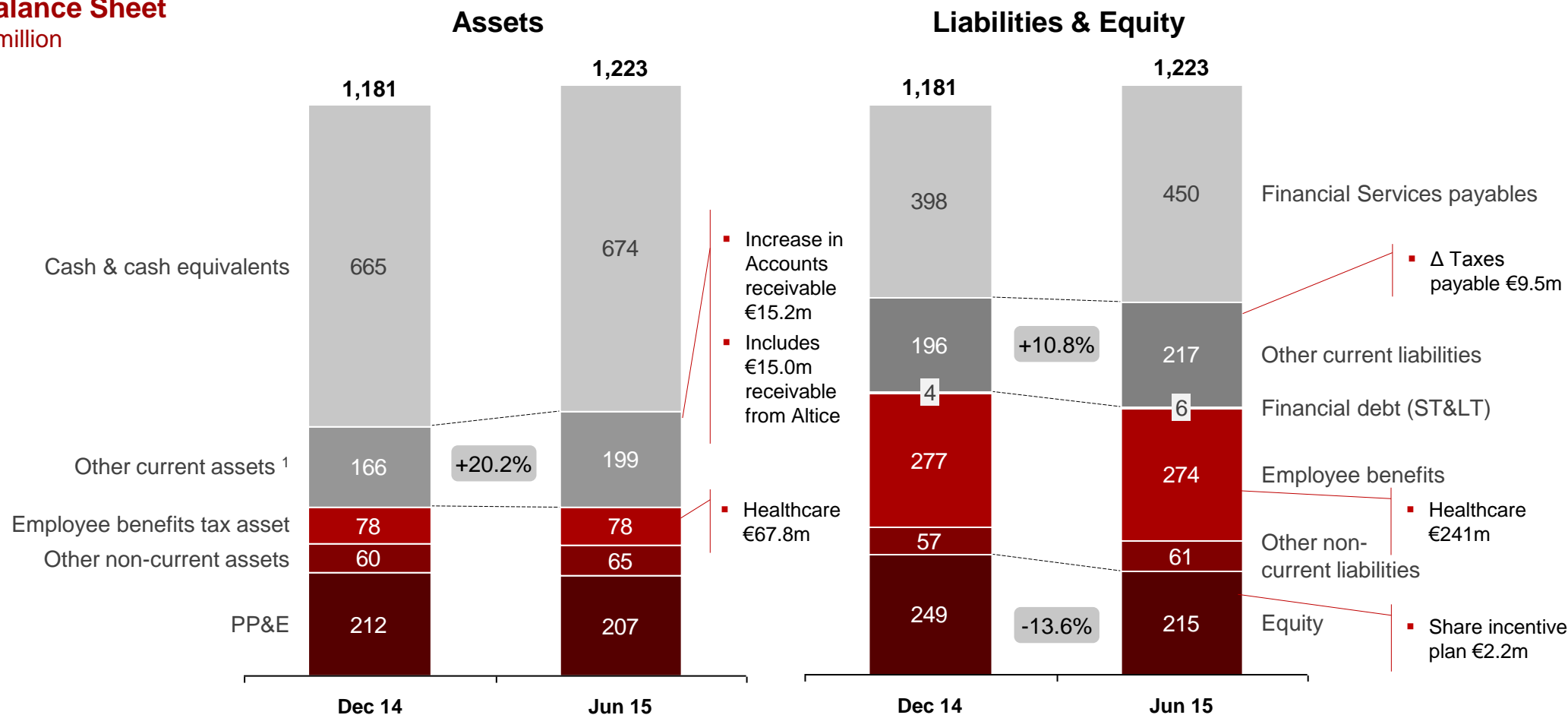


€15m payment from Altice / PT Portugal received in July

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< 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

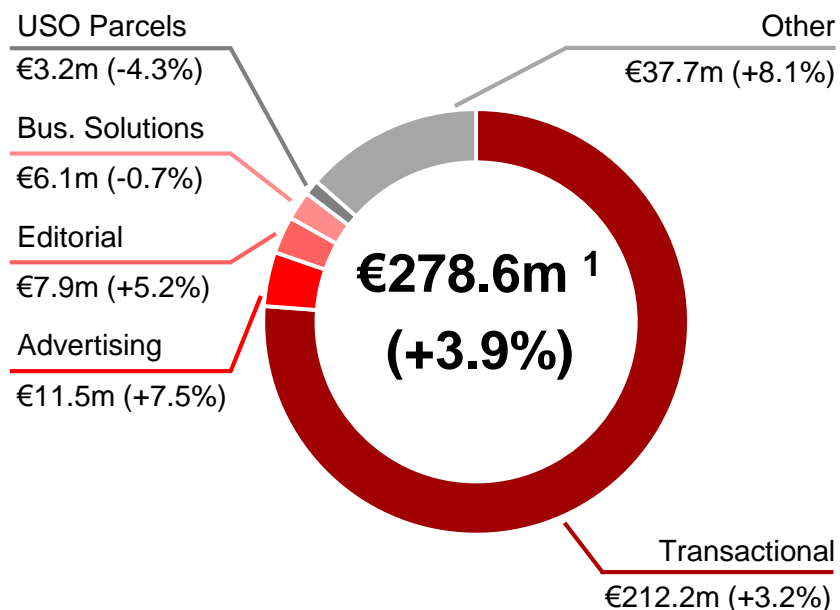


- **Altice finalised its acquisition of PT Portugal in June**. As per the terms of the MoU signed with Altice, **CTT received (in July) a payment of €15 million**. **Now the parties will start negotiations for the signing of a framework agreement for further business partnerships**

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

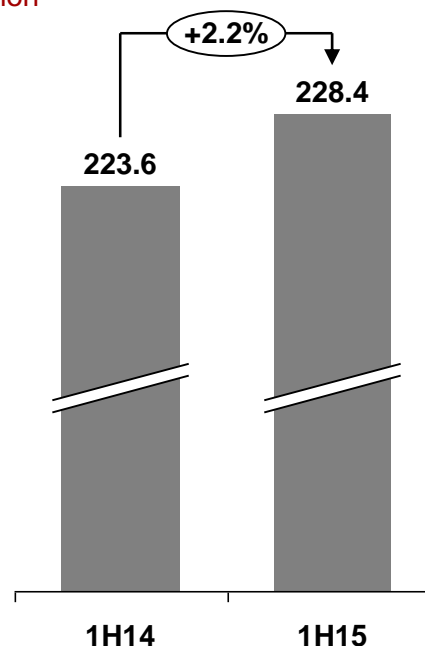
1H15 Mail revenues by type

€ million, % change vs. prior year



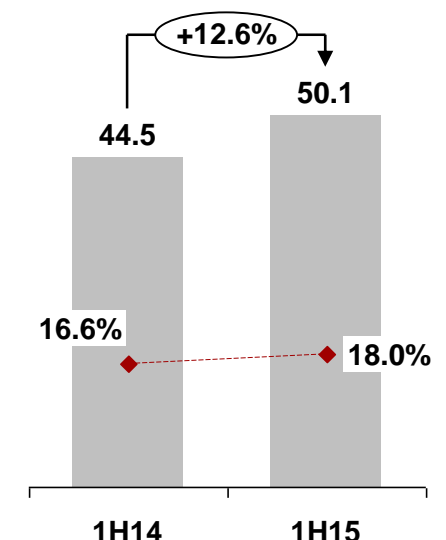
Recurring operating costs ^{1,2}

€ 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.

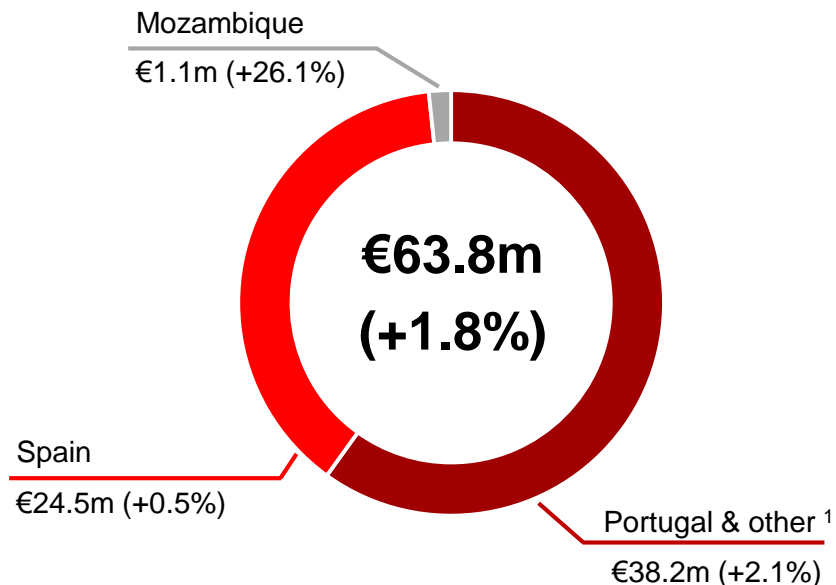
³ Million items.

⁴ USO, excluding international inbound mail.

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

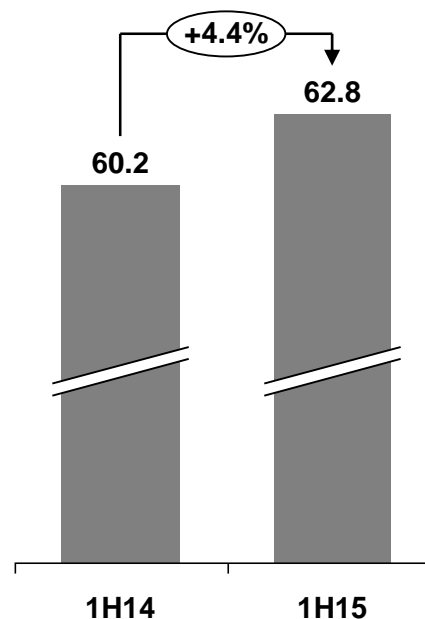
1H15 E&P revenues by region

€ million, % change vs. prior year



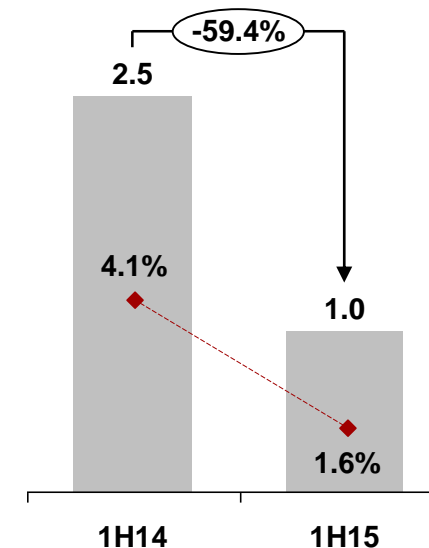
Recurring operating costs²

€ million



Recurring EBITDA²

€ million



■ Operating costs

◆ EBITDA Margin ■ EBITDA

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.

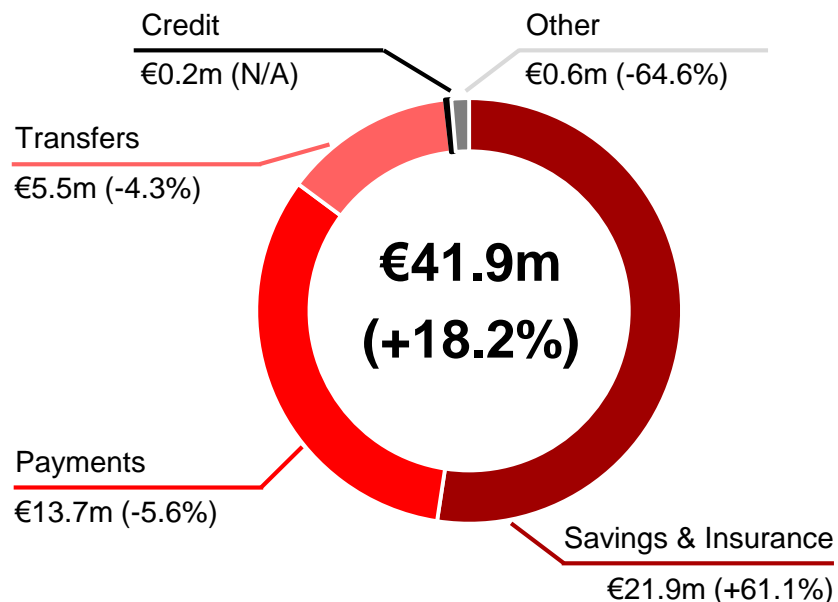
³ Million items.

⁴ Change in methodology, comparison to 2014 not meaningful.

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

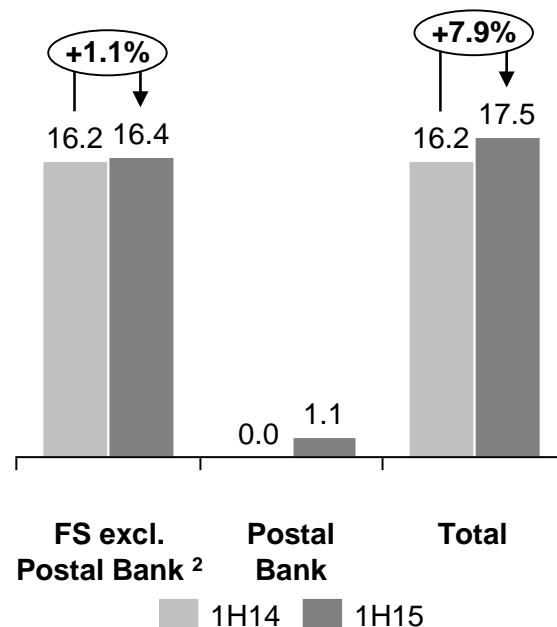
1H15 FS recurring revenues by type

€ million, % change vs. prior year



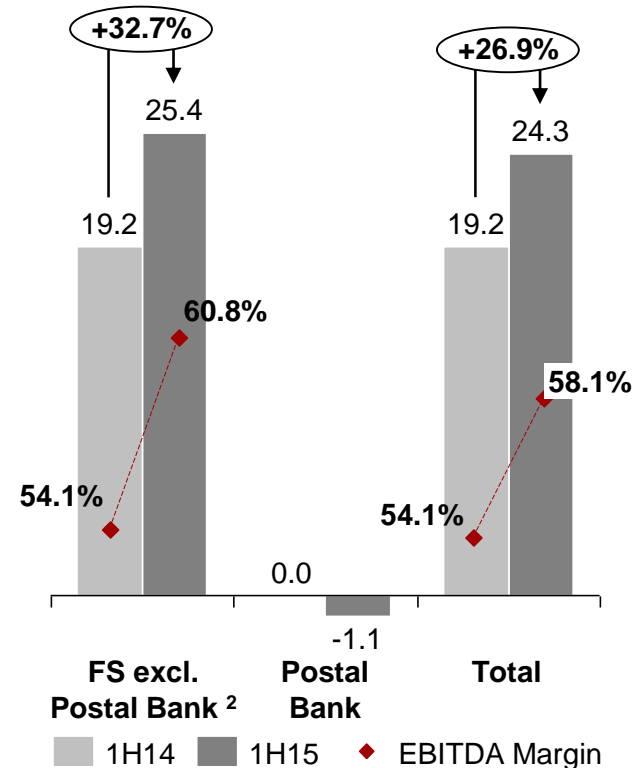
Recurring operating costs ¹

€ 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.

**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	€3.0m non-recurring FS revenues in 1H14
Staff costs	0.4	1.3	0.9	€1.9m provision for Tourline HR optimisation (6-month payback)
ES&S & other op. costs	0.1	3.8	3.7	€2.3m Postal Bank set-up costs
Recurring EBITDA	66.3	75.5	9.3	
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			1H15 Postal Bank	Excluding Postal Bank	
	1H14 CTT	1H15 CTT	Δ %		1H15 CTT	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.

SAVE THE DATE

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



CAPITAL
MARKETS
DAY LISBON
2015

19 NOVEMBER



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