CTT – Correios de Portugal

First Half 2014 Results Presentation

30 July 2014

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Agenda

I	Key highlights
II	Financial performance
III	Outlook

Strong growth in recurring profits and cash flows from ongoing businesses

Business Performance	2Q14	vs. 2Q13	1H14	vs. 1H13
Reported Revenues	€180.1m	+3.7%	€356.5m	+1.7%
Reported Operating Costs	€144.0m	+4.1%	€287.8m	+1.3%
Reported EBITDA	€36.0m	+2.0%	€68.7m	+3.5%
Recurring EBITDA [1]	€33.2m	+21.8%	€66.3m	+11.1%
Reported Net profit	€18.0m	+30.4%	€36.1m	+14.0%
Recurring Net profit [1]	€17.5m	+51.6%	€36.4m	+19.8%
Operating free cash flow [2]	€33.7m	+85.6%	€65.9m	+125.7%

KEY METRICS

Period	Addressed mail volumes	Unaddressed mail volumes	Average mail prices (USO) [3]	Parcels volumes	Savings Flows [4]
2Q14 vs. 2Q13	-3.9%	+11.2%	+3.9%	+6.1%	+112%
1H14 vs. 1H13	-7.0%	+4.1%	+4.4%	+11.6%	+122%

[1] Excluding non-recurring items and the impact of the EAD sale – EAD financials are included in the 1H13 reported figures but not in the 1H14 ones. This analysis adjusts for that by excluding the EAD financials from the 1H13 figures for comparison purposes.
[2] Excluding changes in Net Financial Services payables.
[3] Excluding international outbound mail.
[4] Amount of savings and insurance products placements and redemptions.

Important milestones in 1H14

Mail

- **In 2Q14, addressed mail volumes decline by only 3.9% and unaddressed volumes grow by 11.2%**
- **4.4% average annual price increase** initiated in January and **concluded in June,** with the increase in editorial mail prices
- **Sale of 51% stake in the subsidiary EAD** for €2.75m
- **SGEI pilot** launched in March, currently **underway in 24 CTT post offices**

Financial Services

- Savings volumes more than double in 1H14, with **IGCP revising upwards its 2014 target to €3 billion**
- **"Classic" consumer credit offer launched** at the end of June, with credit card offer to follow in 4Q14

Express & Parcels

- **An Iberian Express & Parcels portfolio launched** in March; customers now benefit from the same offer across Portugal and Spain. The online retailers demand performance with similar levels of service across Iberia

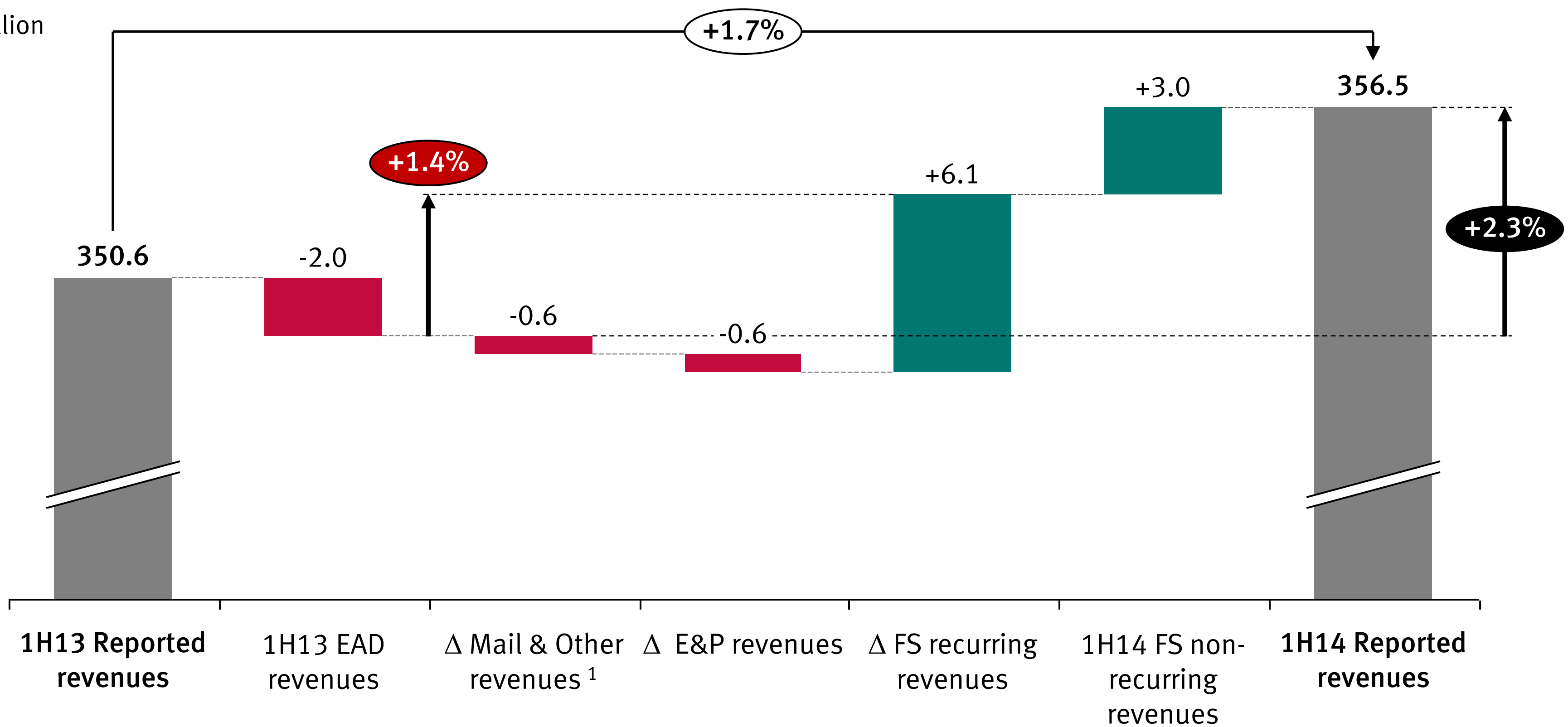
Strategic developments initiated in 1H14

- **Long-term partnership agreement with BNP Paribas Personal Finance** for the sale of consumer credit products signed in June
- Review of the strategic case and business plan for the **Postal Bank is** underway, **decision of the Board of Directors by 4Q14**
- The **IT and communications procurement process** is almost finished (only some formal proceedings pending); it will represent **annual cost savings of circa €14m** vs. the former operating costs, which in 2014 are around €25 million, meaning a relevant reduction in ES&S cost in the future
- The **process of integration of Mail and Express & Parcels distribution networks in Portugal commenced** at the end of 2Q14. To continue in 2H14 & 1H15
- **Strategic repositioning of Spanish subsidiary Tourline** underway, affecting revenues and profitability of E&P in Spain
- **HR career development and incentive schemes** being designed for future implementation

Revenues from ongoing businesses grow 2.3% in 1H14, driven by FS

Revenues – first half

€ million



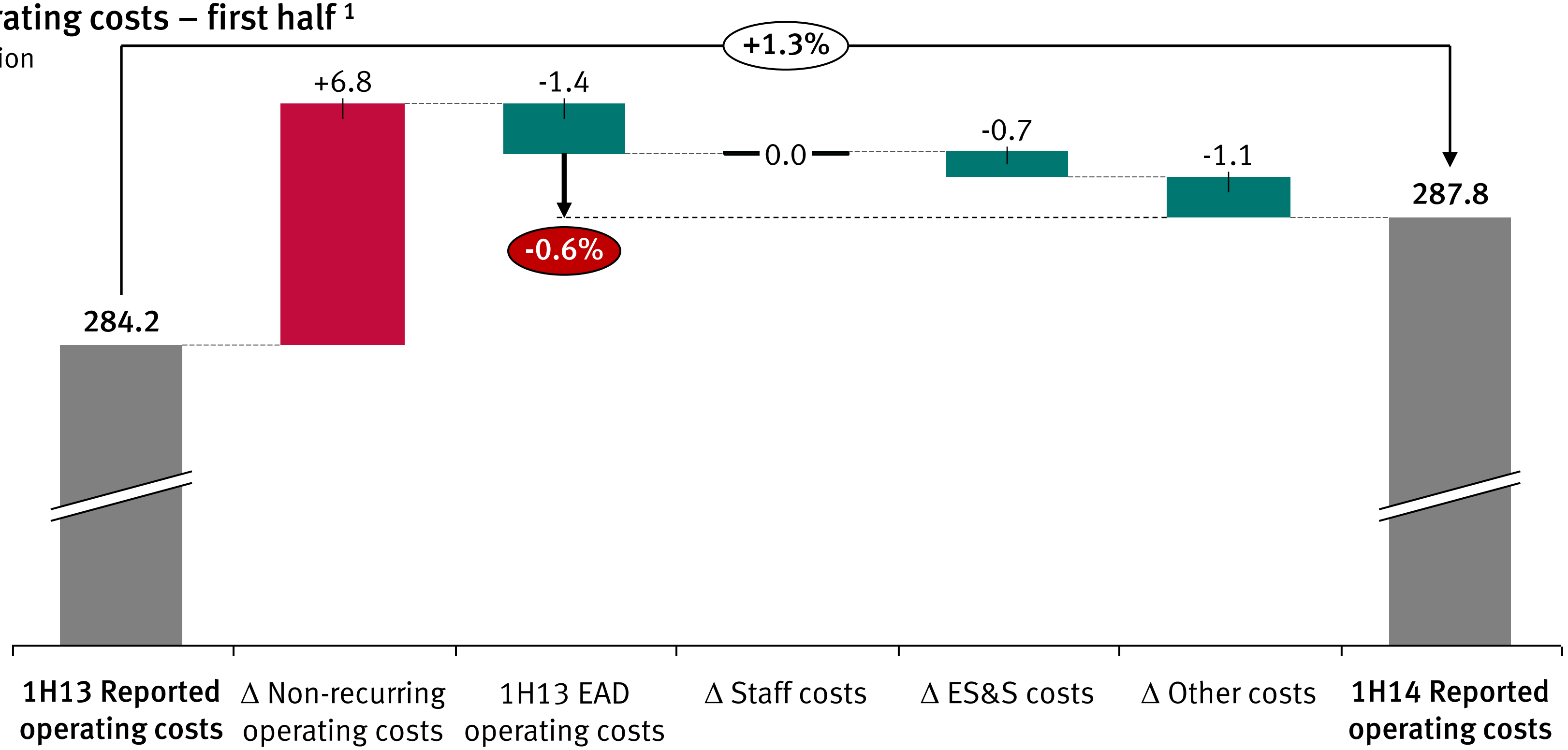
- The 1H13 revenues of EAD (subsidiary sold in 1H14 but present in the 1H13 reported figures) were €2m. **Revenues from ongoing businesses, excluding EAD, grow €7.9m (2.3%)** vs. 1H13
- FS received €3m non-recurring revenues in 1H14. **Excluding this non-recurring item, revenues from ongoing businesses grow €4.9m (1.4%)** vs. 1H13; strong Financial Services growth more than offsets slight declines in Mail & E&P revenues

[1] Other revenues include income related to CTT Central Structure and Intragroup Eliminations amounting to -€15.3m in 1H13 and -€12.7m in 1H14.

Recurring operating costs decrease, despite privatisation impact on staff costs

Operating costs – first half [1]

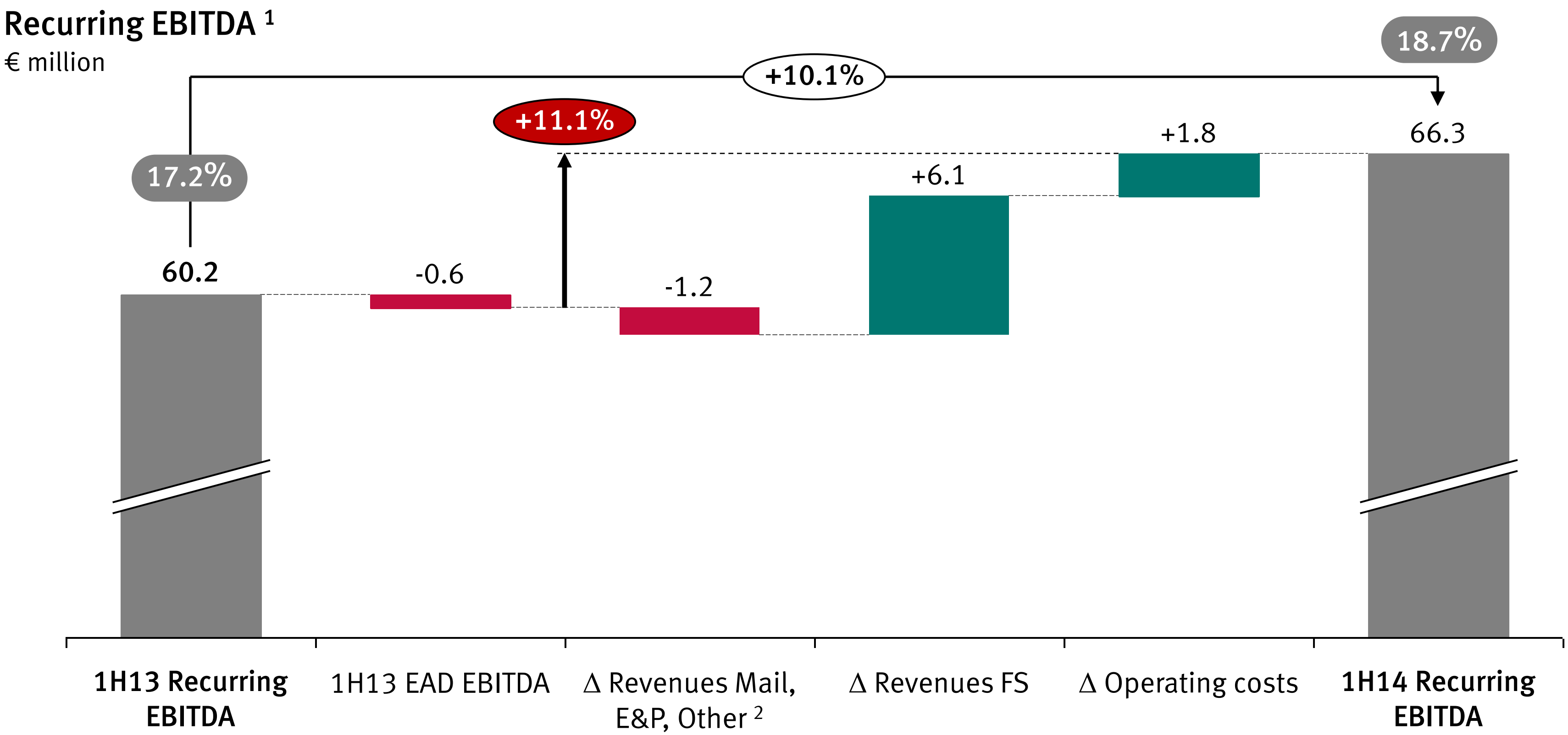
€ million



- **Recurring operating costs from ongoing businesses** (excluding the impact of EAD and non-recurring items) **decline €1.8m (0.6%) vs. 1H13**, driven by declines in ES&S and Other costs
- The **3.3% (434 employees**) reduction in the number of staff vs. Jun-13 offsets the impact on staff costs of the legal / regulatory changes resulting from privatisation
- Non-recurring costs with larger impact on the 1H13 accounts - the telephone subscription benefit paid to retired employees was revised in 2Q13, resulting in significant non-recurring cost savings in that quarter

[1] Excluding amortisation, depreciation, provisions and impairment losses.

Recurring EBITDA grows at double-digit rates



- **Recurring EBITDA from ongoing businesses** (i.e. excluding EAD) **grows €6.6m (11.1%)** vs. 1H13, as strong increase in FS revenues and operating costs savings offset slight decline in Mail & E&P revenues

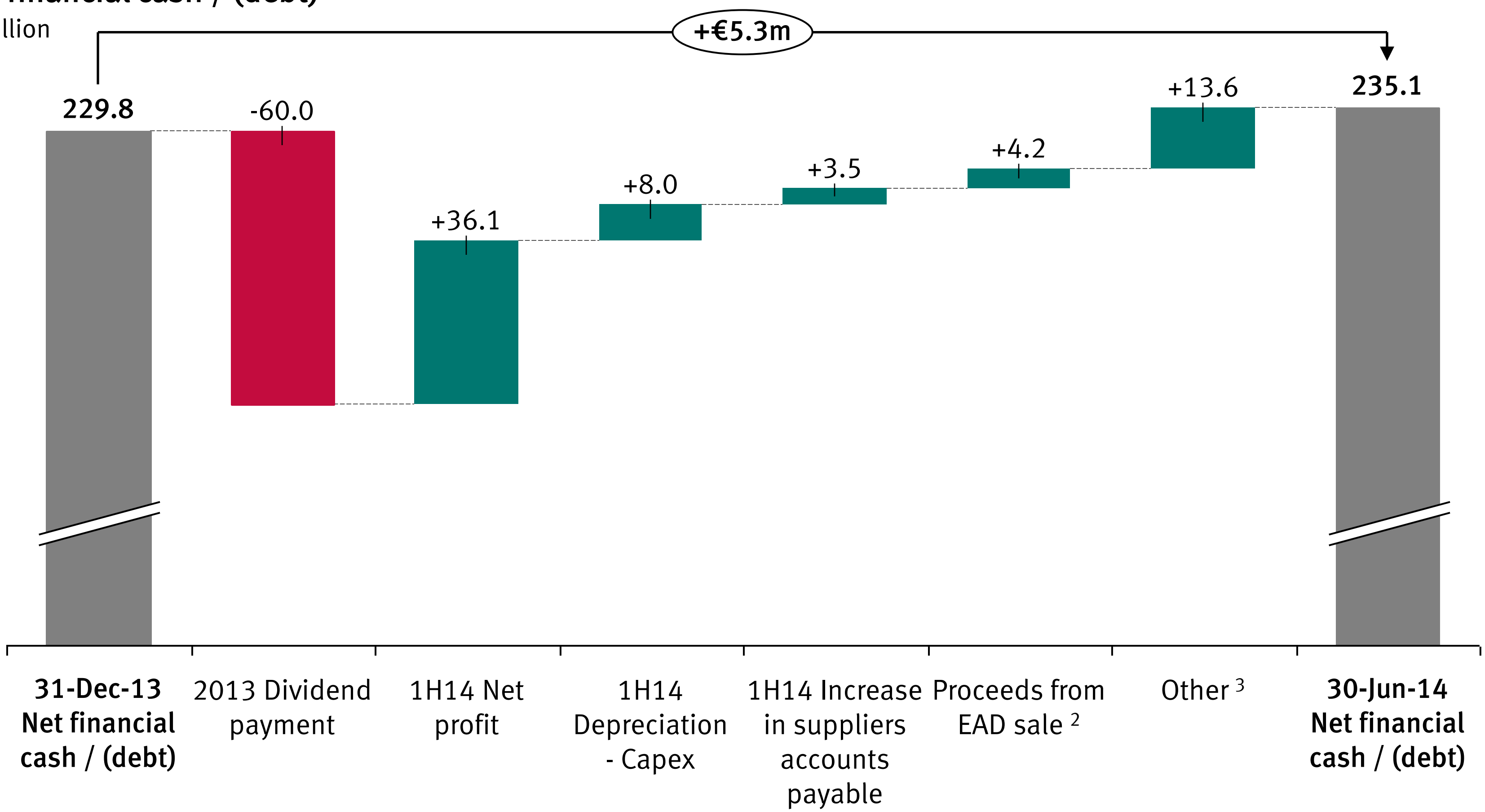
% Recurring EBITDA margin [1]

[1] Excluding non-recurring revenues and costs.
[2] Other revenues include income related to CTT Central Structure and Intragroup Eliminations amounting to -€15.3m in 1H13 and -€12.7m in 1H14.

Cash flow generation in 1H14 surpasses the full 2013 dividend payment

Net financial cash / (debt) [1]

€ million



[1] Cash and equivalents less Long & Short-term financial debt less Net Financial Services payables.
[2] Includes €2.75m for the sale of 51% stake in EAD and €1.5m of intercompany loan repayment by EAD.
[3] Increase in taxes payable (seasonal effect, due to payment on account).

Agenda

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Summary of key first half financials

€ million	Reported (excluding EAD)				Recurring (excluding EAD) [1]			
	1H13	1H14	Δ	Δ%	1H13	1H14	Δ	Δ%
Revenues	348.6	356.5	7.9	2.3%	348.6	353.5	4.9	1.4%
Operating costs	282.8	287.8	5.0	1.8%	289.0	287.2	-1.8	-0.6%
EBITDA	**65.9**	**68.7**	**2.8**	**4.4%**	**59.6**	**66.3**	**6.7**	**11.1%**
EBITDA margin	**18.9%**	**19.3%**	**0.4 p.p.**		**17.1%**	**18.7%**	**1.6 p.p.**	
Depreciation / amortisation, impairments and provisions	18.7	13.8	-4.8	-26.0%	14.3	10.9	-3.4	-23.8%
EBIT	**47.2**	**54.9**	**7.7**	**16.3%**	**45.3**	**55.4**	**10.1**	**22.1%**
EBIT margin	**13.5%**	**15.4%**	**1.9 p.p.**		**13.0%**	**15.7%**	**2.7 p.p.**	
Net financial income/(expense), incl. assoc. companies	-1.2	-3.2	-2.0	162.4%	-1.2	-3.2	-2.0	162.4%
Earnings before taxes (EBT)	**46.0**	**51.8**	**5.8**	**12.5%**	**44.1**	**52.2**	**8.1**	**18.3%**
Income tax for the period	-14.3	-15.7	-1.4	9.8%	-13.7	-15.9	-2.1	15.4%
Gains / (losses) attributable to non-controlling interests	0.0	0.0	-0.1	-166.0%	0.0	0.0	-0.1	-166.0%
Net profit attributable to equity holders	**31.6**	**36.1**	**4.5**	**14.0%**	**30.3**	**36.4**	**6.0**	**19.8%**

- **Recurring revenues from ongoing businesses equal€353.5m, up 1.4% vs. 1H13,** driven by a very positive evolution of Financial Services (recurring business unit revenues up 21% or €6.1m vs. 1H13)
- **Recurring operating costs from ongoing businesses decrease 0.6% to €287.2m in 1H14,** despite revenue growth, adding €1.8m to recurring EBITDA
- **Reported EBIT from ongoing businesses up 16.3% vs. 1H13 to €54.9m (up 22.1% excluding non-recurring items,** which impacted more the 1H13 accounts.
- **Net profit of €36.1m (14.0% vs. 1H13); excluding non-recurring items it reaches €36.4m (up 19.8%, €6.0m)**

[1] Recurring Net profit excludes non-recurring revenues and costs and considers the effective tax rate from the reported accounts.

Non-recurring items with bigger impact on the 1H13 accounts

€ million	Excluding EAD		
	1H13	1H14	Δ
Reported EBITDA	**65.9**	**68.7**	**2.8**
Non-recurring items affecting EBITDA and EBIT	**-6.2**	**-2.5**	**3.8**
Non-recurring revenues	0.0	3.0	3.0
Staff costs	-6.2	0.4	6.6
ES&S and other costs	0.0	0.1	0.1
Recurring EBITDA	**59.6**	**66.3**	**6.6**
Reported EBIT	**47.2**	**54.9**	**7.7**
Non-recurring costs affecting only EBIT	**4.4**	**2.9**	**-1.5**
Provisions (net movement)	3.3	0.4	-2.9
Labour contingencies	3.1	-0.1	-3.2
Onerous contracts [1]	0.2	0.5	0.3
Impairment of investments	1.0	0.0	-1.0
Restructuring for network optimisation	0.0	2.5	2.5
Non-recurring costs and revenues affecting EBITDA and EBIT	**-1.9**	**0.4**	**2.3**
Recurring EBIT	**45.3**	**55.4**	**10.1**

Signing-on fee from exclusive partnership for the sale and distribution of consumer credit products

The telephone subscription benefit paid to retired employees was revised in 1H13, with €8.4m savings which compensated for costs related to staff exits

Impairments related to network optimisation at Tourline

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

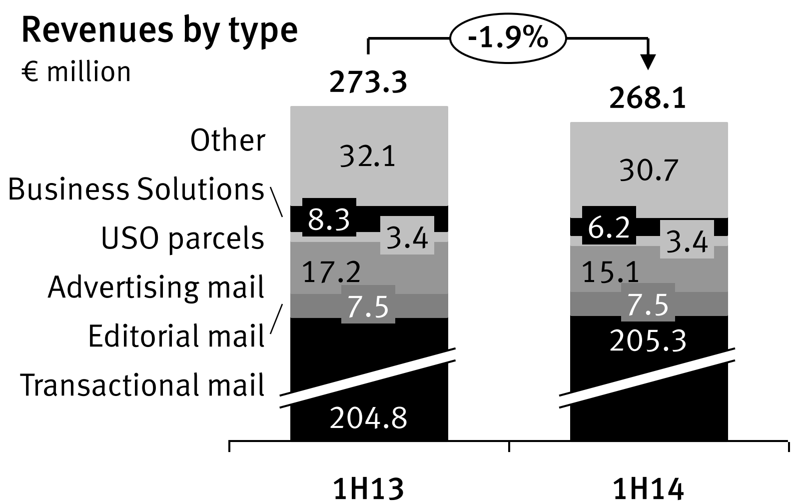
Decline in recurring costs in Mail continues to outstrip the decline in revenues

	Units	2Q13	2Q14	Δ%	1H13	1H14	Δ%
Addressed mail volumes	**m items**	**215.2**	**206.8**	**-3.9**	**463.6**	**431.2**	**-7.0**
▪ Transactional mail	m items	179.9	178.2	-0.9	391.6	369.2	-5.7
▪ Advertising mail	m items	22.3	16.8	-24.7	47.5	38.3	-19.5
▪ Editorial mail	m items	13.0	11.8	-9.3	24.5	23.7	-3.5
Unaddressed mail volumes	**m items**	**124.6**	**138.5**	**11.2**	**241.1**	**251.1**	**4.1**
Revenues [1]	**€m**	**132.6**	**133.5**	**0.6**	**273.3**	**268.1**	**-1.9**
Operating costs [1, 2]	€m	115.7	112.3	-2.9	230.7	223.6	-3.1
Recurring EBITDA	**€m**	**17.0**	**21.2**	**24.9**	**42.6**	**44.5**	**4.6**
EBITDA margin	%	12.8	15.9	3.1 p.p.	15.6	16.6	1.0 p.p.
Reported EBITDA	**€m**	24.7	21.1	-14.9	48.9	44.1	-9.8

[1] The 2013 figures include EAD revenues and operating costs amounting to circa €2.0m and €1.4m respectively in 1H13.
[2] Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

Revenues by type

€ million



- **The rate of decline of addressed mail volumes in 2Q14 vs. slows down to -3.9%**
- Transactional mail volumes decline only 5.7% vs. 1H13, while advertising mail, more sensitive to the economy, declines 19.5%
- **Revenues increase 0.6% in 2Q14 vs. 2Q13,** due to price increase, lower volumes decline in the quarter and one-off factors
- **Recurring operating costs fall by 3.1% vs. 1H13,** due to a decline in ES&S costs, as a result of transformation programme initiatives
- **Recurring EBITDA,** which excludes the impact of one-off net cost savings in 2013 mostly due to the revision of the telephone subscription benefit for retired employees, **grows 4.6% vs. 1H13**

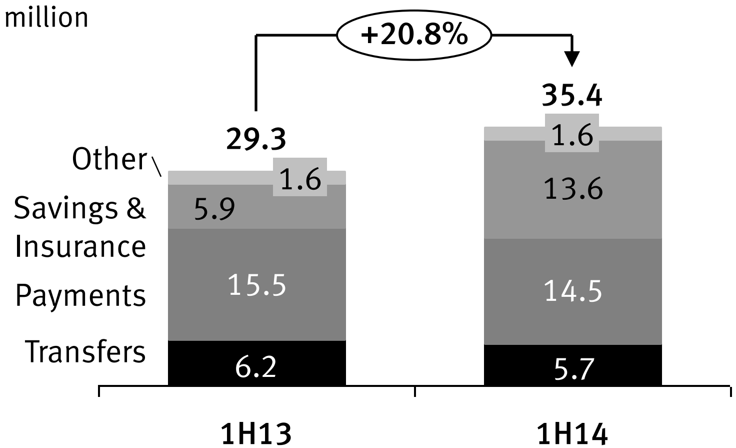
Financial Services registers its best ever quarterly performance

	Units	2Q13	2Q14	∆%	1H13	1H14	∆%
Payments	m ops	18.1	16.8	-7.4	35.8	33.0	-7.6
Money orders & transfers	m ops	5.0	4.6	-7.5	10.2	9.5	-6.5
Savings & insurance flows [1]	€m	745.6	1,583.6	112	1,314.5	2,916.4	122
Revenues [2]	**€m**	**15.8**	**19.3**	**21.6**	**29.3**	**35.4**	**20.8**
Operating costs [3]	€m	8.4	8.3	-0.9	16.3	16.2	-0.4
Recurring EBITDA	**€m**	**7.5**	**11.0**	**46.7**	**13.0**	**19.2**	**47.3**
EBITDA margin	%	47.1	56.9	9.8 p.p.	44.4	54.1	9.7 p.p.
Reported EBITDA	**€m**	**7.5**	**14.0**	**85.4**	**13.1**	**22.2**	**69.7**

[1] Amount of placements and redemptions.
[2] Excluding non-recurring signing-on fees from the consumer credit partnership agreement.
[3] Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

Recurring revenues by type

€ million



- **2Q14 recurring revenues grow 21.6%** vs. 2Q13 while costs decline, generating recurring **EBITDA of €11.0m (56.9% margin).** Reported performance is even better, due to **one-off signing-on fees of €3m** received from the consumer credit partnership agreement
- **1H14 recurring revenues increase by €6.1m (20.8%)** vs. 1H13, as a result of the revised partnership agreements in 2013 and continued robust sales of savings products (savings and insurance flows up 122% vs. 1H13)
- **Operating costs decline, despite stellar growth in revenues.** Back-office technology improvements (online front office) reduce transaction processing times

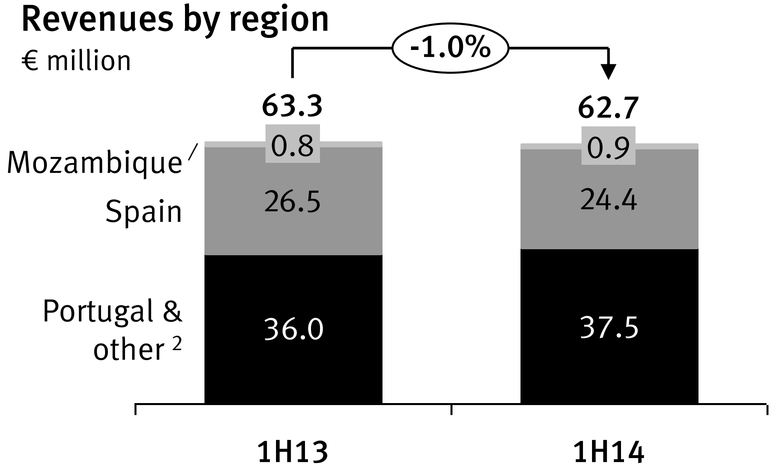
Express & Parcels performance impacted by restructuring process in Spain

	Units	2Q13	2Q14	∆%	1H13	1H14	∆%
Volumes by region	**m items**	**6.3**	**6.7**	**6.1**	**11.9**	**13.3**	**11.6**
▪ Portugal	m items	3.1	3.5	15.9	5.7	6.7	17.6
▪ Spain	m items	3.3	3.1	-4.2	6.2	6.5	5.4
▪ Mozambique	m items	0.0	0.1	218	0.0	0.1	138
Revenues	**€m**	**33.2**	**31.5**	**-5.3**	**63.3**	**62.7**	**-1.0**
Operating costs [1]	€m	30.1	30.4	1.2	58.7	60.2	2.4
Recurring EBITDA	**€m**	**3.1**	**1.0**	**-67.0**	**4.6**	**2.5**	**-44.5**
EBITDA margin	%	9.4	3.3	-6.1 p.p.	7.2	4.1	-3.1 p.p.
Reported EBITDA	**€m**	**3.1**	**1.0**	**-67.0**	**4.4**	**2.5**	**-44.4**

[1] Excluding amortisation, depreciation, provisions, impairment losses and non-recurring costs.

Revenues by region

€ million



[2] Include internal & other revenues of €1.0m in 1H3 and €1.2m in 1H14

- **Revenues in Portugal grow 4.0% vs. 1H13,** in a continuation of the growth trend which started in 2H13, driven by B2C segment
- **EBITDA margin in Portugal close to the targeted double-digit one.** Potential to achieve the target once the process of integration of Mail and Express & Parcels distribution networks kicks-off in earnest (2H14 / 2015)
- **Revenues in Spain (Tourline) decline 7.9% vs. 1H13,** as a result of **continued restructuring of the franchisee network.** Restructuring process also impacting EBITDA and EBIT margins
- **Strategic repositioning of the Spanish subsidiary is underway, expected to show positive results in 4Q14 / 1Q15**

Strong operating free cash flow generation continues

Cash Flow

€ million	2Q13	2Q14	∆	1H13	1H14	∆
Cash flows from operating activities [1]	**16.2**	**30.2**	**14.0**	**28.1**	**62.2**	**34.1**
Cash flows from investing activities	**2.0**	**3.5**	**1.5**	**1.1**	**3.7**	**2.6**
Capex payments	-0.1	-0.8	-0.7	-2.2	-3.7	-1.5
Other	2.1	4.2	2.1	3.2	7.3	4.1
Operating free cash flow [1]	**18.2**	**33.7**	**15.5**	**29.2**	**65.9**	**36.7**
Cash flows from financing activities	**-37.1**	**-60.2**	**-23.1**	**-42.7**	**-59.7**	**-17.0**
Of which: dividends	-37.5	-60.0	-22.5	-37.5	-60.0	-22.5
Change in cash [2]	**-19.0**	**-26.5**	**-7.5**	**-13.5**	**5.5**	**19.0**
Cash at beginning of period [1]	**245.6**	**268.8**	**23.2**	**240.2**	**236.8**	**-3.4**
Cash at end of period [1]	**226.6**	**242.3**	**15.7**	**226.6**	**242.3**	**15.7**

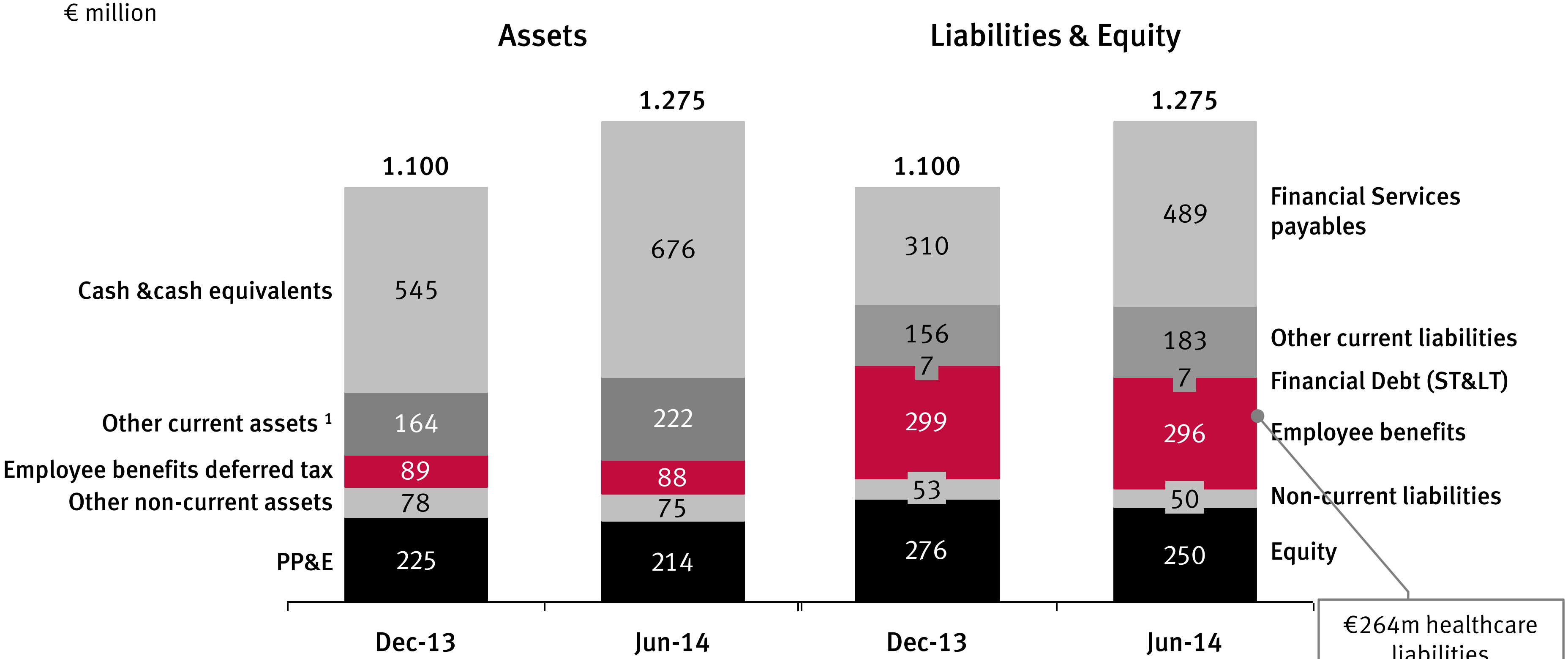
- **€65.9m of operating free cash flow generated in 1H14, more than double the amount generated in the same period last year**
- This performance is largely driven by sustainable factors, including Net profit growth and Balance Sheet optimisation
- Dividends for the year 2013 have been paid and even so the net cash position has improved in Jun-14 vs. Dec-13

[1] Excluding changes in Net Financial Services payables.
[2] Includes €0.7m change in consolidation perimeter in 1H14.

Solid net cash and liquidity position

Balance Sheet

€ million



[1] Includes Financial Services receivables of €2m and €55m as at Dec-13 and Jun-14 , respectively.

- **Net financial debt (cash)** = ST Debt of €5m + LT Debt of €3m + Net Financial Services payables of €434m - Cash and cash equivalents of €676m = **€(235)m**
- **Net debt (cash)** = Total employee benefits of €296m – Employee benefits deferred tax of €88m - Net financial cash of €235m = **€(27)m**
- Strong liquidity position: **Current assets / Current liabilities = 129%, this after the 2013 dividend payment in May**

Agenda

Upgrade to the FY14 outlook

Revenues & Margins

- Goal of stable revenues (+/-1% revenue growth)
- IT & communications procurement process will represent annual cost savings of circa €14m (better than expected)
- **Mid-single digit growth in recurring EBITDA (upgrade)**

Investment & Growth

- Capex of circa €20m
- **Decision on the Postal Bank license by 4Q14**
- Credit card offer launch in 4Q14 (through the BNP Paribas partnership)

Cash Flow

- Further Balance Sheet optimisation measures under study – **implementation foreseen in 4Q14**
- Employee benefits management & optimisation (namely accelerated monetisation of the tax asset)

Earnings & Dividend

- **The Board is confident that it will be able to propose a minimum dividend of €0.435 per share (€65.25m for 150m shares outstanding) for the financial year 2014,** payable in 2015

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