

Consolidated Results

1st Half 2018



ctt



CTT – CORREIOS DE PORTUGAL, S.A. – PUBLIC COMPANY

1ST HALF 2018 CONSOLIDATED RESULTS

- **Revenues** grow (+0.9%) with a recovery confirmed in the 2nd quarter (+1.7%) as a result of the growth of the Express & Parcels (including the incorporation of Transporta) and Banco CTT¹ business units that offset the decrease occurred mainly in the Financial Services business unit.
- **Mail revenues** reverse the trend of recent quarters and grow in the 2nd quarter 2018 (+1.4%), thus positively impacting the evolution of revenues in the 1st half (+0.3%) despite the fall in **addressed mail volumes**, mitigated by the positive developments of the product mix (inbound international mail volumes growth) and by the average price increase.
- **Express & Parcels (E&P) revenues** continue to grow (+17.7%) in the 1st half 2018 (+10.7% excluding the impact of the incorporation of Transporta).
- **Financial Services revenues** decrease by 31.7%, reducing part of the declining trend (-25.8% in the 2nd quarter vs -37.0% in the 1st quarter) as a result of several successful commercial initiatives. Since October 2017 the **Public Debt** products have been replaced by others with a lower interest rate, which affected the attractiveness of these products.
- **Banco CTT (BCTT)** with solid operating performance reaches more than 350 thousand customers corresponding to revenue growth of 23.3%, achieved through its presence in 212 branches.
- **Operational Transformation Plan**, launched in the 1st quarter of 2018, is exceeding the initial projections, as the targets proposed for the full year 2018 were met at the end of the 1st half. The recurring operating costs of Mail & Other continue to be positively impacted (-1.1% in the 1st half) and are progressively declining (from -0.5% in the 1st quarter to -1.6% in the 2nd).
- **Recurring EBITDA** stood at €46.1m (-12.4%), and showed an improved operating performance in the 2nd quarter vis-à-vis the 1st quarter (-5.0% in the 2nd quarter vs -18.9% in the 1st quarter), with an EBITDA margin of 13.0% in the 1st half, better than the 12.8% obtained in the 1st quarter. The €6.5m decrease is mostly due to the performances of the Financial Services (-€7.2m) and BCTT (-€1.9m) business units which were not offset by the performances of the Mail (+€1.4m) and E&P (+€1.1m) business units.

Consolidated Results

	€ million		
	1H 18	1H 17	Δ
Revenues	355.1	352.1	0.9%
Mail & Other	270.6	269.8	0.3%
Express & Parcels	73.9	62.8	17.7%
Financial Services	20.2	29.6	-31.7%
Banco CTT	10.8	8.7	23.3%
CTT Central Structure	55.4	54.8	1.1%
Intragroup eliminations	-75.7	-73.6	-2.9%
Operating costs	324.1	306.4	5.8%
Recurring	309.1	299.5	3.2%
<i>Of which Transporta</i>	7.8	2.6	205.8%
Recurring EBITDA	46.1	52.6	-12.4%
Reported EBITDA	31.0	45.7	-32.2%
Amortisation, depreciation, provisions and impairments	16.7	15.2	9.8%
EBIT	14.3	30.6	-53.1%
Financial income, net	-2.8	-2.4	-15.0%
Gains / (losses) in associated companies	0.1	-	-
Earnings before taxes (EBT)	11.7	28.2	-58.5%
Income tax for the period	5.4	10.5	-48.4%
Gains / (losses) attributable to non-controlling interests	0.03	-0.05	154.8%
Recurring net profit²	21.1	26.4	-19.9%
Net profit attributable to equity holders	6.3	17.7	-64.8%

¹ Includes the migration of Payshop this semester and in the same period of the previous year (proforma); similarly, Payshop is excluded from Financial Services.

² The recurring net profit excludes non-recurring revenues and costs and considers a theoretical (nominal) tax rate.



OPERATIONAL AND FINANCIAL PERFORMANCE

REVENUES

Revenues totalled €355.1m in the 1st half of 2018, a 0.9% increase vis-à-vis the same period of 2017 as a result of the revenue growth in the Express & Parcels and Banco CTT business units which offset the decline occurred mainly in the Financial Services revenues.

	Revenues			€ million	
	1H 18	1H 17	Δ	Weight %	
				1H 18	1H 17
Revenues	355.1	352.1	0.9%		
Mail	270.6	269.8	0.3%	76%	77%
Express & Parcels	73.9	62.8	17.7%	21%	18%
Financial Services (1)	20.2	29.6	-31.7%	6%	8%
Banco CTT (1)	10.8	8.7	23.3%	3%	2%
CTT Central Structure	55.4	54.8	1.1%	16%	16%
Intragroup eliminations	-75.7	-73.6	-2.9%	-21%	-21%

(1) Includes the incorporation of Payshop in Banco CTT this semester and in the same period of the previous year (proforma); similarly, Payshop is excluded from Financial Services.

MAIL

The revenues of the Mail business unit reached €270.6m in the 1st half of 2018, a year-on-year growth of 0.3% that resulted from the combined effect of, on the one hand, the product mix (growth of inbound international mail volumes and lower decline of registered mail), the increase in average revenue per item and the 2018 price update occurred as of 2 April 2018, as well as, on the other hand, the addressed mail volumes decline.

	Mail Volumes			Million items		
	1H 18	1H 17	Δ	daily	daily	Δ
				average	average	
	1H 18	1H 17		1H 18	1H 17	
Transactional Mail	307.6	331.0	-7.1%	2.5	2.6	-6.3%
Editorial Mail	19.1	21.6	-11.5%	0.2	0.2	-10.8%
Advertising Mail	30.6	35.4	-13.7%	0.2	0.3	-13.0%
Addressed Mail	357.3	388.1	-7.9%	2.9	3.1	-7.2%
Unaddressed Mail	211.1	234.8	-10.1%	1.7	1.9	-9.4%

Addressed mail volumes declined by 7.9% in the 1st half of 2018, a decline worse than maximum expected range [-5% to -6%]. This evolution was negatively influenced by the existence of 1 less working day than in the 1st half of 2017. The year will end with 2 more working days (3 more in the 4th quarter of 2018).

The average change of the prices of the Universal Service in the 1st half of 2018 vis-à-vis the same period of the previous year was 3.6% (as a result of the 2.5% average price change occurred in 1Q18 combined with the 4.7% average price change occurred in 2Q18 due to the entry into force of the price update as of 2 April).



In 2018, the price update of the basket of letter mail, editorial mail and parcels services, including the reserved services and bulk mail, was 4.1% and as it took effect from April, the price change for the rest of the year will be 4.7% in order to achieve an average price change of 4.1%.

The addressed mail volumes decline was mainly a result of the decline in **transactional mail** volumes (-7.1%). This decline was due in large part to the decrease of **ordinary mail** (-8.5%) that has a relevant impact as it represents circa 78% of the transactional mail volumes.

Inbound international mail revenues grew by 39.3%, which has boosted the mail revenues and more than offset the decline of the standard transactional mail revenues³ (-3.7%). This evolution is due to higher volumes originated in Asia (particularly in China) related to e-commerce, and to price changes.

Registered mail revenues performed very well in the 1st half of 2018 as they grew by 1.9% as a result of exceptional mailings from the Government sector and other business customers, the growth in the banking and insurance sectors related with the new data protection regulation, and the contribution of private customers.

The **lottery** business (partially suspended in the 1st half of 2017) had a very positive performance in the 1st half of 2018, posting a year-on-year growth of €1.7m.

In the 1st half of 2018, the revenues from **Philately** reached €3.9m, corresponding to a 1.1% year-on-year decline of this business.

EXPRESS & PARCELS

The revenues of this business unit reached €73.9m in the 1st half of 2018, a 17.7% growth over the same period of the previous year. This business unit is operated by CTT Expresso and Transporta in Portugal, by Tourline in Spain, in a rationale of a growing Iberian presence, and by CORRE in Mozambique.

Portugal

Revenues from this business in Portugal (excluding internal customers of the Group) grew by 20.5% to €44.2m, which includes €7.0m from Transporta. External revenues in Portugal excluding Transporta grew by 8.4% year-on-year.

Volumes in Portugal totalled 9.4 million items in the 1st half of 2018, a 20.4% growth over the same period of 2017 (+10.0%, excluding approximately 1.3 million items from Transporta). This evolution is fundamentally the result of the growth of the CEP (Courier, Express & Parcels) business, particularly the new customers in the B2B segment (brought in mainly in the 2nd half of 2017), the strong customer dynamics in the B2C segment of the fashion and accessories and sports goods sectors, as well as the growth of the small businesses segment due to the development of e-commerce. The banking business reversed the downward trend seen in recent years, following the re-entry of 2 major customers at the end of 2017.

Spain

In Spain, revenues of this business (excluding internal customers of the Group) stood at €27.5m, a year-on-year growth of 14.4% mainly due to the 19.1% increase in volumes, greatly influenced by the entry of a large customer and other relevant direct customers, especially in the e-commerce business. Growth in the 1st half of 2018 was boosted by positive revenue growth in the 2nd quarter of 2018, which grew at a faster pace than in the 1st quarter of 2018 (+19.7% vs +9.3%).

³ Including Ordinary (Domestic) Mail, Priority and "Green" Mail, and Complementary Services.



The growth in volumes and the growth in the number of franchised branches has allowed to dilute the fixed costs structure and, on the other hand, reduce distribution costs by moving from own distribution to distribution through franchised branches, allowing to continue the recovery of the business margin of Tourline.

Mozambique

CORRE's revenues in local currency (Metical) grew by 9.2%, +70.5 million meticaïs when compared to the 1st half of 2017, mainly due to the evolution of the banking business (+36.6 million meticaïs; +16.6%). Revenues in euros reached €871.4 thousand (+10.5% year-on-year).

FINANCIAL SERVICES

This business unit revenues reached €20.2m in the 1st half of 2018.

In terms of non-banking financial services, the 2nd quarter of 2018 was marked by the placement of €597.7m in **Public Debt**, leading to a significant recovery in this line of business, 26.3% higher than in the 1st quarter of 2018 and corresponding to a growth of €124.6m.

This recovery is the result of the strong dynamics of the commercial structures and teams around a broader internal and external communication actions plan, as well as the growing awareness of savers and individual investors regarding the competitiveness of the Public Debt products marketed in CTT post offices, combining much higher yields than the average rates practiced in term deposits, total security in a history of more than 50 years without risk events, and absence of charges in a context marked by high and increasing levels of banking fees.

In the field of **insurance**, particular mention is made of the soft launch of the partnership with MetLife in the area of personal accidents and the continuation of the partnership with Mapfre which is planned to be relaunched in the 2nd half of 2018.

In the 1st half of 2018, the **payments** business of CTT carried out 13.1 million transactions, corresponding to revenues of €6.5m.

With regard to money orders and transfers, 8.3 million transactions were carried out, which translated into €4.3m in revenues.

At the level of the payment services, a positive note for the payment of tolls and for the performance of the integrated solutions for companies (face-to-face payments, direct debit and ATM).

BANCO CTT

The revenues of this business unit reached €10.8m in the 1st half of 2018, a 23.3% growth over the same period of the previous year.

At the end of the 1st half of 2018, with 27 months in operation, Banco CTT is present countrywide, in the mainland and the islands, in 212 branches (including the new head branch of Oporto opened in May) and gained the trust of more than 350 thousand customers translated into 285 thousand current accounts, an increase of over 93% vs the same period of the previous year.



Mortgage Loans continue to be one of the main focuses of its activity. In May, a new advertising campaign was launched, which underlines the concern with facilitating the clients' day-to-day operations, with a product adjusted to their needs, at reduced costs and with quick and easy formal procedures.

The bank's results for the semester continue to show sustained and encouraging growth of the banking activity, of which it is worth mentioning the solid growth of customer deposits to circa €736m, the relevant growth of the loan book to roughly €149m, the success of the Banco CTT credit card offer totalling around 57 million cards placed, and the intermediation of consumer and auto loans in a partnership with Cetelem, available both in branches and on the website of the bank.

The semester is also marked by the migration of Payshop to Banco CTT, another step in the concentration of payment activities within Banco CTT, with a view to enhancing the capacity to address opportunities and challenges in this business unit.

OPERATING COSTS⁴

Recurring operating costs totalled €309.1m, +€9.6m (+3.2%) year-on-year, as a result of the increase in variable costs associated with the Express & Parcels volumes growth in Portugal and Spain and to the evolution of sales (lottery) and the decrease of staff costs.

	Operating costs					
	Reported			Recurring		
	1H 18	1H 17	Δ	1H 18	1H 17	Δ
Operating costs^(*)	324.1	306.4	5.8%	309.1	299.5	3.2%
External supplies & services	128.5	120.0	7.1%	127.0	116.2	9.3%
Staff costs	183.2	174.2	5.1%	169.8	171.4	-0.9%
Other operating costs	12.4	12.1	2.6%	12.2	11.9	2.7%

(*) Excluding depreciation / amortisation, impairments and provisions.

Recurring external supplies & services (ES&S) costs increased by 9.3% (+€10.8m) vis-à-vis the same period of 2017, mainly due to the changes in the following captions: (i) +€8.3m relating to transport and distribution costs resulting from volumes growth; (ii) +€0.4m relating to fuel and vehicle maintenance costs; and (iii) -€1.4m IT costs related with the renegotiation of outsourcing contracts.

The recurring staff costs decreased by €1.5m (-0.9%) year-on-year as a result of the reinforcement of the human resources optimisation programme framed within the Operational Transformation Plan.

Other operating costs posted an increase of €0.3m, which includes mainly the increase of the cost of sales (+€1.4m) following the sales evolution, especially as far as lottery is concerned (+€1.6m), and the decrease in other operating costs (-€1.1m) with emphasis on the reduction of the unfavourable exchange rate differences.

STAFF

As at 30 June 2018, the CTT headcount (permanent and fixed-term staff) consisted of 12,599 employees, 312 less (-2.4%) than as at the same date of 2017.

⁴ Excluding depreciation / amortisation, impairments and provisions.



There was a decrease of 417 in the number of permanent staff and an increase of 105 in the number of staff with fixed-term contracts. The reduction of staff in CTT, S.A. (-285) had a notable impact on this evolution.

Headcount

	30.06.2018	30.06.2017	Δ 2018/2017	
Mail & Other	11,180	11,458	-278	-2.4%
Express & Parcels	1,135	1,179	-44	-3.7%
Financial Services ⁽¹⁾	46	62	-16	-25.8%
Banco CTT ⁽¹⁾	238	212	26	12.3%
Total, of which:	12,599	12,911	-312	-2.4%
Permanent	10,946	11,363	-417	-3.7%
Fixed-term contracts	1,653	1,548	105	6.8%
Total in Portugal	12,135	12,474	-339	-2.7%

(1) Includes the incorporation of Payshop in Banco CTT this semester and in the same period of the previous year (proforma); similarly, Payshop is excluded from Financial Services.

For their importance, two major areas are to be highlighted: the Operations and Distribution (with 7,071 employees, with special emphasis on the importance of the delivery postmen who total 4,520 employees) and the Retail Network (with 2,739 employees). Together, these areas represent circa 89% of CTT headcount.

It should be highlighted that these figures already include 156 exits that occurred in the 1st half of 2018 within the Human Resources Optimisation Programme related to the Operational Transformation Plan underway.

RECURRING EBITDA

The operating activity generated a recurring EBITDA⁵ of €46.1m, 12.4% (-€6.5m) below that of the 1st half of 2017, with an EBITDA margin of 13.0%.

The recurring EBITDA was mainly affected by the decline in Financial Services (-€7.2m) and BCTT (-€1.9m), which was not offset by the Mail and E&P revenues (€1.4m and €1.1m, respectively), as shown below:

EBITDA by Business Unit

	€ million					
	Reported			Recurring		
	1H 18	1H 17	Δ	1H 18	1H 17	Δ
EBITDA	31.0	45.7	-32.2%	46.1	52.6	-12.4%
Mail	31.5	41.1	-23.3%	45.7	44.3	3.2%
Express & Parcels	1.5	-0.8	284.7%	1.9	0.8	146.8%
Financial Services ⁽¹⁾	6.7	14.3	-52.9%	7.1	14.3	-50.2%
Banco CTT ⁽¹⁾	-8.8	-8.9	1.2%	-8.6	-6.7	-28.0%

(1) Includes the incorporation of Payshop in Banco CTT this semester and in the same period of the previous year (proforma); similarly, Payshop is excluded from Financial Services.

⁵ Earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results.



EBIT AND NET PROFIT

Reported EBIT stood at €14.3m, corresponding to -€16.3m (-53.1%) vis-à-vis the same period of 2017. The EBIT margin was 4.0%.

The consolidated net financial result totalled -€2.7m, which represents a year-on-year decrease of €0.3m (-10.9%).

Interest and other financial income decreased by 91.2% (-€0.3m) compared to the figures of the 1st half of 2017, due to the reduced rates of return on term deposits, the reduction in the liquidity levels, and CTT's continued conservative investment policy.

Financial costs incurred amounted to €2.8m, mainly incorporating financial costs corresponding to the update of the employee benefits liability for an amount of €2.6m, as well as, but with lesser impact, to the interest associated to finance leases and bank loans (€0.2m).

CTT obtained a consolidated net profit attributable to shareholders of €6.3m, which is 64.8% below that obtained in the same period of 2017, and a 1.8% net profit margin. Excluding the non-recurring effects in both periods, the net profit would have decreased by 19.9%.

NON-RECURRING RESULTS

In the 1st half of 2018, CTT recorded non-recurring costs of -€17.2m, of which €15.1 affected EBITDA and €2.2m refer to depreciation / amortisation, impairments and provisions, net.

Non-recurring results

	€ million	
	1H 18	1H 17
Total	-17.2	-7.9
affecting EBITDA	-15.1	-6.9
. Other operating income	0.01	-
. External supplies & services and other costs	-1.7	-4.0
. Staff costs	-13.3	-2.9
affecting only EBIT	-2.2	-1.0
. Provisions (reinforcements / reductions)	-1.7	0.1
. Impairments, depreciations and amortisations (losses / reductions)	-0.4	-1.1

Staff costs are mainly those in connection with the human resources optimisation programme within the Operational Transformation Plan in the 1st half of 2018 and the provisions include an amount relative to the set-up of a provision at Touroline (€1.4m) for the notification issued by the *Comisión Nacional de los Mercados y la Competencia* (National Commission on Markets and Competition).

INVESTMENT

Capex of the Group stood at €8.3m, which is €1.1m above (+15.0%) that of the 1st half of 2017. Special mention to the investment of €5.8m in IT systems: in core IT systems and business support systems of Banco CTT (€2.9m), and in the Transformation Programme (€0.6m), especially the new SAP platform and other IT strategic projects. Investment in building refurbishment works and security totalled €1.9m.



CASH FLOW

In the 1st half of 2018, the adjusted change in cash was -€79.4m and the adjusted operating free cash flow totalled -€14.4m. Excluding non-recurring items, particularly the payment of compensation for termination of employment contracts by mutual agreement (€22.2m), the operating cash flow would be positive, of €9.6m.

The reported change in cash amounted to -€35.1m. The main changes in cash flow resulted from:

- +€3.6m of cash flow from operating activities (excluding the Financial Services and Banco CTT's cash flows);
- -€2.5m from operating cash flows of Banco CTT (including Payshop);
- +€136.5m relative to the change in the Financial Services receivables/ payables;
- +€52.3m relative to change in deposits and credits from / to banking clients and other;
- -€17.1m in net payments relative to tangible and intangible assets;
- -€118.0m of Banco CTT's financial assets (includes investment in securities and other financial bank assets of Banco CTT);
- -€57.0m for the payment of dividends;
- -€26.5m relative to deposits at the Bank of Portugal and Banco CTT's cheques payable / clearing of cheques.

	Cash flow					
	Reported			Adjusted (*)		
	1H18	1H17	Δ ABS 18/17	1H18	1H17	Δ ABS 18/17
	€ million					
Cash flow from operating activities	189.9	296.7	-106.8	1.1	35.8	-34.7
<i>Cash flow excluding FS & Banco CTT</i>	-	-	-	3.6	42.2	-38.6
<i>Banco CTT cash flow</i>	-	-	-	-2.5	-6.4	3.9
Cash flow from investing activities	-133.5	-117.9	-15.6	-15.5	-21.2	5.7
Capex payments	-17.1	-22.9	5.8	-17.1	-22.9	5.8
<i>of which Banco CTT</i>	-3.6	-4.4	0.8	-3.6	-4.4	0.8
Banco CTT financial assets (**)	-118.0	-96.7	-21.3	-	-	-
Other	1.6	1.7	-0.1	1.6	1.7	-0.1
Operating free cash flow	56.4	178.8	-122.4	-14.4	14.6	-29.0
Cash flow from financing activities	-65.0	-73.8	8.8	-65.0	-73.8	8.8
<i>of which Dividends</i>	-57.0	-72.0	15.0	-57.0	-72.0	15.0
Other (***)	-26.5	-3.6	-23.0	0.0	0.1	-0.1
Net change in cash	-35.1	101.5	-136.6	-79.4	-59.0	-20.4

(*) Cash flow from operating and investing activities excluding changes in Net Financial Services payables and the following items from the CF statement, all of them relating to Banco CTT financial activity: "Banking customer deposits and other loans", "Credit to bank clients", third parties' "Other operating assets and liabilities" regarding Banco CTT, "Investments in securities", "Deposits at Bank of Portugal" and "Other banking financial assets".

(**) Including Investment securities and other banking financial assets held by Banco CTT.

(***) These figures were not considered under Cash and equivalents in the Cash flow Statement. However, they are included in Cash and equivalents in the Balanced Sheet.



CONSOLIDATED BALANCE SHEET

The key aspects of the comparison between the balance sheet as at 30.06.2018 and that at the end of the 2017 financial year are:

Total assets amounted to €1,792.6m, representing an increase of €183.8m (+11.4%), of which €658.0m relative to financial investments, financial assets and credit held by Banco CTT, broken down as follows: (i) €401.5m of investments in securities, (ii) €107.3m of other banking financial assets, mostly investments in credit institutions and in the interbank market; and (iii) €149.2m of credit to banking clients, especially mortgage loans and other credit.

In the 1st half of 2018, +€1.7m were recorded as non-current assets held for sale related to the net book value of the real estate property located at Rua da Palma, in Lisbon.

Total assets were impacted by the €35.1m decrease (-5.6%) in cash and cash equivalents.

Equity decreased by €52.2m (-28.4%) as a result of the payment of dividends for the 2017 financial year (€57.0m) that took place in May 2018, for which €27.3m of the net profit for the 2017 financial year were used, as well as €14.4m of retained earnings and €15.4m of free reserves. Additionally, there is also the negative impact of €1.5m on equity of the adoption of IFRS 9 and IFRS 15.

Total liabilities increased by €236.0m (+16.6%), with emphasis on +€140.7m (+52.1%) in Financial Services payables (+€91.1m in postal money orders due to the payment of the holiday bonus in June) and +€117.7m in Banco CTT clients' deposits.

The CTT Group consolidated balance sheet excluding Banco CTT from the full consolidation perimeter and accounting it as a financial investment measured by the equity method would be as follows:

Consolidated Balance Sheet excluding Banco CTT from the consolidation perimeter

	30.06.2018	31.12.2017 proforma	Δ
			€ million
Non-current Assets	415.2	413.4	0.4%
Current Assets	620.6	557.3	11.3%
Assets	1,035.7	970.7	6.7%
Equity	131.8	184.0	-28.4%
Total Liabilities	904.0	786.8	14.9%
Non-current Liabilities	272.1	282.7	-3.7%
Current Liabilities	631.8	504.1	25.3%
Total Equity and Liabilities	1,035.7	970.7	6.7%



Consolidated Balance Sheet

	€ million		
	30.06.2018	31.12.2017	Δ
Non-current Assets	867.1	678.5	27.8%
Current Assets	925.5	930.3	-0.5%
Assets	1,792.6	1,608.8	11.4%
Equity	131.8	184.0	-28.4%
Total Liabilities	1,660.8	1,424.8	16.6%
Non-current Liabilities	272.2	282.7	-3.7%
Current Liabilities	1,388.6	1,142.0	21.6%
Total Equity and Liabilities	1,792.6	1,608.8	11.4%

As at 30 June 2018, the liabilities related to employee benefits (post-employment and long-term benefits) amounted to €267.7m, 0.9% less (-€2.3m) than in December 2017, as specified in the table below:

Liabilities related to long-term employee benefits

	€ million		
	30.06.2018	31.12.2017	Δ
Total liabilities	267.7	270.0	-0.9%
Healthcare	249.6	254.0	-1.7%
Staff (suspension agreements)	3.3	3.3	-1.4%
Other long-term employee benefits	14.5	12.3	17.5%
Transporta pension plans	0.3	0.4	-3.1%
Other benefits	0.1	0.0	50.0%

SUBSEQUENT EVENTS

Acquisition of 321 Crédito

CTT entered into an agreement with Firmus Investimentos SGPS, S.A. ("Seller"), an entity controlled by Cabot Square Capital LLP and Eurofun, Lda ("Shareholders"), for the acquisition of 100% of the share capital of 321 Crédito, Instituição Financeira de Crédito, S.A. ("321 Crédito"), for a price of €100m payable in cash at completion.

321 Crédito is a high-performing specialised consumer credit institution, operating through a large network of car dealers in the attractive used auto loans market, which is expected to continue to show strong growth dynamics.

The completion of the transaction is subject to the satisfaction of a set of conditions precedent, including inter alia the customary approvals from the competition and banking regulatory authorities. The final price is subject to a post completion price adjustment mechanism to reflect variations in the regulatory capital of 321 Crédito from 31 December 2017 onwards. CTT expects the acquisition to be concluded during the 1st quarter of 2019.

321 Crédito will enable the diversification of Banco CTT's product portfolio with a profitable and resilient consumer credit business, which has historically shown high returns on equity and low credit default levels. Moreover, the acquisition will allow for the optimisation of the bank's Balance Sheet by improving its loan-to-deposits ratio from c.20% to over 60%.



With this transaction and the expected future organic growth, Banco CTT intends to contribute positively to CTT's EBITDA already in 2019 and reach positive Net profit in 2020, with estimated additional capital requirements until then of circa €20m, in addition to the capital increase required to finance the aforementioned final acquisition price.

Decisions of ANACOM and AdC

Following the Draft Decision approved on 11 January 2018, on 18 July 2018, ANACOM communicated the final decision on the quality of service criteria applicable to the provision of the universal postal service for 2019 and 2020. Compared to the Draft decision, the 24 quality of service indicators are maintained, but the reliability targets for the routing times of ordinary mail, bulk mail, ordinary parcels, and newspapers and periodicals released at greater than weekly intervals were revised downwards and set at 99.7%, instead of the 99.9% laid down in the Draft Decision. Contrary to what was proposed in the Draft Decision, the new indicators shall not apply from 1 July 2018, but rather from 1 January 2019 onwards.

The new set of indicators, which compare with the previous 11 indicators, as well as the set-up of much more demanding objectives for some of them, shows that they go well beyond the current European practices and trends in this field.

On 5 July 2018 the AdC (Authority for the Competition) decided to close the proceedings against CTT and accept the commitments made by CTT within the access to the postal network, under the terms and for the purposes set forth in article 23 of Law no. 19/2012, of 8 May, (Competition Law). Those commitments consist of the extension of the scope of access of the competing postal operators to the postal network (access offer), as follows:

- (i) Extension of the postal services covered by the access offer, namely the Domestic Editorial Service, the Domestic Priority Service and the Domestic Registered Service;
- (ii) Introduction of new access points to the postal network, further downstream in the postal distribution chain, namely Destination Production and Logistics Centres and 217 Destination Post Offices (with the exception of the Standard Domestic Service items weighing up to 50 g), whose mail is directly forwarded to the Postal Delivery Offices for delivery by the postmen;
- (iii) Introduction of faster delivery time in the case of access through the Destination Post Offices for the Standard Domestic Service items weighing more than 50 g and the Domestic Editorial Service;
- (iv) Possibility for a competing operator to carry out additional mail processing tasks, namely the separation of mail by distribution area within the Postal Delivery Office and by street;
- (v) Lower pricing for access to the network than that applied to final customers, with differentiated prices depending on the access point, mail service and mail processing tasks carried out by the competing operator.

These commitments will be implemented within six months from the date of the notification.



FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1st half of 2018 with limited revision by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 31 July 2018

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code. It is also available on CTT's Investor Relations website at:

<http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1>.

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Forward-looking statements

This document contains forward-looking statements. All the statements herein which are not historical facts, including, but not limited to, statements expressing our current opinion or, as applicable, those of our directors regarding the financial performance, the business strategy, the management plans and objectives concerning future operations and investments are forward-looking statements. Statements that include the words “expects”, “estimates”, “foresees”, “predicts”, “intends”, “plans”, “believes”, “anticipates”, “will”, “targets”, “may”, “would”, “could”, “continues” and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements included herein involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results, performance or achievements to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the results of our operations, growth strategy and liquidity, and the wider environment (specifically, market developments, investment opportunities and regulatory conditions).

Although CTT believes that the assumptions beyond such forward-looking statements are reasonable when made, any third parties are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of CTT, what could cause the models, objectives, plans, estimates and / or projections to be materially reviewed and / or actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

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