CTT – Correios de Portugal

1Q14 Results Presentation

7 May 2014

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Agenda

Strategic priorities actively pursued in 1Q14…

1

FOCUS ON VALUE IN **MAIL BUSINESS**

2

EXPAND **FINANCIAL SERVICES**

3

BUILD ON LEADERSHIP TO CAPTURE GROWTH IN **EXPRESS & PARCELS**

4

EFFICIENCY

CONSTANT MANAGEMENT OF COSTS AND SCALE

THROUGH CONTINUOUS TRANSFORMATION PROGRAMMES

...as 2nd Transformation Programme phase is launched with clear action steps

1

- Use the price lever to mitigate the decline in volumes: 4.0% increase in the average prices of USO services implemented in 1Q14 / April 2014
- Optimise the Retail Network - grow Retail Network revenues by increasing product offer and solutions offered to customers and enlarge the Financial Services offer: SGEI pilot launched in 1Q14; MoU with Cetelem signed

2

- Diversify the sources of revenue in Financial Services by launching new product and services: consumer credit, pre-paid credit card, etc.
- Re-visit and develop further the strategic and economic case of the Postal Bank in order to allow for a decision of the Board of Directors

3

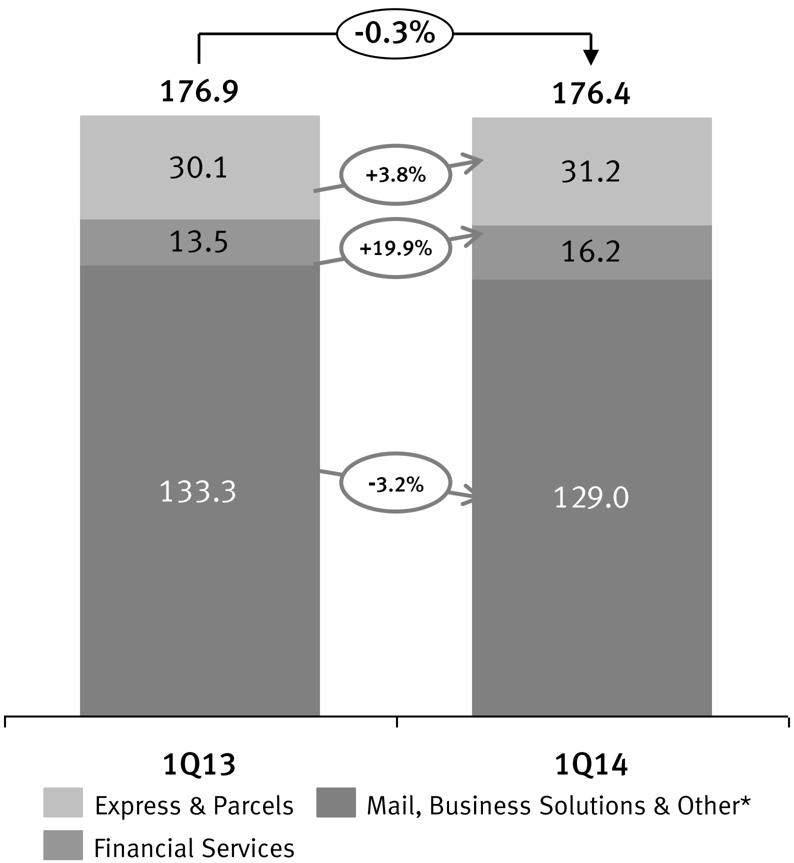
- Increase the competitive products offer for the B2B and B2C segments: Iberian portfolio launched in 1Q14
- Improve the network in Spain with better own controlled zones and franchisees and achieve higher integration with the Mail distribution network in Portugal

4

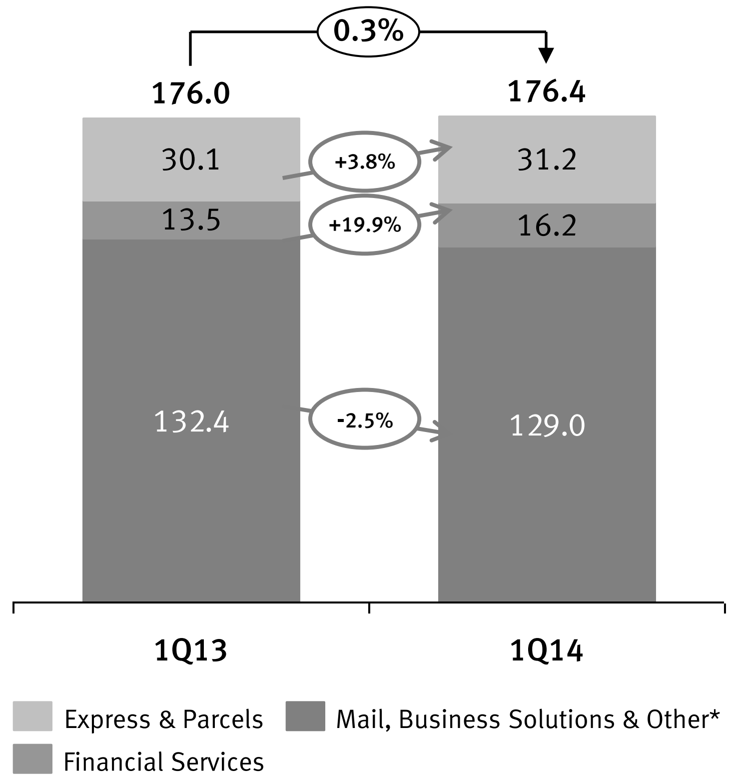
- Increase productivity (revenue per employee) and operational efficiency (cost per mail item)
- Further the operational synergies between the Mail and Express & Parcels distribution networks in Portugal
- Streamline IT and define future IT architecture, together with the procurement of 2015 service providers

Like-for-like revenues grow 0.3%, inverting the5 year declining trend

Revenues
€ million



Revenues (pro-forma, excluding impact of EAD sale) **
€ million

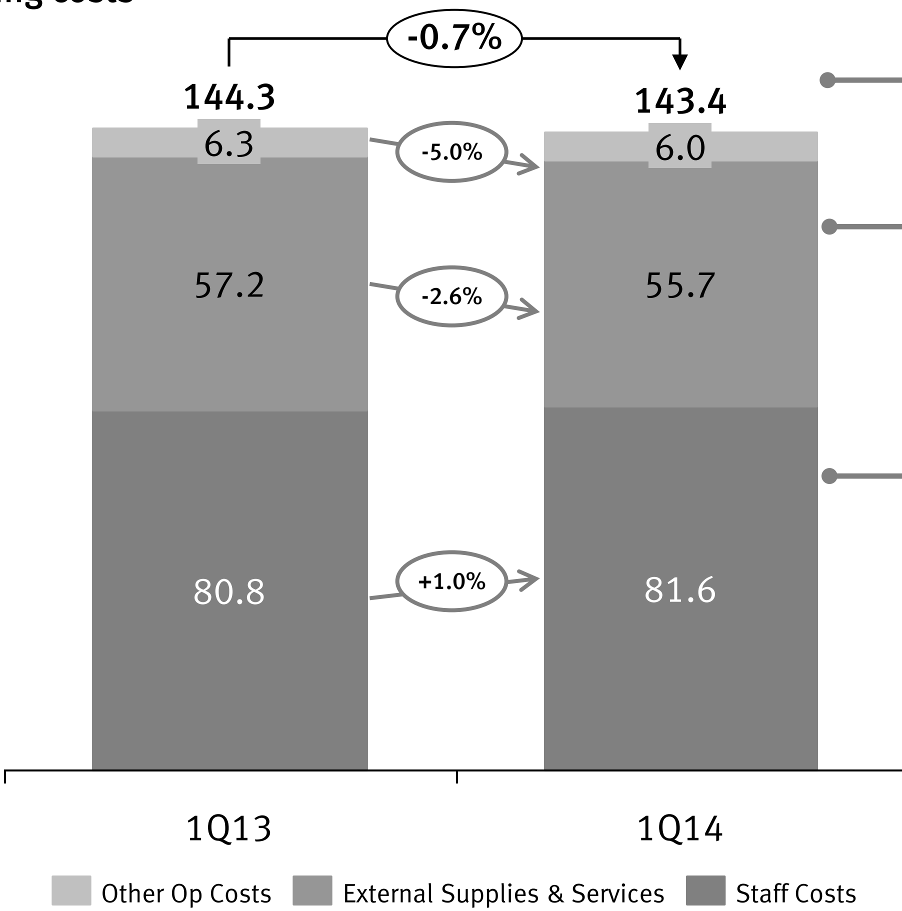


* Other revenues include income related to CTT Central Structure and intragroup eliminations amounting to -€5.6m in 1Q14 and -€7.3m in 1Q13.
** Pro-forma revenues exclude the impact of EAD – in the reported revenues the EAD numbers are included in the 1Q13 accounts and not in the 1Q14 ones, in the pro-forma results no EAD revenues are included.

Costs continue to decrease, despite sales growth

Operating costs *

€ million



The sale of EAD accounted for €0.7m of the decrease in total operating costs

ES&S decrease as a result of insourcing activity in Financial Services and Express & Parcels. Transformation Programme initiatives, better procurement and more fuel efficient fleet also responsible

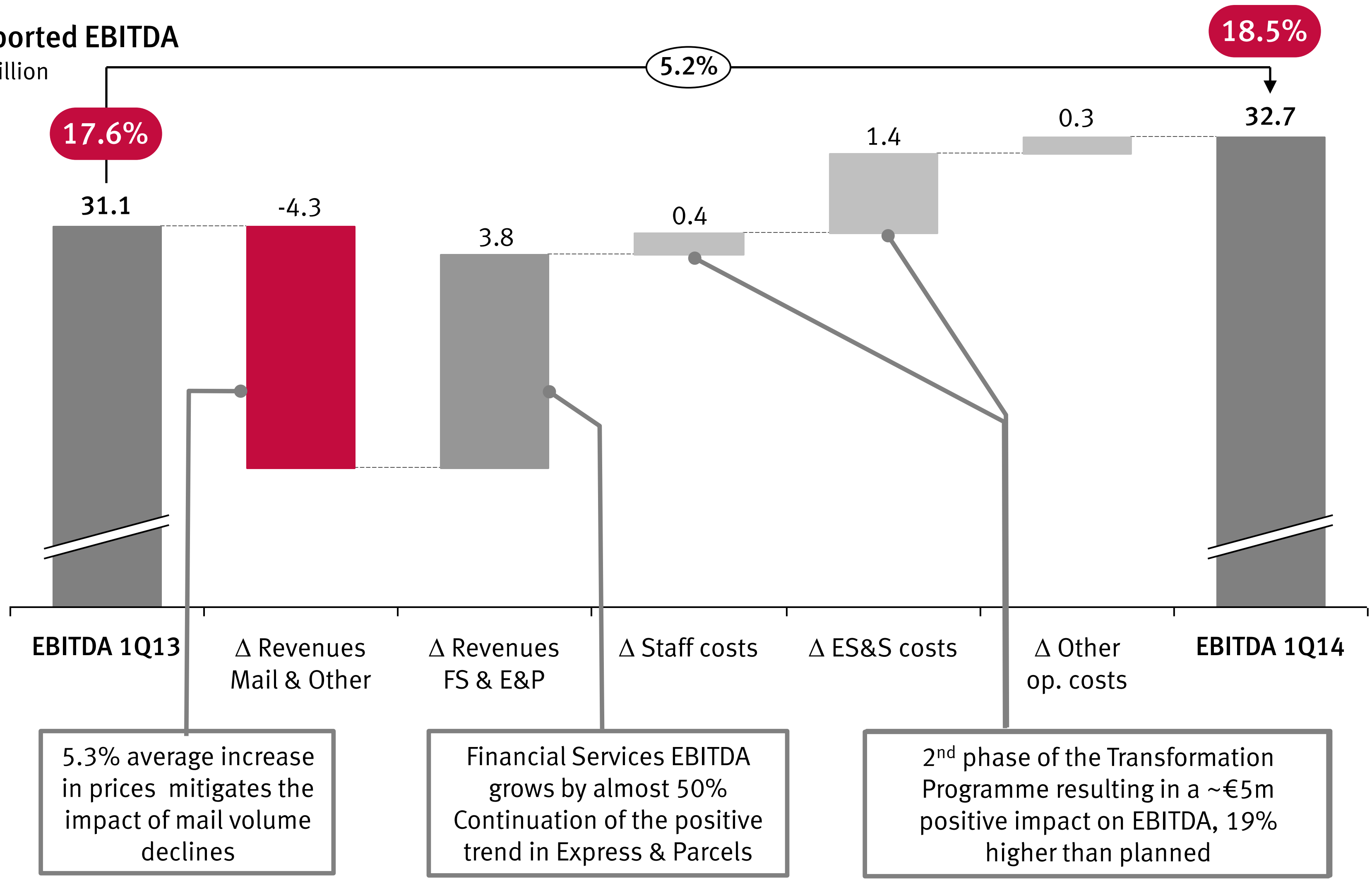
Additional staff costs associated with the end of the salary cuts for public sector employees (as a result of the company's privatisation) were mitigated by 5.1% reduction in headcount (660 employees) Easter vacations in 2Q14 with negative impact on staff costs comparison

* Excluding amortisations, depreciations, provisions, impairment losses and non-recurring costs.

EBITDA grows 5.2% as a result of strong FS growth and efficiency management

Reported EBITDA

€ million



% EBITDA margin

Agenda

I	Key highlights
II	**Financial performance**
III	2014 outlook
IV	Appendix

Summary of key financials

€ million	Reported				Recurring *			
	1Q13	1Q14	Δ	Δ%	1Q13	1Q14	Δ	Δ%
Revenues	176.9	176.4	-0.5	-0.3%	176.9	176.4	-0.5	-0.3%
Operating costs	145.8	143.7	-2.1	-1.5%	144.3	143.4	-1.0	-0.7%
EBITDA	**31.1**	**32.7**	**1.6**	**5.2%**	**32.6**	**33.1**	**0.5**	**1.4%**
EBITDA margin	**17.6%**	**18.5%**	**0.9 p.p.**		**18.4%**	**18.7%**	**0.3 p.p.**	
Depreciation / amortisation, impairments and provisions	6.8	6.5	-0.3	-4.9%	7.1	5.7	-1.4	-19.1%
EBIT	**24.3**	**26.2**	**2.0**	**8.1%**	**25.5**	**27.4**	**1.8**	**7.1%**
EBIT margin	**13.7%**	**14.9%**	**1.2 p.p.**		**14.4%**	**15.5%**	**1.1 p.p.**	
Financial income, net	-0.7	-1.7	-0.9	-124.4%	-0.7	-1.7	-0.9	-124.4%
Gains / (losses) in associated companies	-	0.3	0.3	-	-	0.3	0.3	-
Earnings before taxes (EBT)	**23.5**	**24.9**	**1.3**	**5.7%**	**24.8**	**26.0**	**1.2**	**4.8%**
Income tax for the year	5.6	6.8	1.2	20.5%	5.9	7.1	1.2	19.5%
Gains / (losses) attributable to non-controlling interests	0.03	-0.01	-0.04	-128.0%	0.03	-0.01	-0.04	-128.0%
Net profit attributable to equity holders	**17.9**	**18.1**	**0.2**	**1.3%**	**18.8**	**18.9**	**0.1**	**0.4%**

* Recurring net profit excludes non-recurring costs and considers the effective income tax rate from reported accounts.

- **Revenues of €176.4m, only -0.3% below 1Q13** (up +0.3% excluding the impact of the EAD sale, inverting the declining trend from the last 5 years), driven by positive evolution in both growth units (FS and E&P revenues up 19.9% and 3.8%, respectively)
- **Recurring operating costs decrease 0.7% to €143.4m,** more than the reduction in revenues despite revenue growth in FS & E&P
- **Reported EBITDA increases 5.2% to €32.7m (+1.4% excluding non-recurring items,** which affected more the 1Q13 accounts)
- **Net profit up to €18.1m (up 1.3%), excluding non-recurring items it reaches €18.9m.** Increase in the tax rate as a result of €1.4m increase in deferred taxes (inversely related to the €4.6m reduction in the employee benefits)

Summary of business units performance

€ million	1Q13	1Q14	Δ%
Mail			
Recurring EBITDA	**25.6**	**23.4**	**-8.9%**
Non-recurring costs	1.4	0.3	-79.1%
Reported EBITDA	**24.2**	**23.1**	**-4.7%**
Financial Services			
Recurring EBITDA	**5.5**	**8.2**	**48.2%**
Non-recurring costs	0.0	0.0	-87.5%
Reported EBITDA	**5.5**	**8.2**	**48.4%**
Express & Parcels			
Recurring EBITDA	**1.4**	**1.5**	**4.4%**
Non-recurring costs	0.1	0.1	-35.6%
Reported EBITDA	**1.4**	**1.5**	**7.0%**

Revenues decline 4.3% as the 9.5% drop in addressed mail volumes **is mitigated by an average 5.3% increase in the prices** of USO services. Volume decline **more pronounced due to tough YoY comparison.** Advertising mail still suffering from economic downturn. Operating costs fall 3.3%, **driven by 11.9% drop in ES&S**

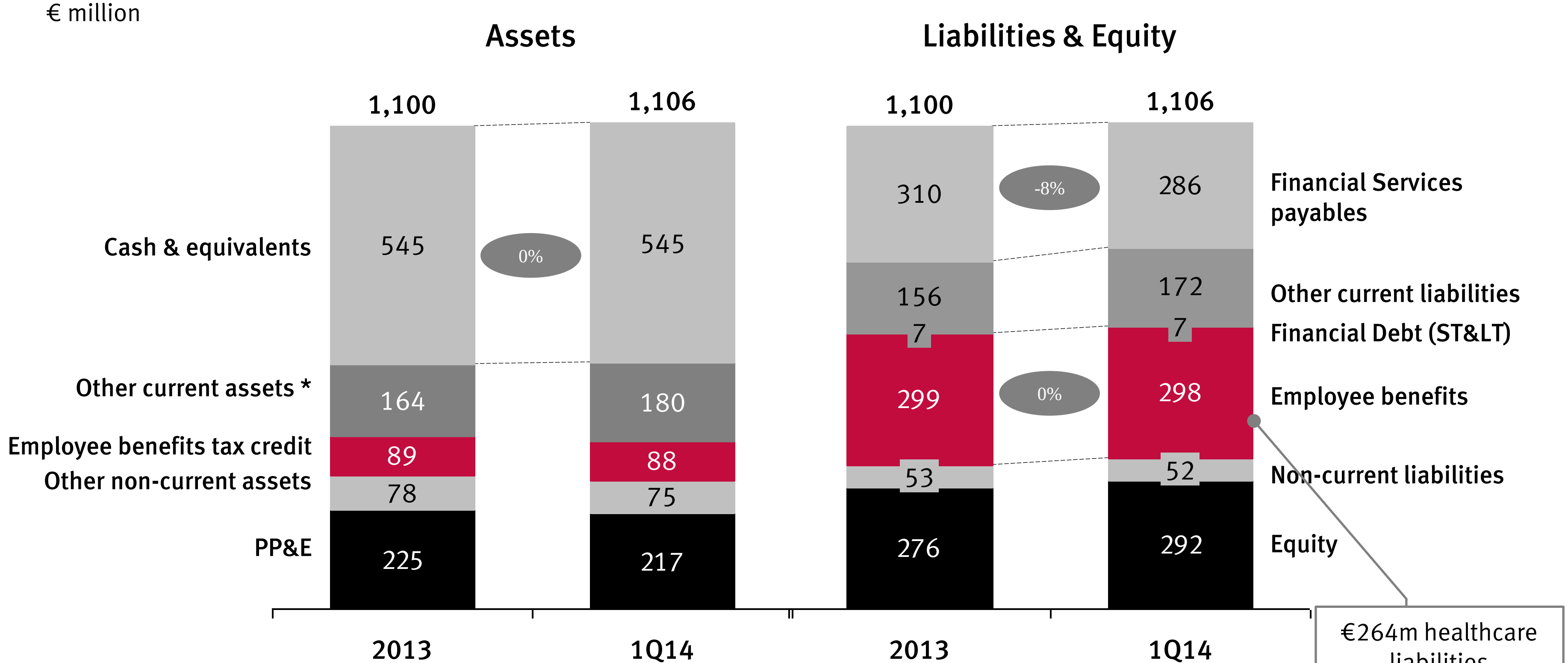
The **revised partnership agreements** in 2013 and **robust sales of savings products** continue to support strong (19.9% YoY) growth in revenues, **continuing the 4Q13 growth trend**

Confirmation of the growth trend from 2H13, with 3.8% YoY revenue growth, driven by **15.7% increase in volumes as result of strong increase in B2C parcels.** Higher costs due to implementation of new business model to address growth and Transformation Programme initiatives

Solid net cash and liquidity position

Balance Sheet

€ million



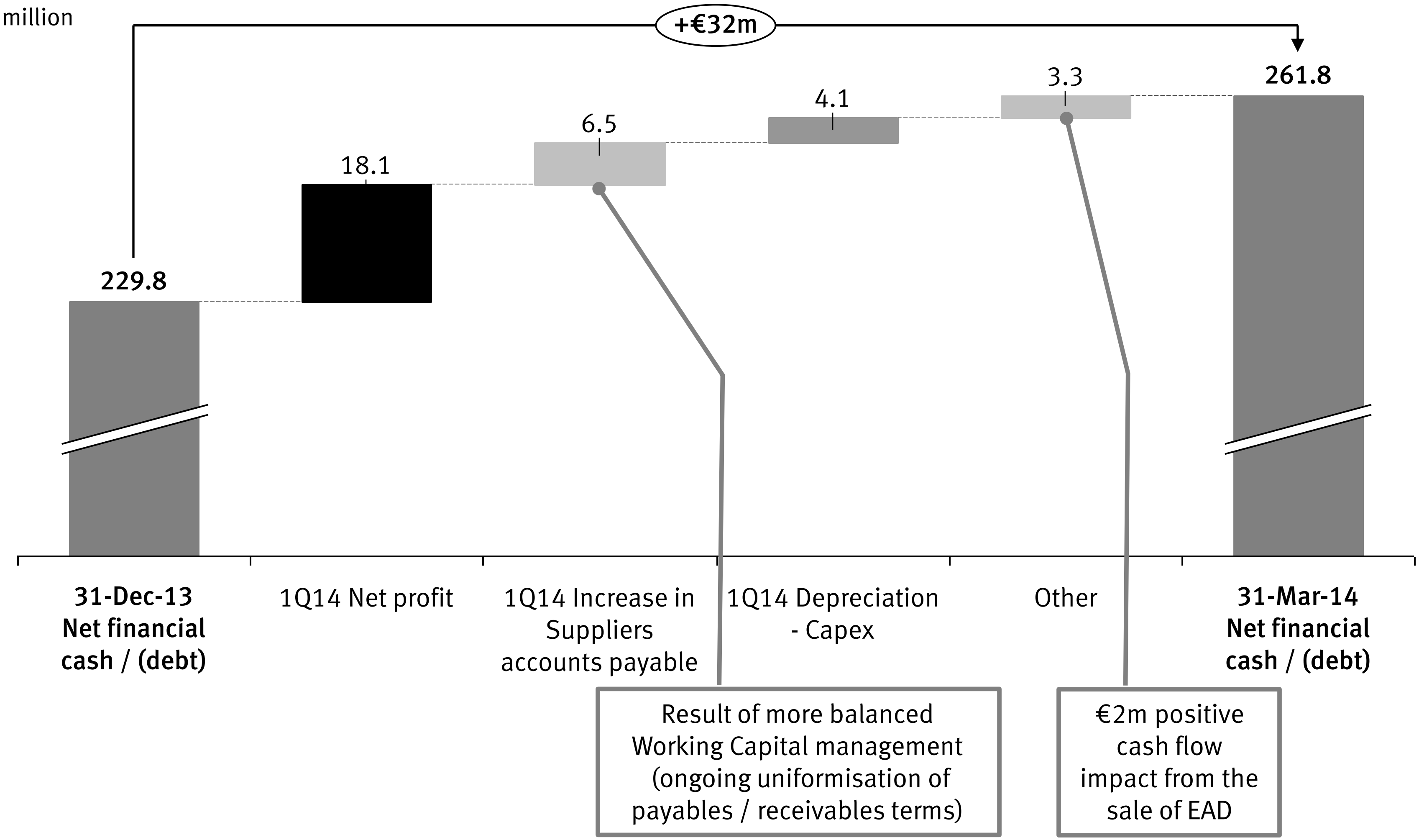
* Includes Financial Services receivables of €2m and €10m in 2013 and 1Q14 , respectively.

- **Net financial debt (cash)** = ST Debt of €4m + LT Debt of €3m + Net Financial Services payables of €276m - Cash and cash equivalents of €545m = **€(262)m**
- **Net debt (cash)** = Total employee benefits of €298m - Total employee benefits tax credit of €88m - Net cash of €262m = **€(53)m**
- Strong liquidity position: **Current assets / Current liabilities = 150%, up 5.7 p.p. vs. 4Q13**

Cash flow generation stays at high levels

Net financial cash / (debt) *

€ million



* Cash and equivalents less Long & Short-term financial debt less Net Financial Services payables.

€32m increase in cash generated, adding to already solid financial position

Strong cash flow generation

	Reported		Excluding FS Float*		
€ million	1Q13	1Q14	1Q13	1Q14	∆%
Cash flow from operating activities	55.1	0.4	12.0	32.0	167.5%
Cash flow from investment activities	-0.9	0.2	-0.9	0.2	-122.9%
Operating free cash flow	**54.2**	**0.6**	**11.0**	**32.2**	**191.6%**

* Cash flow from operating activities excluding changes in Net Financial Services payables, which vary with flows from each product line (money orders, savings, etc.)

Solid financial position

€ million	1Q13	4Q13	1Q14	∆ QoQ	∆ YoY *
Financial debt	5.6	7.0	7.0	0.0	1.4
Cash & equivalents, net of FS payables	245.6	236.8	268.8	32.0	23.2
Net financial debt (cash)	**(240.0)**	**(229.8)**	**(261.8)**	**(32.0)**	**(21.8)**

* €50m dividends paid in Jun-13.

Agenda

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Outlook for 2014 is confirmed

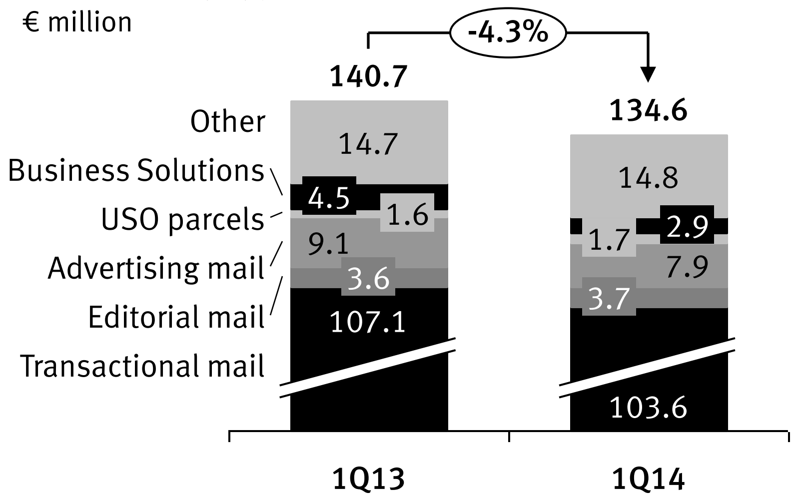
Revenues & Volumes	▪ Structural decline in addressed mail volumes to continue, could slow down with domestic consumption growth ▪ Double-digit volume growth in Express & Parcels, driven by B2C ▪ Goal of stable revenues (+/-1% revenue growth) ▪ Growing businesses (Financial Services and Express & Parcels) to mitigate the decline in Mail revenues
Investment & Growth	▪ Capex of circa €20m ▪ Consumer credit offering launch until the Summer of 2014 ▪ Decision on Postal Bank in 3Q14
Cash Flow	▪ Balance Sheet optimisation measures to continue – e.g. Working Capital optimisation ▪ Employee benefits management in order to monetise the tax asset
Earnings & Dividend	▪ Low single digit growth in recurring EBITDA ▪ Policy of at least 90% dividend payout and using distributable reserves to support growth in dividends

Agenda

Mail volume decline mitigated by price increase and efficiency management

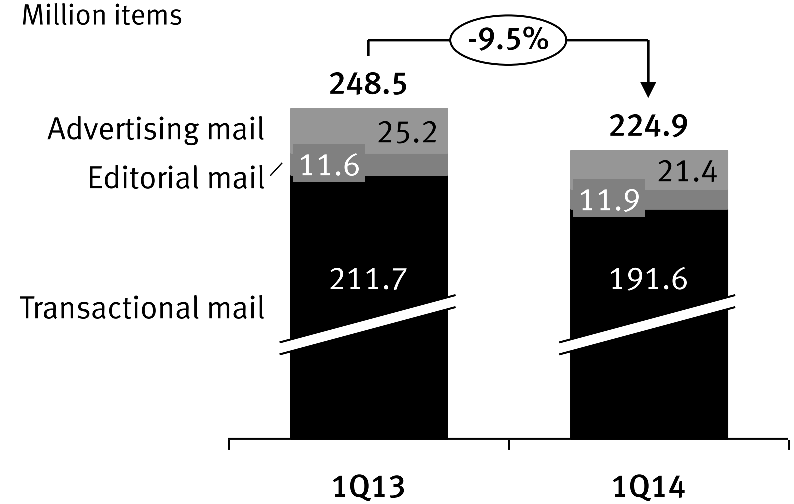
Revenues by type

€ million



Addressed mail volumes by type

Million items



Recurring

€ million	1Q13	1Q14	Δ%
Revenues	**140.7**	**134.6**	**-4.3%**
Sales and services rendered	132.9	126.6	-4.7%
Other	7.8	8.0	3.5%
Operating costs *	**115.0**	**111.3**	**-3.3%**
External supplies and services	27.4	24.2	-11.9%
Staff costs	61.6	60.7	-1.5%
Other	26.0	26.4	1.7%
EBITDA	**25.6**	**23.4**	**-8.9%**
EBITDA margin	**18.2%**	**17.3%**	**-0.9 p.p.**

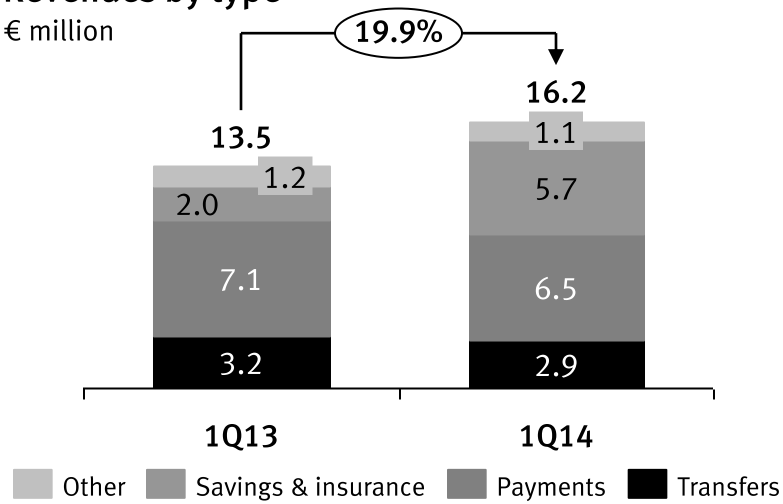
* Excluding amortisations, depreciations, provisions, and impairments.

- **Revenues decline 4.3% (3.6% excluding the impact of the EAD sale)**,as the 9.5% drop in addressed mail volumes is mitigated by an average 5.3% increase in the prices of USO services
- Circa €**1m of the revenue decline due to the sale of EAD**
- Mail volume **decline is more pronounced due to a tough March YoY comparison** – customers anticipated purchases before the price increase came into effect in April 2013 and one-off mailing campaigns. **Advertising mail still suffering from economic downturn** (TV is starting to recover but this not yet visible in mail)
- **Operating costs fall by 3.3%,** driven by 11.9% decline in ES&S. Staff costs not fully comparable between 1Q13 and 1Q14 – should be comparable on half-year basis

Stellar growth in FS EBITDA, as a result of savings product sales

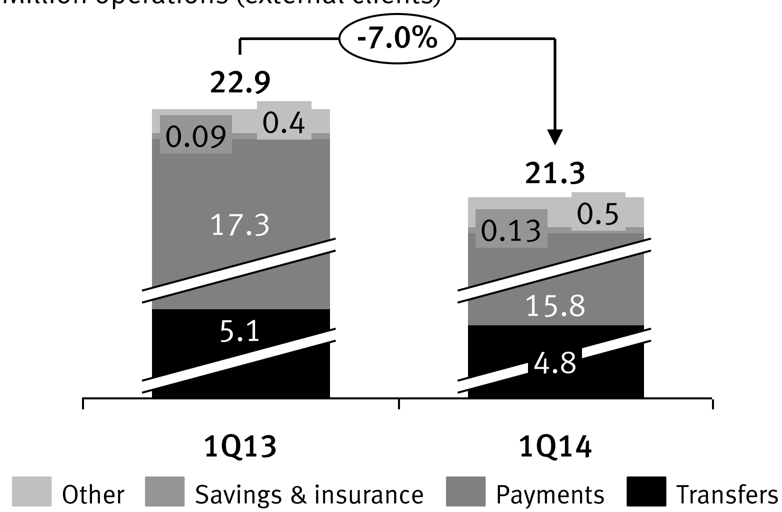
Revenues by type

€ million



Volumes by type

Million operations (external clients)



Recurring

€ million	1Q13	1Q14	Δ%
Revenues	**13.5**	**16.2**	**19.9%**
Sales and services rendered	12.6	15.4	22.1%
Other	0.9	0.8	-11.8%
Operating costs *	**7.9**	**7.9**	**0.2%**
External supplies and services	2.4	2.5	6.2%
Staff costs	0.7	0.9	19.1%
Other	4.8	4.6	-5.6%
EBITDA	**5.5**	**8.2**	**48.2%**
EBITDA margin	**41.2%**	**50.8%**	**9.6 p.p.**

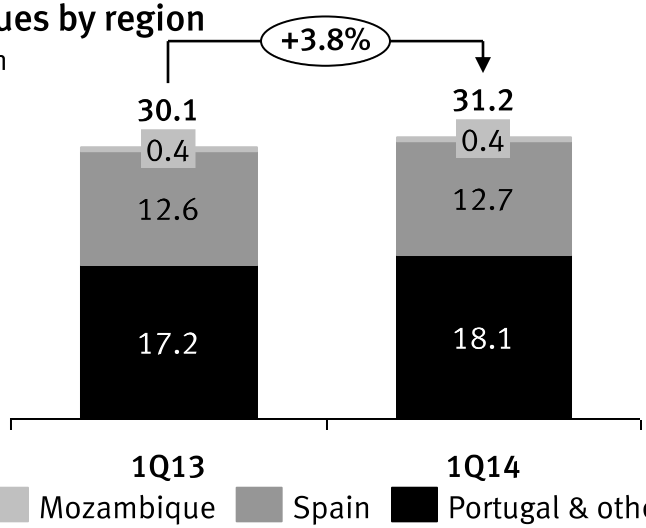
* Excluding amortisations, depreciations, provisions, and impairments.

- The **revised partnership agreements in 2013 and robust sales of savings products** continue to support **strong growth in revenues in 1Q14, continuing the 4Q13 growth trend**
- Circa €1bn of savings and insurance products sold in 1Q14, up 260% vs. 1Q13, transactions up ~50% vs. 1Q13
- **ES&S costs grow due to sales incentive schemes** (directly related to revenues performance)
- Other costs decline 5.6% due to efficiency management and back-office technology improvements (online front office)
- Stellar **EBITDA growth, of almost 50%** with **EBITDA margin 9.6 p.p. above the 1Q13 level**

Express & Parcels continues the growth trend from 2H13, driven by B2C

Revenues by region

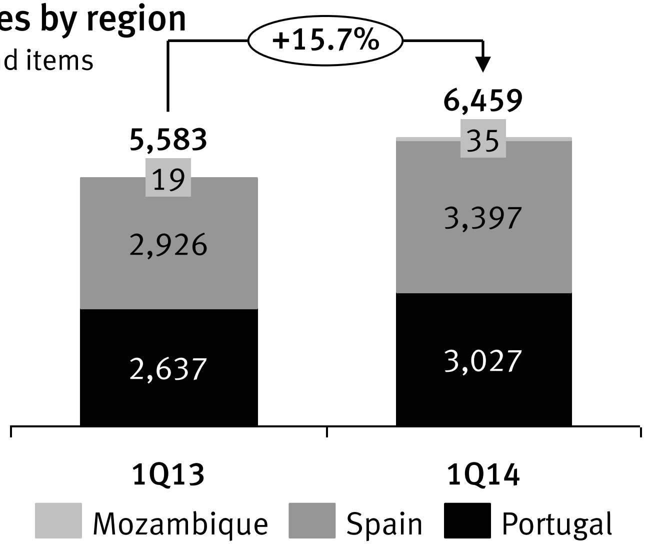
€ million



* Include internal & other revenues of €0.3m in 1Q13 and €0.6m in 1Q14

Volumes by region

Thousand items



Recurring

€ million	1Q13	1Q14	Δ%
Revenues	**30.1**	**31.2**	**3.8%**
Sales and services rendered	29.8	30.9	3.4%
Other	0.3	0.4	42.9%
Operating costs *	**28.7**	**29.7**	**3.7%**
External supplies and services	22.4	23.5	4.9%
Staff costs	5.8	5.8	1.1%
Other	0.5	0.4	-18.3%
EBITDA	**1.4**	**1.5**	**4.4%**
EBITDA margin	**4.8%**	**4.8%**	**0.0 p.p.**

* Excluding amortisations, depreciations, provisions, and impairments.

- Confirmation of **the growth trend from 2H13, with 3.8% YoY revenue growth,** driven by 15.7% increase in volumes as a result of strong increase in the B2C parcels. B2C segment growth drives negative pricing mix effect (lower average price)
- Higher costs driven partially by the **implementation of new business model to address growth in the B2C market** and the strong growth in volumes
- **Transformation Programme initiatives having significant impact on costs mainly in Spain,** due to accelerated restructuring of the network. **They will continue to have relevant impact during 2014**

Sale of EAD – P&L impact

€ million	Reported				Pro-forma - Excluding EAD			
	1Q13	1Q14	Δ	Δ%	1Q13	1Q14	Δ	Δ%
Revenues	176.9	176.4	-0.5	-0.3%	176.0	176.4	0.5	0.3%
Operating costs	145.8	143.7	-2.1	-1.5%	145.1	143.7	-1.4	-1.0%
EBITDA	**31.1**	**32.7**	**1.6**	**5.2%**	**30.8**	**32.7**	**1.9**	**6.1%**
EBITDA margin	**17.6%**	**18.5%**	**0.9 p.p.**		**17.5%**	**18.5%**	**1.0 p.p.**	
Depreciation / amortisation, impairments and provisions	6.8	6.5	-0.3	-4.9%	6.7	6.5	-0.2	-3.3%
EBIT	**24.3**	**26.2**	**2.0**	**8.1%**	**24.1**	**26.2**	**2.1**	**8.7%**
EBIT Margin	**13.7%**	**14.9%**	**1.2 p.p.**		**13.7%**	**14.9%**	**1.2 p.p.**	
Financial income, net	-0.7	-1.7	-0.9	-124.4%	-0.7	-1.7	-0.9	-125.8%
Gains / (losses) in associated companies	-	0.3	0.3	-	0.04	0.3	0.3	651.0%
Earnings before taxes (EBT)	**23.5**	**24.9**	**1.3**	**5.7%**	**23.4**	**24.9**	**1.4**	**6.1%**
Income tax for the year	5.6	6.8	1.2	20.5%	5.6	6.8	1.2	21.2%
Gains / (losses) attributable to non-controlling interests	0.03	-0.01	-0.04	-128.0%	-0.02	-0.01	0.01	-62.3%
Net profit attributable to equity holders	**17.9**	**18.1**	**0.2**	**1.3%**	**17.9**	**18.1**	**0.2**	**1.3%**

- In March 2014 CTT entered in agreement to sell the 51% it held in the associated company EAD. Therefore, the financial results of EAD are included in the reported 1Q13 figures and not in the 1Q14 ones
- **Excluding the EAD financials from the consolidated 1Q13 figures allows for like-for-like comparisons**:
  - Revenues grow 0.3% YoY, inverting the declining trend from the last 5 years
  - Operating costs decline by 1.0%, resulting in 6.1% like-for-like EBITDA growth

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