ctt

FULL YEAR 2017
RESULTS PRESENTATION

CTT – Correios de Portugal, S.A.

Disclaimer

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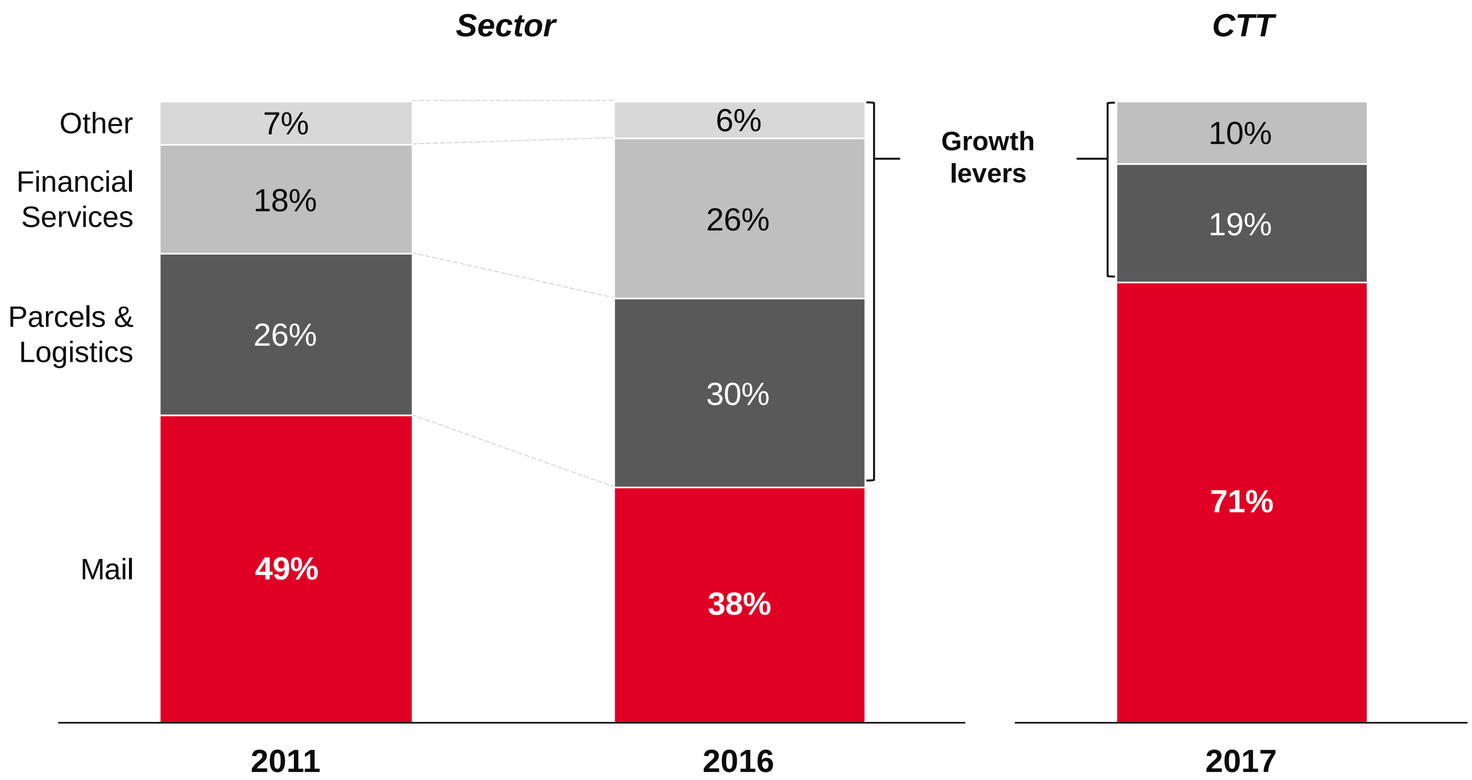
1. Company overview

2. Key 2017 highlights
3. Key 2017 financials
4. Business units 2017 performance
5. 2018 outlook

COMPANY OVERVIEW: Postal operators globally are diversifying their business model, becoming less dependent on the mail business; CTT is still in the early stages of this transformation

Revenues per line of business



- Postal operators have been adapting their business model to offset the **structural decline of the Mail business**
- **Parcels & Logistics and Financial Services** have been a common diversification choice
- CTT is pursuing a similar diversification strategy but is lagging behind vs. sector due to
  - (i) the **still limited penetration of e-commerce parcels** in Portugal, and
  - (ii) **Banco CTT having started operations only in 2016**

Sector trends

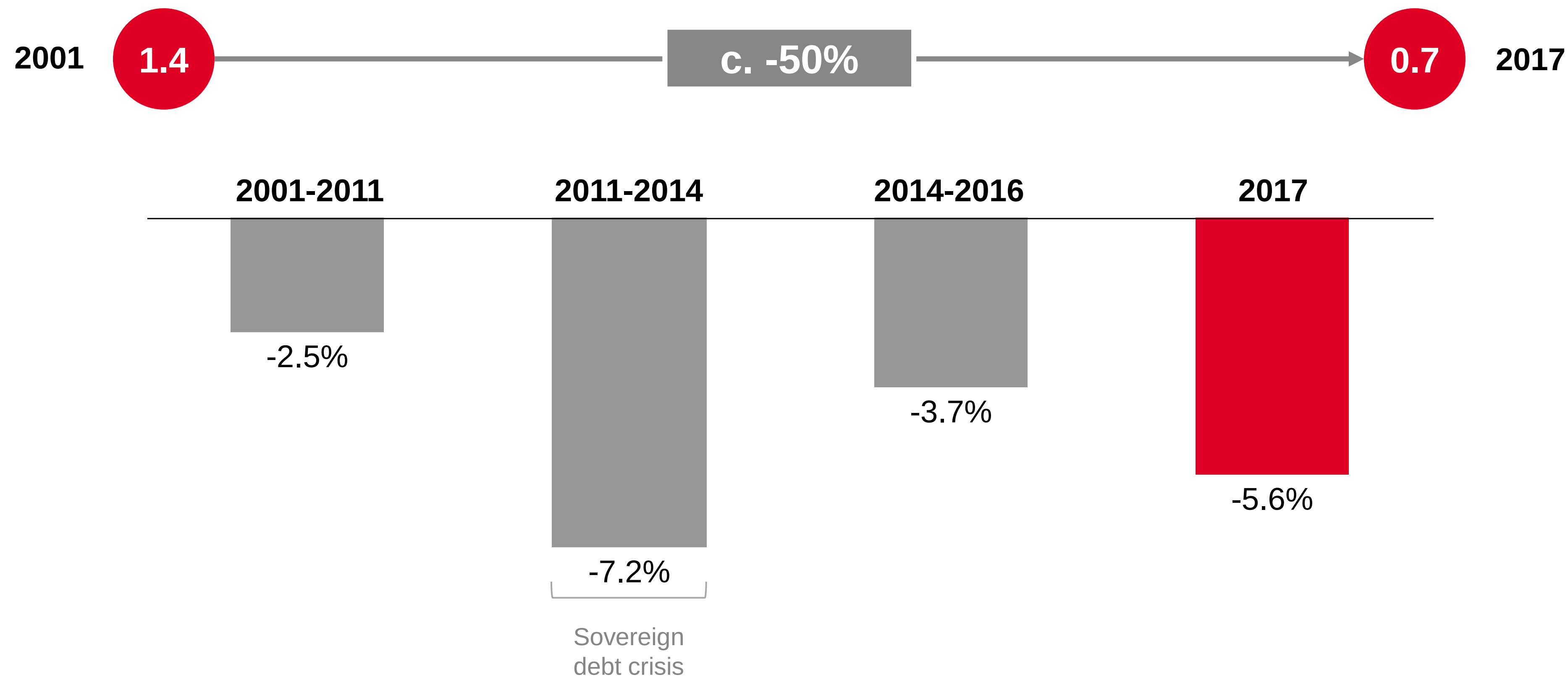
Digitalisation | *E-commerce growth* | *Globalisation* | *Diversification*

Source: IPC Global Postal Industry Report 2017.

COMPANY OVERVIEW: Mail volume has been declining since 2001, with CTT delivering today c. 50% of the volume distributed then

Addressed mail volumes evolution

Billion items; CAGR (%)

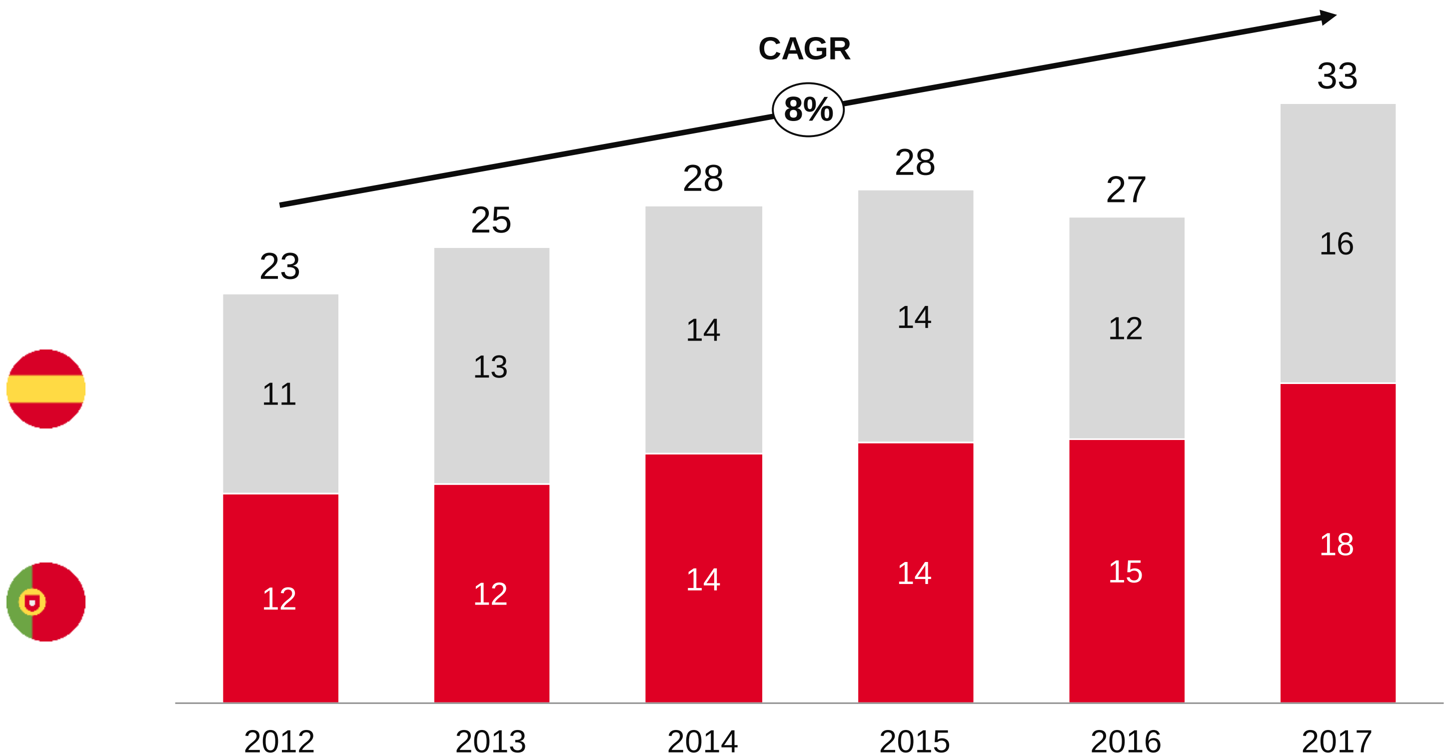


Mail volumes had been declining at a stable rate of c. 4% p.a. since 2014, however, in 2017 the decline was more pronounced and higher than the guidance range of [-4 to -5%]

COMPANY OVERVIEW: CTT has been investing to capture the growing flows of parcels, having grown >23% in E&P volumes in 2017, with positive impacts from the Transporta acquisition and the turnaround in Spain

Volumes evolution within E&P business unit

Million items; CAGR (%)



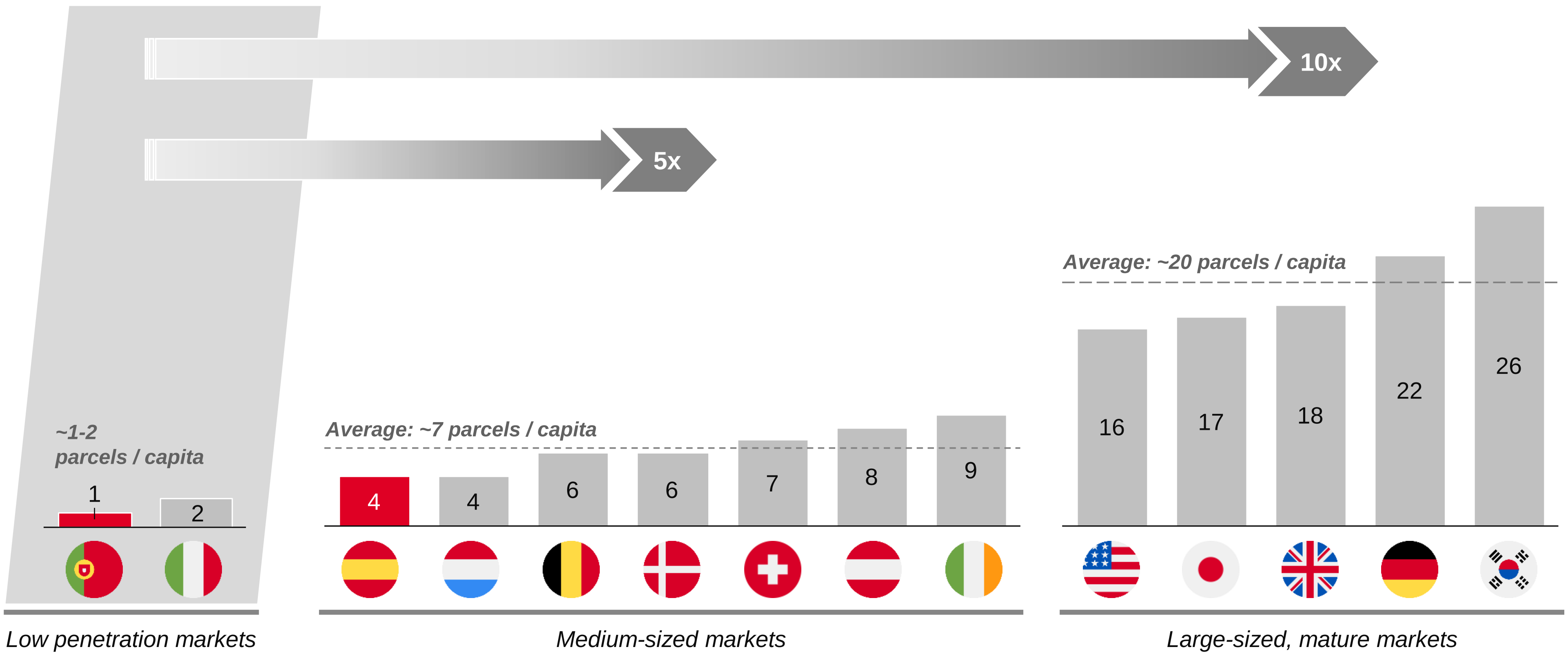
	CAGR 12-17	Δ16-17
Spain	**+7%**	**+26%**
Portugal	**+9%**	**+22%**

- **In Portugal, the Transporta acquisition contributed positively with c. 2 million items in 2017** (excluding the impact of Transporta, volumes in Portugal grew c. 7%)
- **In Spain, Tourline turnaround plan and the recovery of key accounts resulted in growth of 26% in 2017**

COMPANY OVERVIEW: There is still a great potential for growth of e-commerce in Iberia, since it is still lagging behind other European countries in online retail

E-Commerce penetration

Domestic e-commerce parcels per capita [1]



[1] E-commerce relevant is considered as domestic B2C parcels, with speed typical for e-commerce shipments in the given country.

COMPANY OVERVIEW: Banco CTT is growing rapidly and has been well received by the population – in 2017 the number of current accounts tripled to 226k and customer deposits doubled to €619m

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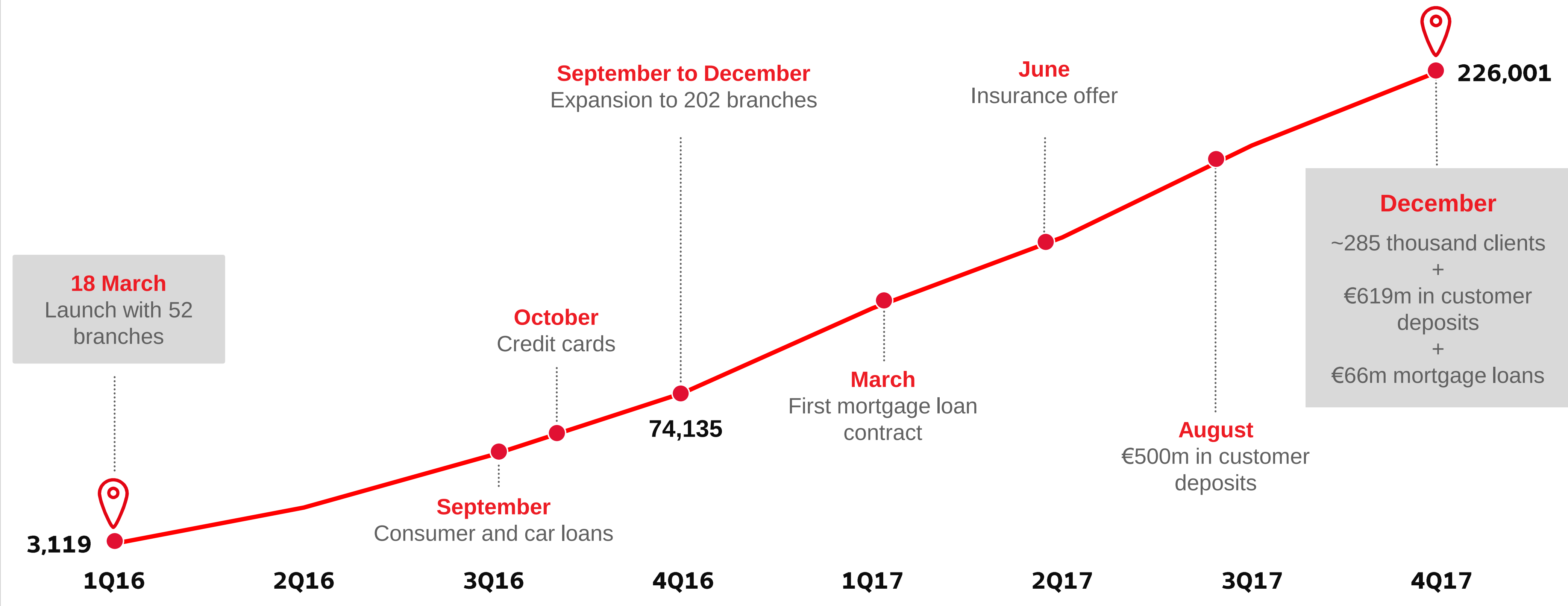
Current accounts evolution



	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Branches	66	106	202	203	203	203	208
Deposits (€m)	56	182	254	331	424	540	619

COMPANY OVERVIEW: Focus on transforming the postal business in the medium term and investing in the development of growth levers

TRANSFORMATION Postal business

- Adjust HR policies and deepen the ES&S cost reduction efforts
- Reinforce HR optimisation programme and rationalise non-core assets
- Optimise the Retail Network maintaining proximity to the citizens
- Reengineer the Distribution Network to improve quality and operational efficiency

Adjusting fixed costs structure to medium-term needs while maintaining high operational standards

GROWTH

- Grow above market in parcels and value-added services (mail & parcels)
- Continue Banco CTT's path to breakeven
- Stimulate sales and increase profitability
- Improve the technology and data management platform (analytics, digitalisation)

Transform and develop non-postal business by modernising the business model, leveraging and investing in existing platforms and capabilities

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KEY HIGHLIGHTS: Growth in revenues despite pressure on profitability as a result of higher than expected decline in mail volumes and increase in operating costs, the latter mostly related to the growth businesses

Addressed mail volumes decline higher than the guidance range [-4% to -5%]
Softer decline in 4Q (-4.5%), after worse than expected path in 2Q (-7.6%) and 3Q (-7.2%)

-5.6%

Slight growth in recurring revenues
Supported by positive evolution of the parcels and banking businesses and the acquisition of Transporta

+0.4%

Recurring operating costs under pressure
Mainly due to an increase in costs related to growth businesses

+5.6%

Banco CTT revenues contribution within guidance
High single-digit million revenues, driven by Net interest income (NII) and commissions growth.
Operating costs below €35m

€7.6m

Turnaround of Tourline underway
EBITDA breakeven in 4Q17

4Q17 EBITDA breakeven

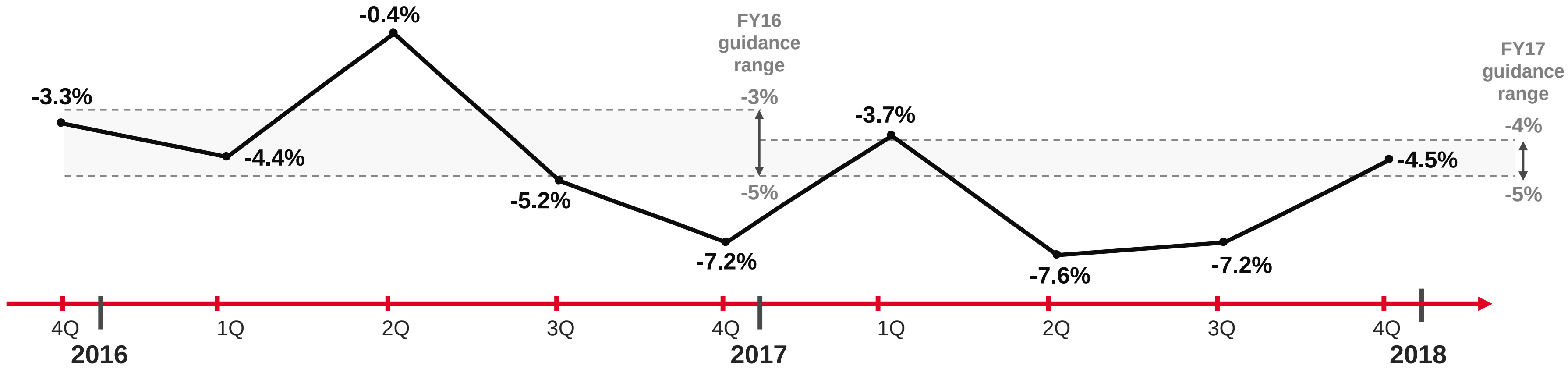
Recurring EBITDA in line with the revised guidance

€89.9m

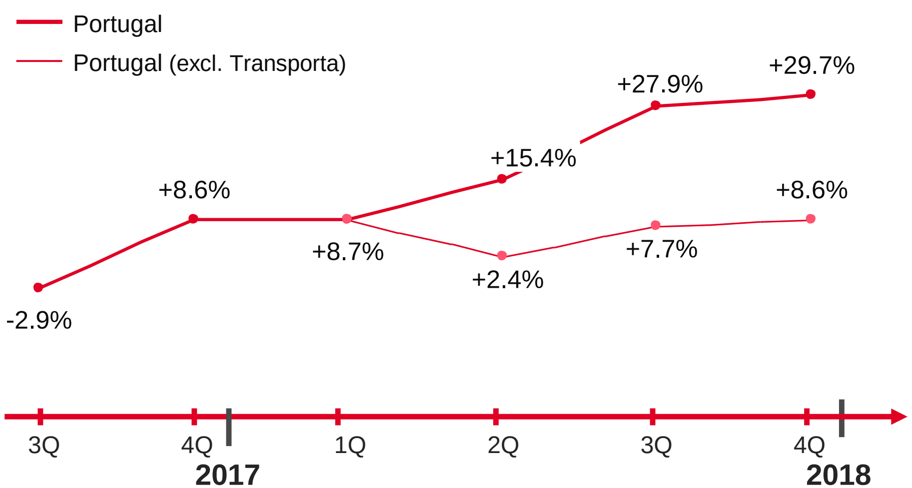
KEY HIGHLIGHTS: Addressed mail volumes decline normalised in 4Q17, back within the guidance range [-4% to -5%], while parcels volumes growth accelerated throughout the year

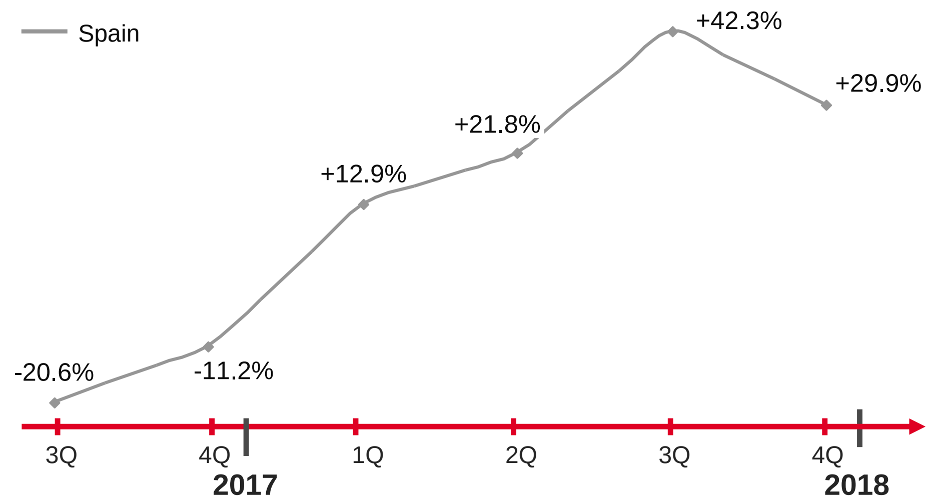
MAIL

Addressed mail volumes (Quarter change YoY)



Parcels volumes (Quarter change YoY)



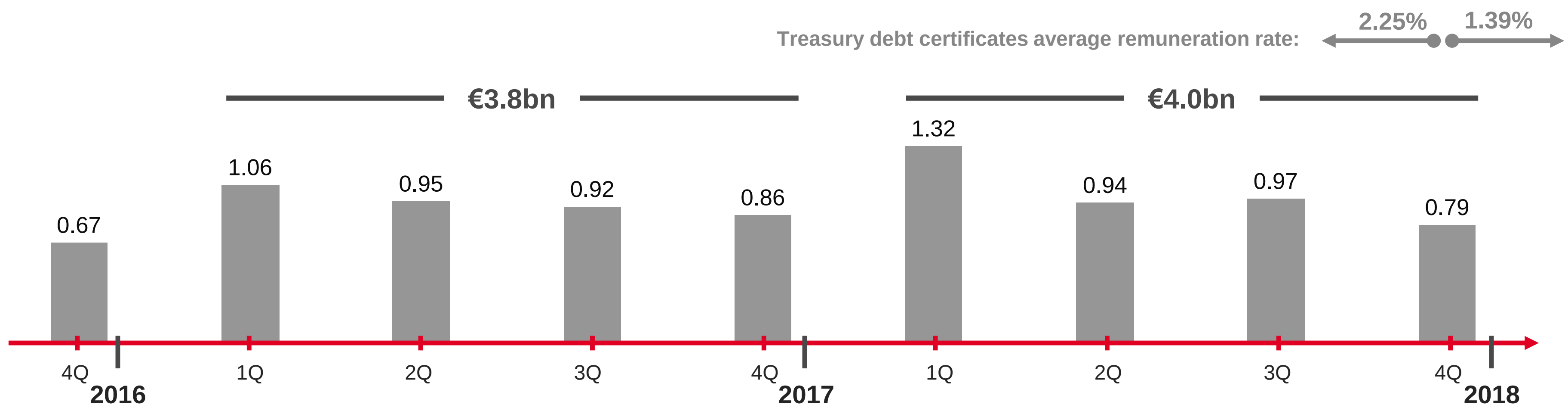


EXPRESS & PARCELS

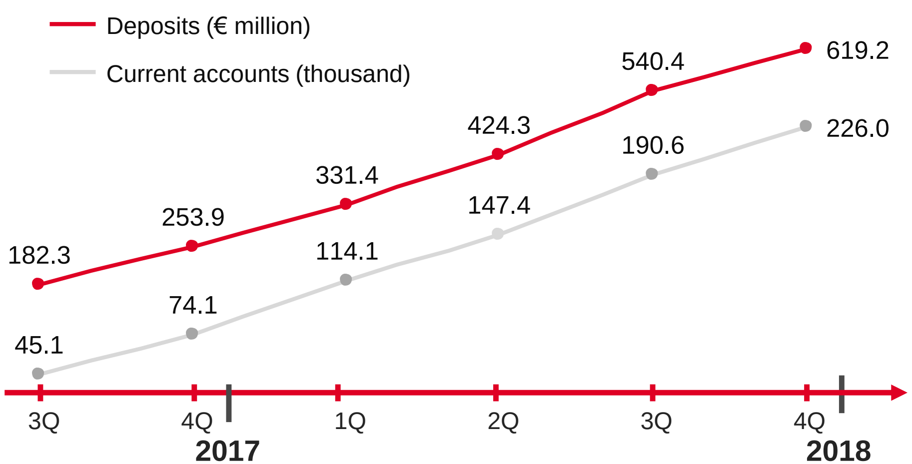
KEY HIGHLIGHTS: CTT continues to capture the trust and savings of the population; placement of credit products is growing rapidly (from a small base)

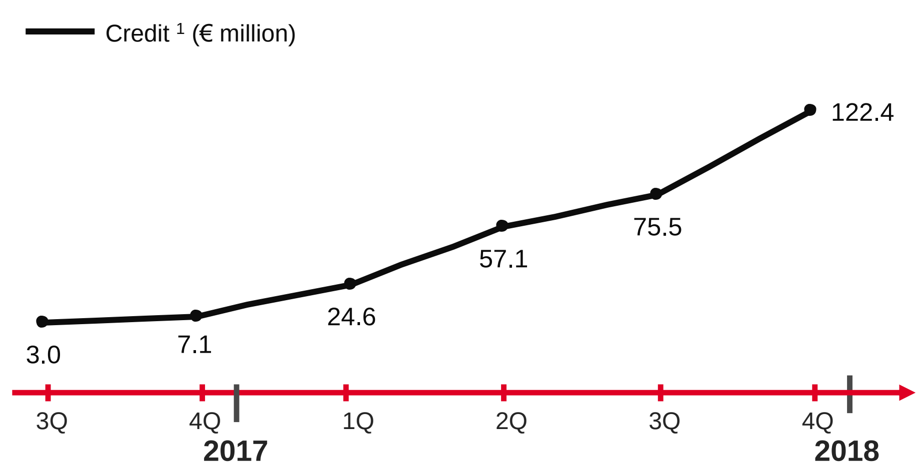
FINANCIAL SERVICES

Savings & insurance products placements (€ billion, quarterly volumes)



Banco CTT indicators – credit product placements [1], deposits & current accounts (€ million; thousand accounts)





BANCO CTT

[1] Including credit placed by Banco CTT on its own Balance Sheet and the total gross outstanding balance of credit placed by Banco CTT branches (outside Banco CTT's Balance Sheet), in partnership with BNP Paribas Personal Finance (Cetelem).

KEY HIGHLIGHTS: The Operational Transformation Plan is on target do date; launched in 4Q17 to prepare the next wave of efficiency and quality at CTT

Initiatives	Operational Transformation Plan status	
Adjust HR policies and deepen the ES&S cost reduction efforts	▪ No variable compensation for the Executive Committee for 2017 & 2018. 25% reduction of fixed compensation for the Chairman and the CEO and 15% reduction for the remaining Board Members in 2018 (vs. Dec-17 levels) ▪ Reduction of variable compensation for staff related to 2017 ▪ Contracts renegotiation with the suppliers of energy, communications, company fleet and others, achieving good savings	
Reinforce HR optimisation programme and rationalise non-core assets	▪ 161 contracts terminations negotiated in 4Q17. Indemnities of €11.9m booked in 4Q17, mostly paid in Jan-18 ▪ The number of negotiated contracts terminations has reached 200 and is expected to exceed target ▪ The process of non-core assets rationalisation has started, benefiting from a growing real estate market	
Optimise the Retail Network maintaining proximity to the citizens	▪ From 31 December 2017 to 7 March 2018, the number of access points in the CTT Retail network increased by 3, as a result of a decrease of 20 post offices and an increase of 23 postal agencies ▪ Provisions of €1.7m booked in 4Q17 for Retail Network optimisation	Started
Reengineer the Distribution Network to improve quality and operational efficiency	▪ A large-scale incremental transformational capex of €25m to enhance efficiency and quality levels is planned for the Distribution Network reengineering and further automation (front-loaded in 2018 / 2019) ▪ No impact on 2017 accounts. Detailed project definition commenced in 1Q18 and is advancing well	Started

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KEY FINANCIALS: The Operational Transformation Plan implementation is underway, which has already resulted in an increase in non-recurring op. costs in 4Q17, impacting reported earnings

2017 financial and operational performance

€ million, except when otherwise indicated

Financial indicators	Reported 2016	Reported 2017	Reported Δ%	Recurring [1] 2016	Recurring [1] 2017	Recurring [1] Δ%
Revenues	696.8	714.3	+2.5%	695.1	697.9	+0.4%
Operating costs	594.8	633.1	+6.5%	575.6	608.0	+5.6%
EBITDA	102.1	81.1	-20.5%	119.5	89.9	-24.8%
Net profit	62.2	27.3	-56.1%	63.9 [2]	40.0 [2]	-37.5%

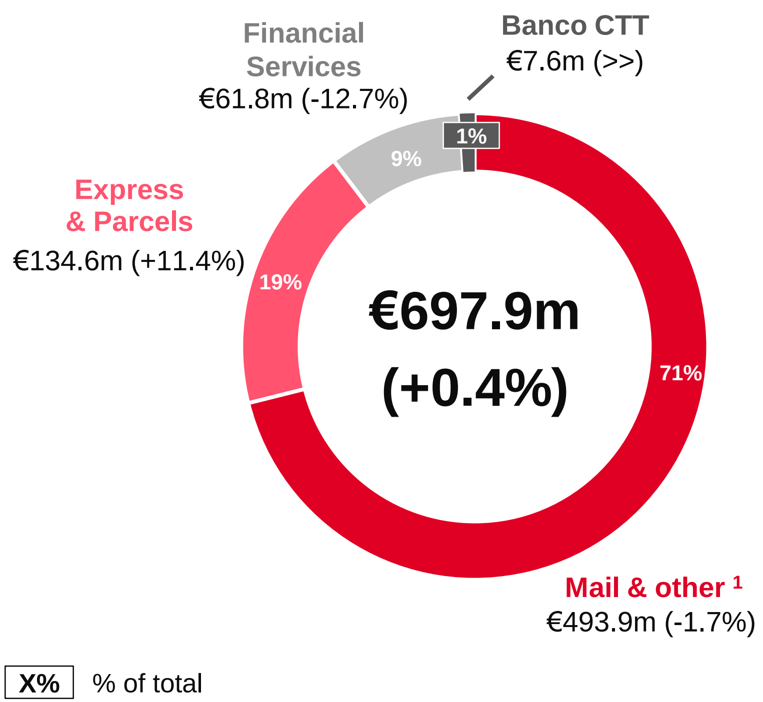
	Addressed mail (million items)	Unaddressed mail (million items)	Parcels (million items)	Savings & insurance flows (€ billion)	Banco CTT current accounts (thousand)
2017 volumes	736.6	492.1	33.3	5.7	226.0
vs. 2016	-5.6%	-1.1%	+23.5%	+22.2%	+204.9%

[1] Excluding non-recurring revenues of €1.8m and €16.3m in 2016 and 2017, respectively, and non-recurring costs affecting EBITDA of €19.2m and €25.1m and affecting EBIT of -€13.6m and €4.3m in 2016 and 2017, respectively.
[2] Considers a theoretical nominal tax rate.

KEY FINANCIALS: Slight growth in recurring revenues driven by good performance in Express & Parcels and Banco CTT, and by the Transporta acquisition

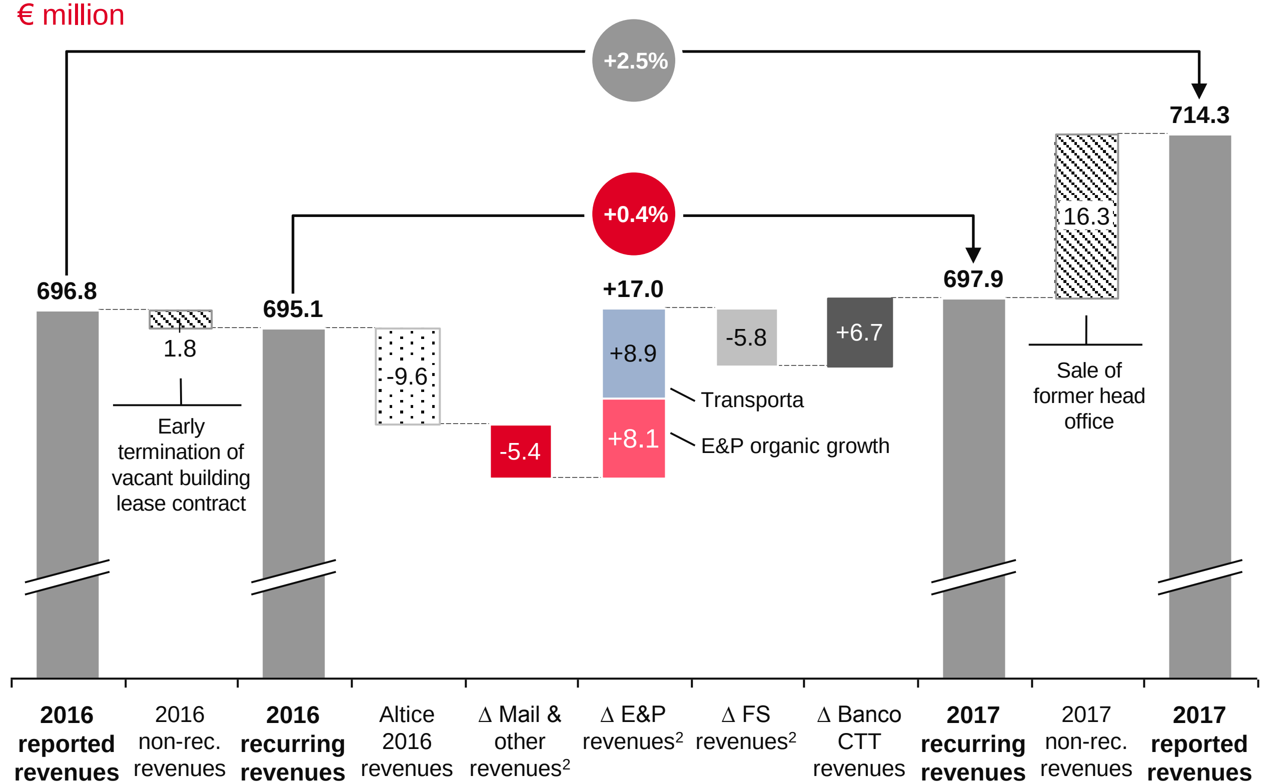
2017 recurring revenues

€ million; % change vs. prior year; % of total



Revenues breakdown

€ million



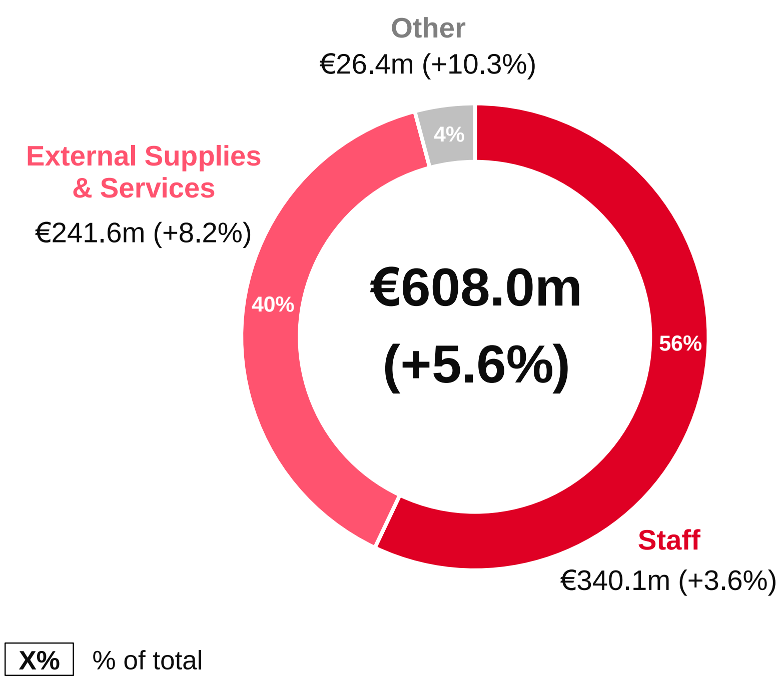
- **Mail & other revenues decrease was higher than expected, given the impact of the 5.6% addressed mail volumes decline**, **only partially offset by 1.9% average price increase and mix effect** (growth in registered & international mail revenues)
- **Express & Parcels was the main driver of growth,** resulting from **strong parcels volumes evolution in Spain (26.1%) and in Portugal (21.5%),** including **Transporta acquisition** (+€8.9m revenue impact since May-17)
- **Financial Services revenues decreased** as volumes and revenues **declined in payments** (-€2.4m) **and transfers** (-€0.6m). The revenues decline in the savings & insurance line (-€1.7m) was mainly due to lower insurance sales
- **Banco CTT revenues of €7.6m were within the guidance range**, close to evenly split between NII and commissions income

[1] Including income related to CTT Central Structure and Intragroup Eliminations amounting to -€31.0m in 2016 and -€33.6m in 2017.
[2] Excluding non-recurring revenues and Altice revenues.

KEY FINANCIALS: The recurring operating costs increase resulted, in large part, from the Transporta acquisition and the increase in costs of the parcels and banking businesses, related to growth in activity

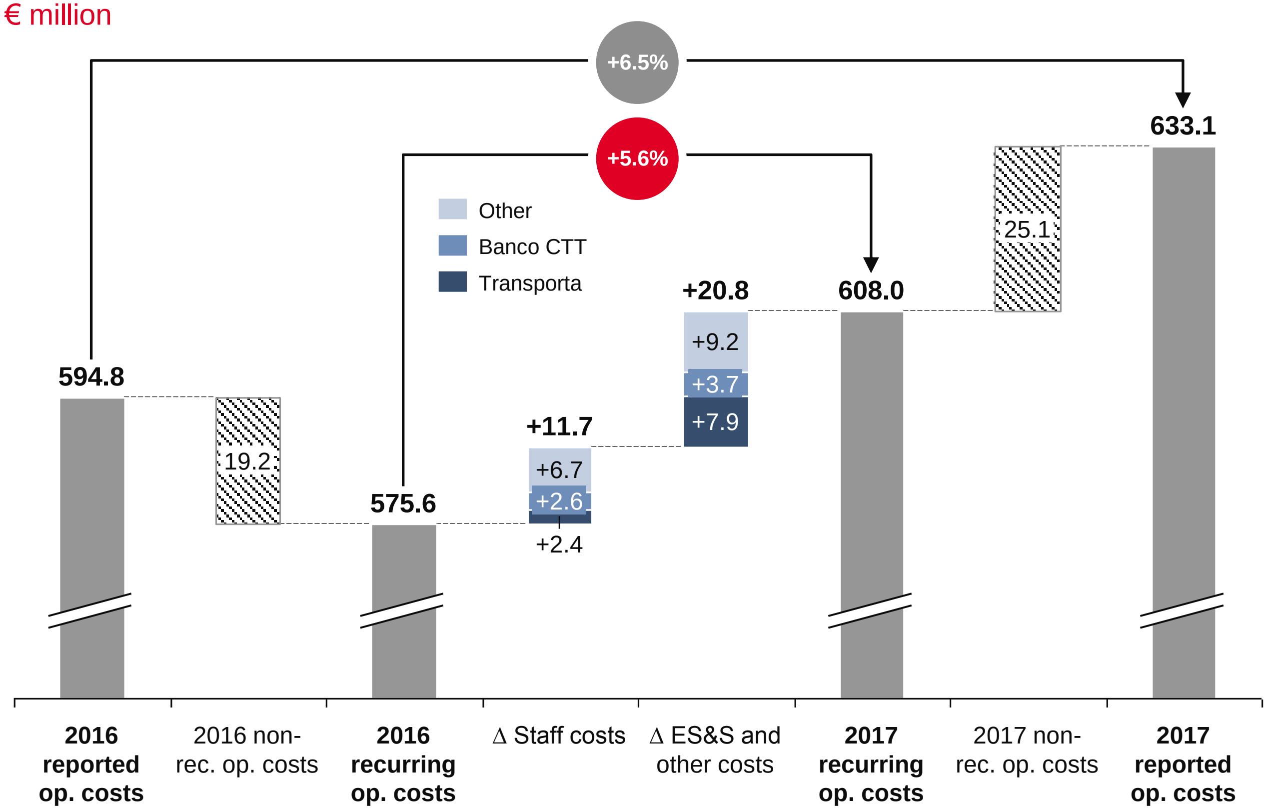
2017 recurring operating costs

€ million; % change vs. prior year; % of total



Operating costs breakdown

€ million

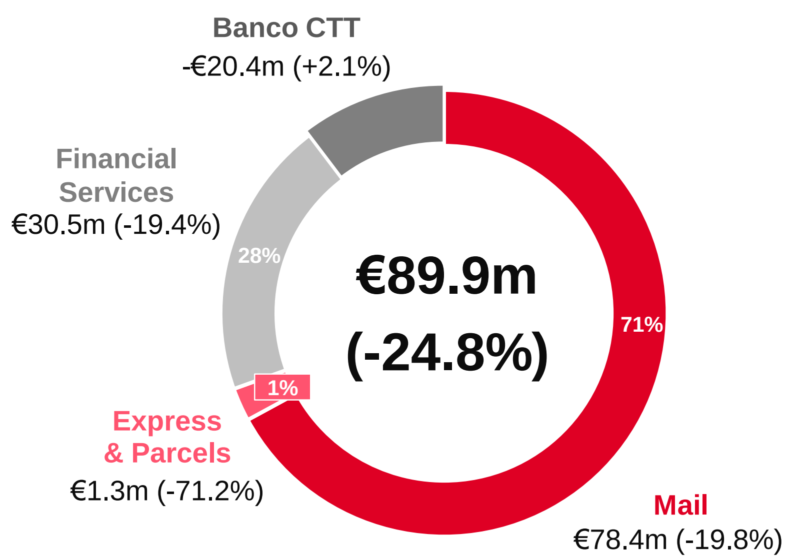


- **Staff costs (excl. Banco CTT and Transporta) increased mainly due to higher temporary staff costs at the Distribution (related to growth in E&P) and Retail (related to growth in Banco CTT) networks** (+€2.7m impact), **salary revision agreed with the unions**, effective Jan-17 (+€2.3m), and a lower cut vs. 2016 in the benefit associated with the telephone subscription fee (+€1.9m)
- **ES&S and other costs (excl. Banco CTT and Transporta) increased mainly as a result of an increase in distribution & transportation costs at Tourline**, due to volumes growth and an increase of delivery routes (+€4.8m), **unfavourable exchange rate differences**, also with positive impact in Mail revenues (+€2.1m), and **increase in energy and fuel costs in Portugal** (+€1.8m)
- **2017 non-recurring costs include items related to staff contract terminations** (of which €11.9m related to the Operational Transformation Plan and €1.1m in Transporta) and **strategic studies** (€9.3m, of which €3.8m in Banco CTT)

KEY FINANCIALS: CTT continues to be very dependent on Mail EBITDA, as the contribution to profitability of the growth levers (parcels & banking) is still building up

2017 recurring EBITDA

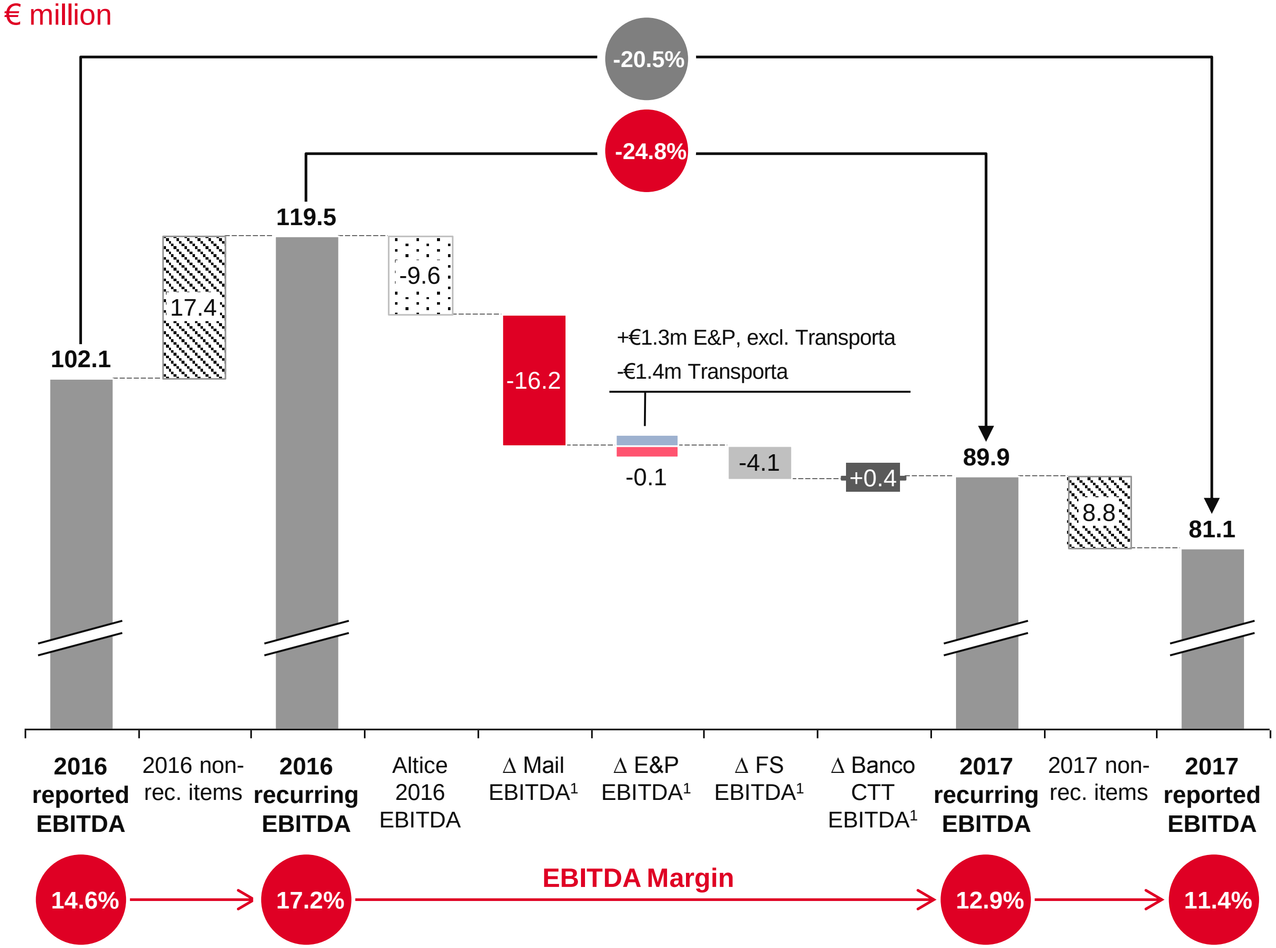
€ million; % change vs. prior year; % of total



X% % of total (excl. Banco CTT)

EBITDA breakdown

€ million



- **The decline in Mail recurring EBITDA** was mainly a result of the **increase in staff and energy & fuel costs** and the **decrease in Mail revenues** (as a function of higher than expected volumes decline)
- **The decline in Financial Services EBITDA** was a result of **worse than expected revenues performance**, especially in payments and insurance

[1] Excluding non-recurring items and Altice EBITDA.

KEY FINANCIALS: Cash flow from operating activities recovered, reaching €44.3m

Cash flow

€ million; % change vs. prior year

	Reported			Adjusted [1] (Excl. FS float & Banco CTT deposits and fin. assets)		
	2016	2017	∆ %	2016	2017	∆%
From operating activities	**268.2**	**291.1**	**+8.5%**	**23.7**	**44.3**	**+86.6%**
Cash flow excl. FS & Banco CTT				43.6	67.3	+54.4%
Banco CTT cash flow				-19.8	-23.0	-15.9%
From investing activities	**-185.6**	**-240.4**	**-29.5%**	**-20.8**	**-5.8**	**+72.1%**
Capex payments	-29.5	-31.2	-5.8%	-29.5	-31.2	-5.8%
of which Banco CTT				-10.0	-5.4	+46.1%
Banco CTT financial assets	-164.8	-234.6	-42.4%			
Other	8.7	25.4	+192.8%	8.7	25.4	+192.8%
Operating free cash flow	**82.6**	**50.6**	**-38.7%**	**2.9**	**38.5**	**>>**
From financing activities	**-72.4**	**-71.9**	**+0.7%**	**-72.4**	**-71.9**	**+0.7%**
of which Dividends	-70.3	-72.0	-2.5%	-70.3	-72.0	-2.5%
Other	**5.0**	**29.3**	**>>**	**0.0**	**0.1**	**-**
Net change in cash	**15.2**	**8.0**	**-47.1%**	**-69.5**	**-33.3**	**+52.1%**

Sale of former head office

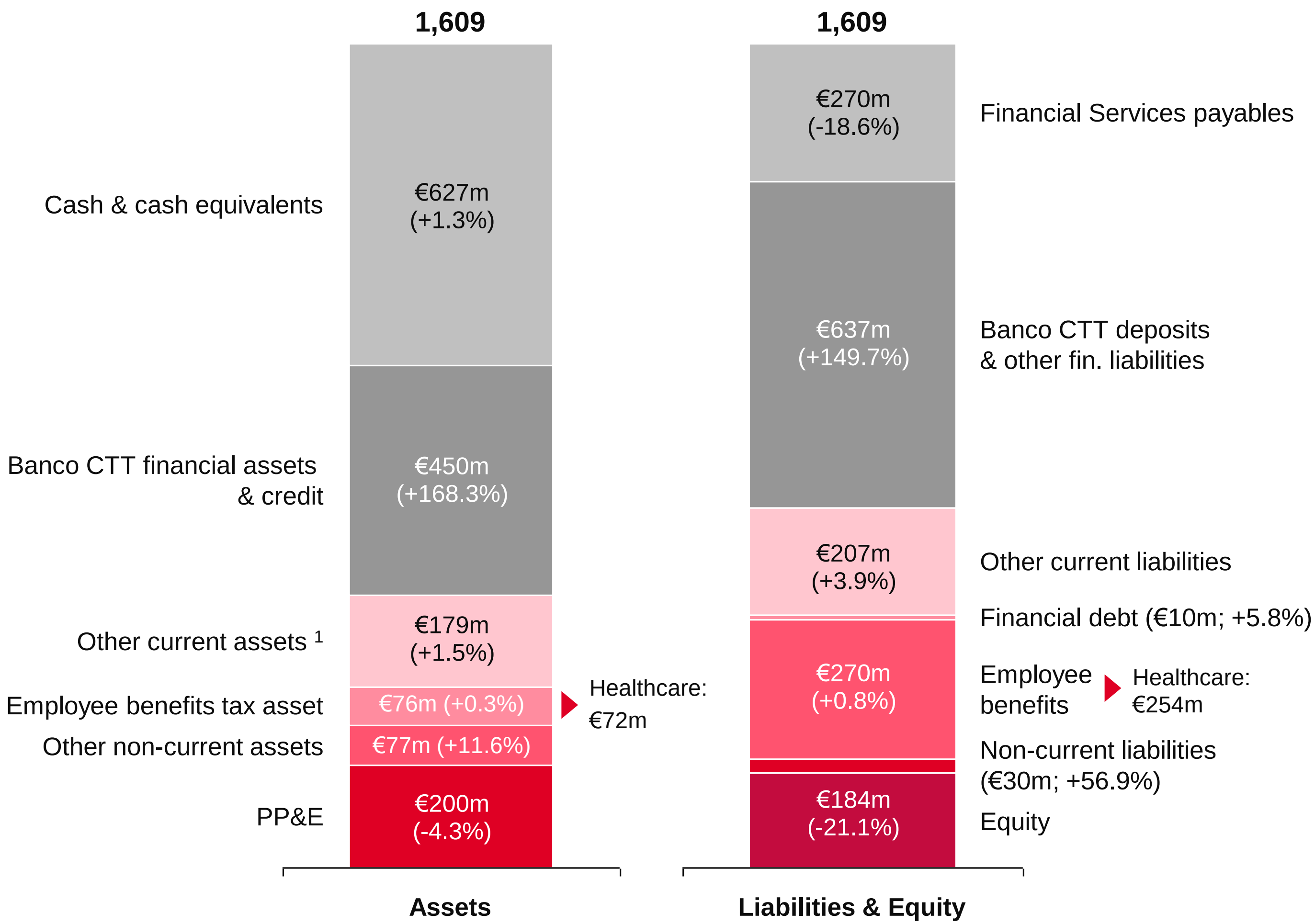
2017 capex reached €28.5m, within management guidance; cash capex payments stood at €31.2m

[1] Cash flow from operating and investing activities excluding changes in Net Financial Services payables of -€1.1m (2016) and -€57.6m (2017), 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, "Financial assets available for sale", " Investments held to maturity", "Deposits at the Bank of Portugal" and "Other banking financial assets".

KEY FINANCIALS: Strong Balance Sheet with net financial cash equal to €163m at the end of the year

Balance Sheet – 31 December 2017

€ million; % change vs. 31 December 2016



+	Cash and cash equivalents	+€627m
-	Financial Services payables, net	-€266m
-	Banco CTT deposits & other fin. liabilities	-€637m
+	Banco CTT financial assets & credit	+€450m
-	Short and long-term debt	-€10m
=	**Net financial cash (debt) [2]**	**€163m**
-	Employee benefits, net	-€194m
=	**Net cash (debt)**	**€(31)m**

Liquidity position (current assets / current liabilities) = 81%

[1] Including Financial Services receivables of €9m and €4m as at Dec-16 and Dec-17, respectively.
[2] Including €48m of Banco CTT own cash.

BUSINESS UNITS: Volumes decline higher than 5% and incremental staff and energy & fuel costs put strong pressure on Mail EBITDA

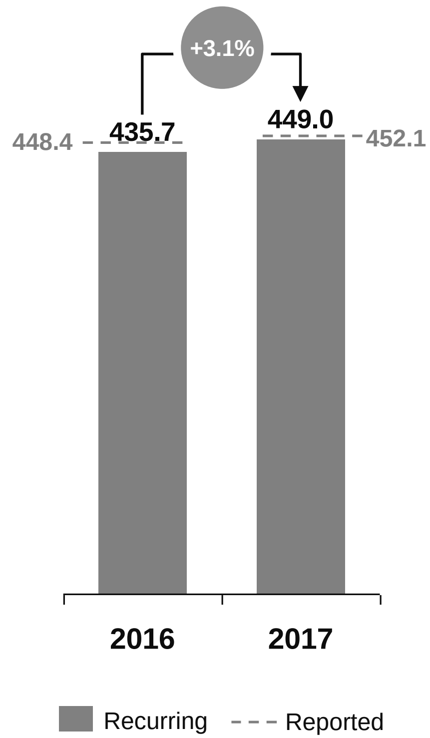
2017 Mail revenues by type

€ million, % change vs. prior year

– Transactional	€401.9m (-€1.8m; -0.5%)
– Advertising	€28.4m (-€1.2m; -4.2%)
– Editorial	€15.5m (-€0.4m; -2.7%)
– Business Solutions	€8.8m (-€1.1m; -11.5%)
– USO Parcels	€7.7m (+€1.1m; +16.4%)
– Other	€65.2m (-€2.5m; -3.7%)
Total	**€527.5m (-€6.1m; -1.1%)**
Total excl. Altice	**€527.5m (-€2.9m; -0.5%)**

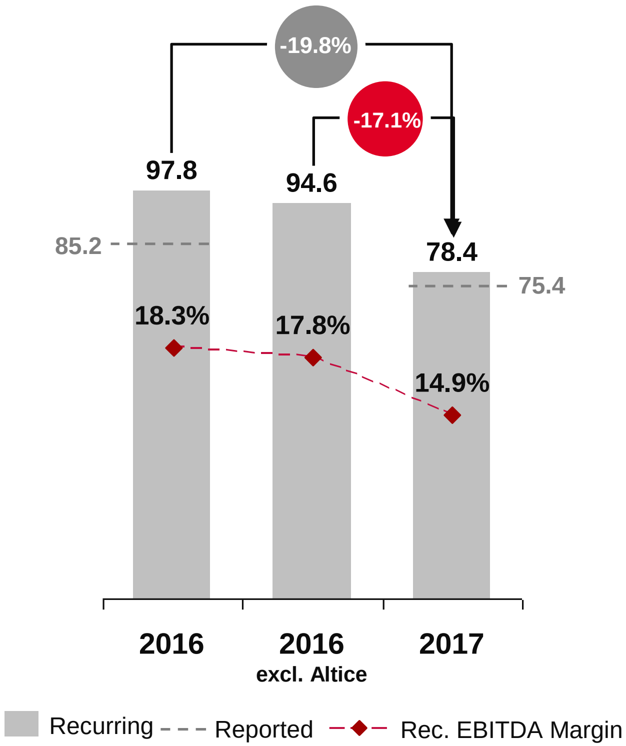
Operating costs

€ million



EBITDA

€ million



Mail volumes [1] by type

Metric	Avg. mail prices	Addressed mail	Transactional	Advertising	Editorial	Unaddressed mail
2017	N/A	736.6	627.2	68.5	40.8	492.1
vs. 2016	+1.9%	-5.6%	-5.4%	-7.6%	-5.6%	-1.1%

[1] Million items.

BUSINESS UNITS: Strong parcels volumes growth in Portugal, helped also by the Transporta acquisition, and especially in Spain, drove slight like-for-like earnings & margin improvement in E&P

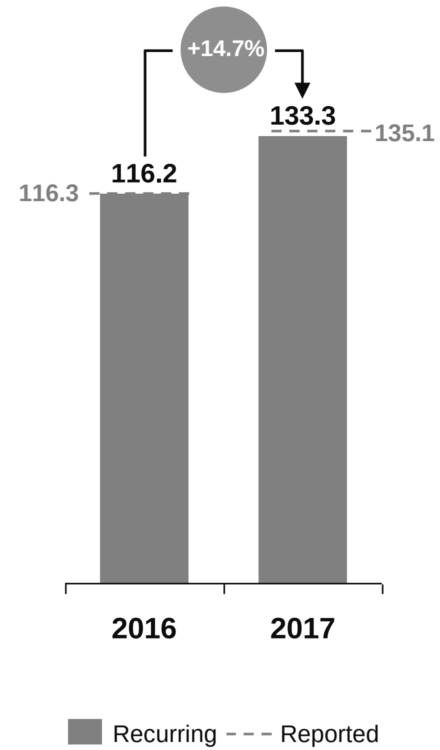
2017 E&P revenues by region

€ million, % change vs. prior year

– Portugal & other [1]	**€81.8m (+€5.8m; +7.7%)**
– Parcels	€62.8m (+€2.0m; +3.3%)
– Cargo & Logistics [2]	€10.3m (+€8.3m; >>)
– Banking network	€5.2m (-€1.3m; -20.7%)
– Other [2]	€3.5m (-€3.2m; -47.6%)
– Spain	**€51.2m (+€7.9m; +18.2%)**
– Mozambique	**€1.6m (+€0.1m; +4.4%)**
Total	**€134.6m (+€13.8m; +11.4%)**
Total excl. Altice & Transporta	**€125.7m (+€8.1m; +6.9%)**

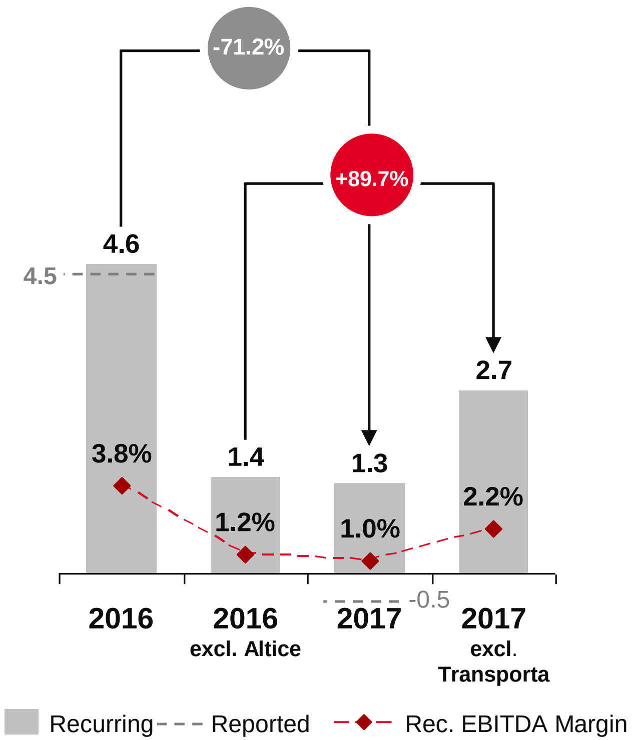
Operating costs

€ million



EBITDA

€ million



E&P volumes [3] by region

Metric	Total	Portugal	Portugal excl. Transporta	Spain	Mozambique
2017	33.3	17.7	15.7	15.5	0.07
vs. 2016	+23.5%	+21.5%	+7.4%	+26.1%	-10.5%

[1] Including revenues from intra-group transactions with companies of other business units and other operating income of Portugal, Spain and Mozambique.
[2] Including Transporta revenues in 2017 (€8.8m in Cargo & Logistics and €0.1m in other).
[3] Million items.

BUSINESS UNITS: Continued payments business weakness, as a result of volumes decline & competitive price pressures, and lower insurance placements impacted FS revenues

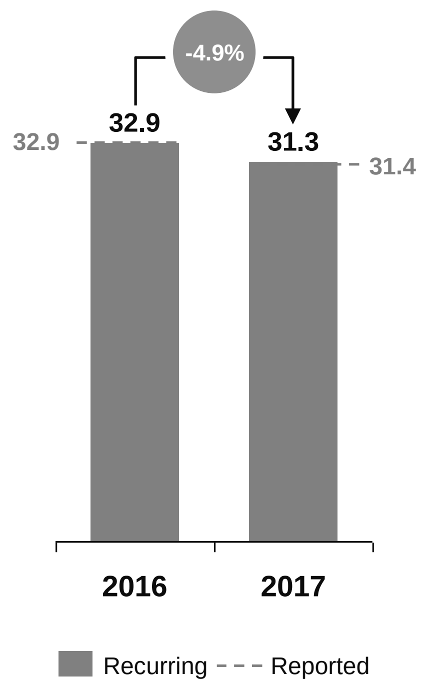
2017 FS revenues by type

€ million, % change vs. prior year

– Savings & Insurance	€30.5m (-€1.7m; -5.3%)
– Payments	€21.1m (-€2.4m; -10.1%)
– Transfers	€9.3m (-€0.6m; -6.3%)
– Credit	€0.0m (-€0.4m; -100%)
– Other	€0.9m (-€3.9m; -80.8%)
Total	**€61.8m (-€9.0m; -12.7%)**
Total excl. Altice	**€61.8m (-€5.8m; -8.5%)**

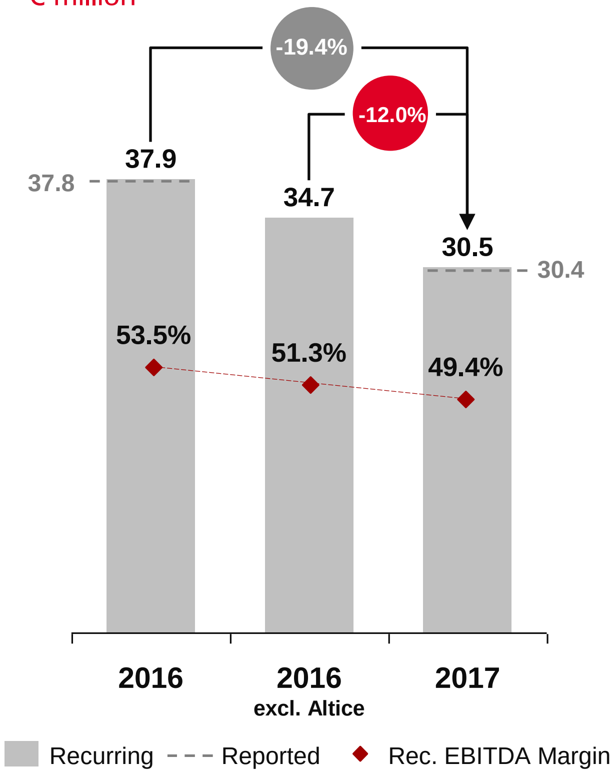
Operating costs

€ million



EBITDA

€ million



€ FS volumes by type

Metric	Savings & insurance placements (€bn)	Payments (m ops)	Money orders & transfers (m ops)	Credit (€m; excl. Banco CTT)
2017	4.0	53.7	17.5	6.8
vs. 2016	+6.0%	-6.8%	-5.7%	-34.1%

BUSINESS UNITS: Banco CTT results were within expectations, with customer acquisition remaining strong, consumer credit and mortgage products gaining traction, and NII accelerating throughout the year

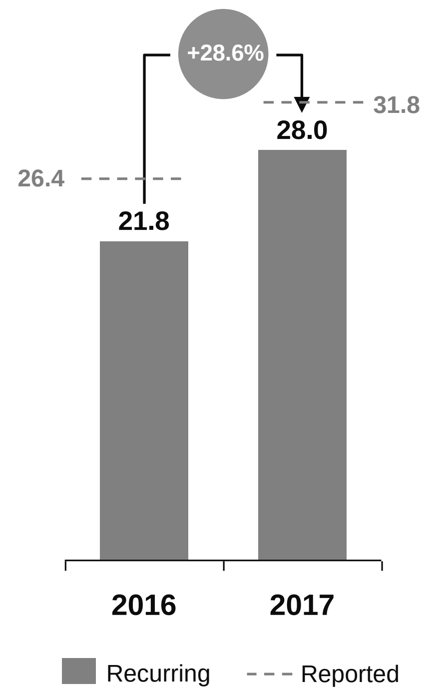
2017 Banco CTT revenues

€ million, change vs. prior year (€ million)

– Net interest income	**€3.4m (+€3.4m)**
– Interest income	€4.2m (+€3.8m)
– Interest expense	€0.8m (+€0.4m)
– Commissions income	**€4.1m (+€3.5m)**
– Consumer credit [1], credit cards [1] & insurance	€2.1m (+€1.8m)
– Own products	€2.1m (+€1.7m)
– Other	**€0.1m (-€0.2m)**
Total	**€7.6m (+€6.7m)**

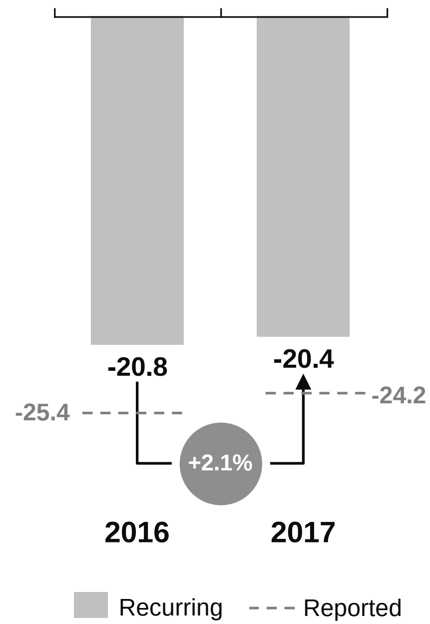
Operating costs

€ million



EBITDA

€ million



Selected Banco CTT Balance Sheet indicators

Metric	Assets (€ million)				Deposits (€ million)		Equity (€ million) / CET 1 (%)
	Cash & cash equivalents	Financial assets & investments	Credit to clients	of which, Mortgage	Term	Sight	
31-Dec-17	235.0	370.5	79.3	66.1	210.6	408.6	76.4 / 26.5%
30-Sep-17	254.9	308.7	42.4	29.2	199.1	341.3	82.1 / 35.0%

Branches (#)
208

Current accounts
226k (+35k in 4Q)

Customers (#)
~ 285 thousand

Deposits
€619.2m

Consumer credit [2]
€43.0m

[1] Partnership with BNP Paribas Personal Finance (Cetelem).
[2] Amount outside Banco CTT's Balance Sheet, representing the total gross outstanding balance of credit placed by Banco CTT branches, in partnership with BNP Paribas Personal Finance (Cetelem).

5. 2018 outlook

2018 OUTLOOK: Goal of slight growth in revenues and stable recurring EBITDA levels; the Operational Transformation Plan to have a significant impact on dividend policy in the short term

REVENUES & VOLUMES	**Slight increase in revenues**, supported by continued growth of the parcels and banking businesses
	Decline in addressed mail volumes expected to be **in the [-5% to -6%] range**
OPERATING COSTS & EBITDA	Operational Transformation Plan initiatives with an estimated c.**€20m impact on non-recurring operating costs in 2018**
	FY18 recurring EBITDA around FY17 levels, contingent on mail volumes development and Financial Services evolution (the latter currently significantly under pressure)
CAPEX & DIVIDEND	**€35m of Capex**, part of which related to the Operational Transformation Plan. Balance Sheet optimisation measures (sale of non-core real estate assets) with positive contribution to earnings & cash flow
	The Board of Directors proposes a **dividend of €0.38 per share for FY17**, payable in May-18, subject to AGM approval
	During the period of implementation of the Operational Transformation Plan (2018-2020), **the Company will revert to its previous policy of shareholder remuneration as a percentage of the generated yearly net profit**

The outlook is based on the assumption that the new quality of service requirements (still to be finalised by the Regulator) will not result in significant extra cost burden for the Company in 2018

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