



CTT – Correios de Portugal, S.A.  
Sociedade Aberta  
Avenida D. João II, n.º 13  
1999-001 LISBOA  
Capital social EUR 75.000.000,00  
NIPC 500 077 568 CRC Lisboa

**Announcement** - Lisbon, 29 July 2014

## **Material Information**

CTT – Correios de Portugal, S.A. hereby informs on the consolidated results of the 1<sup>st</sup> half of 2014

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

## **1<sup>ST</sup> HALF 2014 CONSOLIDATED RESULTS**

- 
- **Strong growth in recurring EBITDA<sup>1</sup> (10.1%) and EBIT (21.3%). Net Income of €36.1m (+14% compared to €31.6m in the 1<sup>st</sup> half of 2013)**
  - **Revenues grow<sup>2</sup> by 1.4% in the semester:**
    - **Mail revenues fall by only 1.2%<sup>2</sup>, due to the slowing down of the rate of decline in addressed mail volumes to -7.0% and the 4.4% increase of the average price of the Universal Postal Service;**
    - **Financial Services strengthen its offer and market position, allowing for a strong 20.8% recurring revenue growth, consolidating as a strong growth lever for CTT;**
    - **Express & Parcels revenues decline by 1.0% despite 11.6% volumes growth, as a result of product mix effect, given that growth is occurring mainly in the B2C segment;**
  - **Operating Costs<sup>3</sup> decrease by 1.1% despite revenue increase, as a result of economies of scale and leveraging of installed capacity.**
  - **Transformation programme initiatives under implementation as planned, with visible results:**
    - **Recent partnership with BNP Paribas Personal Finance for the sale of consumer credit, generating an up-front commission of €3m;**
    - **In Express & Parcels, despite results below those of 2013 following the restructuring underway in the Iberian operations; and**
    - **Estimated €14m annual reduction in IT & communications costs, starting from 2015.**
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- ✓ **Recurring<sup>1</sup> EBITDA grows by 10.1% to €66.3m, with Mail contributing 67%, Financial Services 29% and Express & Parcels 4%.**
- ✓ **Revenues<sup>2</sup> of €353.5m, reversing the 5-year declining trend and growing 1.4% vs. those of the 1<sup>st</sup> half 2013 (excluding EAD figures from the 2013 financials for comparison purposes), supported by 20.8% growth in Financial Services revenues.**
- ✓ **Operating Costs<sup>3</sup> decrease by 1.1% to €287.2m, maintaining the declining trend, despite growth in Express & Parcels and Financial Services volumes.**
- ✓ **Express & Parcels restructuring and Balance Sheet optimisation initiatives underway, to continue in the second half of 2014, with expected positive results.**

<sup>1</sup> Before non-recurring revenues and costs.

<sup>2</sup> Rate of change of the recurring revenues relative to the 1<sup>st</sup> half of 2013 pro-forma where EAD was excluded from the consolidation.

<sup>3</sup> Excluding impairments, provisions and depreciations, and non-recurring costs.



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- ✓ 3.3% year-on-year reduction in the number of staff (to 12,722), due to non-replacement of retiring permanent employees and non-renewal of fixed-term contracts, made possible as a result of the Transformation Programme implemented in 2013.
- ✓ Strong levels of financial standing preserved and Balance Sheet liquidity levels grow as a result of ongoing working capital optimisation and the business growth in Financial Services.
- ✓ Quality and customer satisfaction stay at high levels.

## 1. OPERATING ACTIVITY

### BUSINESS UNIT PERFORMANCE

#### Mail

The decrease in addressed mail volumes in the 2<sup>nd</sup> quarter 2014 in relation to the same period of 2013 (-3.9%) slowed down significantly when compared to the 1<sup>st</sup> quarter (-9.7%), resulting in a rate of change of -7.0% for the full 1<sup>st</sup> half. Being a longer period (than a quarter), the semester is less affected by atypical comparison effects, hence, this reduction is quite in line with the current expectation.

#### Mail Volumes

Million items

	1Q14	1Q13	Δ %	2Q14	2Q13	Δ %	1H14	1H13	Δ %
Transactional Mail	191.0	211.7	-9.8	178.2	179.9	-0.9	369.2	391.6	-5.7
Editorial Mail	11.9	11.6	3.0	11.8	13.0	-9.3	23.7	24.5	-3.5
Advertising Mail	21.4	25.2	-14.9	16.8	22.3	-24.7	38.3	47.5	-19.5
<b>Addressed Mail</b>	<b>224.3</b>	<b>248.5</b>	<b>-9.7</b>	<b>206.8</b>	<b>215.2</b>	<b>-3.9</b>	<b>431.2</b>	<b>463.6</b>	<b>-7.0</b>
<b>Unaddressed Mail</b>	<b>112.6</b>	<b>116.5</b>	<b>-3.4</b>	<b>138.5</b>	<b>124.6</b>	<b>11.2</b>	<b>251.1</b>	<b>241.1</b>	<b>4.1</b>

The rate of change of transactional mail volumes reduced from -9.8% at the end of the 1<sup>st</sup> quarter to only -0.9% in the 2<sup>nd</sup> quarter, resulting in a decrease of 5.7% for the semester, confirming the impact of the economic recovery of the country on this business. To the whole picture contributed the changes in the volumes of ordinary mail (change of -5.5% in the 1<sup>st</sup> half; -0.9% in the 2<sup>nd</sup> quarter), priority mail (-9.5%; +15.8%), registered mail (-7.0%; -5.7%), international mail (-3.2%; -4.4%) due to outbound mail (-8.7%; -10.1%), and “green” mail / *correio verde* (-10.4%; +18.0%). International inbound mail grew by 2.7% in the semester (+2.2% in the 2<sup>nd</sup> quarter).

In editorial mail (-3.5%; -9.3%) and in particular in direct mail (-19.5%; -24.7%) a similar recovery as that of the transactional mail has not yet taken place. On the other hand, unaddressed mail volumes grew by 4.1% (11.2% in the 2<sup>nd</sup> quarter). Despite the fact that the advertising market is showing some signs of recovery, there has still been no impact on advertising by physical means (press and mail).



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### Mail Business Unit Revenues, Costs and EBITDA

€ million	Reported			Recurring		
	1H14	1H13	Δ%	1H14	1H13	Δ%
<b>Revenues</b>	<b>268.1</b>	<b>273.3</b>	<b>-1.9</b>	<b>268.1</b>	<b>273.3</b>	<b>-1.9</b>
Sales and services rendered	251.5	256.0	- 1.8	251.5	256.0	- 1.8
Other operating income	8.0	8.4	- 4.6	8.0	8.4	- 4.6
Intragroup revenues	8.6	8.9	- 3.5	8.6	8.9	- 3.5
<b>Operating costs (*)</b>	<b>224.0</b>	<b>224.4</b>	<b>-0.2</b>	<b>223.6</b>	<b>230.7</b>	<b>-3.1</b>
External supplies and services	50.5	53.7	- 6.0	50.5	53.7	- 6.0
Staff costs	120.8	122.4	- 1.3	120.5	122.0	- 1.2
Other costs	8.6	10.2	- 15.7	8.6	10.2	- 15.7
Intragoup costs	44.0	38.0	15.9	43.9	44.8	- 1.8
<b>EBITDA</b>	<b>44.1</b>	<b>48.9</b>	<b>-9.8</b>	<b>44.5</b>	<b>42.6</b>	<b>4.6</b>
<b>EBITDA MARGIN</b>	<b>16.5%</b>	<b>17.9%</b>	<b>-1.4 p.p.</b>	<b>16.6%</b>	<b>15.6%</b>	<b>1.0 p.p.</b>

(\*) Excluding depreciations / amortisations, impairments and provisions.

The pricing and discounts policy pursued in the 1<sup>st</sup> half allowed to partially mitigate the effects of volumes decrease (-7.0%) in the revenues of the Mail business unit, which declined by 1.9% (with growth of 0.6% in the 2<sup>nd</sup> quarter). The effective decrease in the semester was 1.2% after €2m adjustments for like-for-like comparison purposes relative revenues of the former subsidiary EAD which is no longer consolidated as a consequence of the sale of the CTT stake in its capital.

The changes in the prices of universal service products implemented during the 1<sup>st</sup> half of 2014 (on 1 January for bulk mail, 7 April for the remaining services and 1 June for editorial mail) resulted in a 4.4% average overall price increase vs. same period of the previous year.

The Transformation Programme measures implemented throughout 2013 and 2014, which for this business unit are related to the optimisation and rationalisation of operations and delivery, and the Retail Network, resulted in a 3.1% (€7.1m) reduction in operating costs in the 1<sup>st</sup> half and, despite the decrease in revenues, in a 1 p.p. positive change in the recurring EBITDA margin of this business unit (1.9 p.p. in the 2<sup>nd</sup> quarter), excluding non-recurring costs. In 2013, the non-recurrent cost savings obtained as a result of Balance Sheet optimisation measures were of €6.2m.

### Express & Parcels

Express & Parcels volumes grew by 11.6% in the 1<sup>st</sup> half of 2014, however, revenues decreased by 1% to €62.7m.



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### Express & Parcels Business Unit Revenues, Costs and EBITDA

€ million

	Reported			Recurring		
	1H14	1H13	Δ%	1H14	1H13	Δ%
<b>Revenues</b>	<b>62.7</b>	<b>63.3</b>	<b>-1.0</b>	<b>62.7</b>	<b>63.3</b>	<b>-1.0</b>
Sales and services rendered	61.8	62.6	- 1.3	61.8	62.6	- 1.3
Other operating income	0.9	0.7	30.4	0.9	0.7	30.4
Intragroup revenues	0.0	0.0	-	0.0	0.0	-
<b>Operating costs (*)</b>	<b>60.2</b>	<b>58.9</b>	<b>2.3</b>	<b>60.2</b>	<b>58.7</b>	<b>2.4</b>
External supplies and services	47.4	45.9	3.3	47.4	45.9	3.3
Staff costs	12.0	11.9	0.7	11.9	11.8	1.6
Other costs	0.9	1.1	- 20.0	0.8	1.1	- 24.0
Intragroup costs	0.0	0.0	-	0.0	0.0	-
<b>EBITDA</b>	<b>2.5</b>	<b>4.4</b>	<b>-44.4</b>	<b>2.5</b>	<b>4.6</b>	<b>-44.5</b>
<b>EBITDA MARGIN</b>	<b>3.9%</b>	<b>7.0%</b>	<b>-3.1 p.p.</b>	<b>4.1%</b>	<b>7.2%</b>	<b>-3.2 p.p.</b>

(\*) Excluding depreciations / amortisations, impairments and provisions.

In the 1<sup>st</sup> half of 2014, CTT handled 6.7 million items in Portugal (+17.6% vs. the same period of last year) and maintain the lead in the domestic market with a 27.7% share (1<sup>st</sup> quarter 2014 data; source: ANACOM). In Spain, volumes in the semester reached 6.5 million items, which represents a 5.4% growth vis-à-vis the same period of 2013.

During the 1<sup>st</sup> half of 2014, CTT launched the Iberian offer for the Express & Parcels market, offering the customers the same delivery solutions in Portugal and Spain and providing an integrated, simplified and competitive Iberian service portfolio.

In Portugal, the EBITDA margin is close to double-digits, as a consequence of the B2C market growth, despite the lower average price, using installed capacity and CTT's distinctive capabilities. The initiative to integrate the Mail and Express & Parcels networks (outsourced) started at the end of the 1<sup>st</sup> half of 2014 and impacts on the costs of the business unit are expected in the future.

In Spain, revenues and profitability were negatively affected by the ongoing restructuring process which led to the termination of several franchisees, some of which of a considerable size. This obliged Tourline Express master franchise to assume the distribution responsibilities in those geographical areas and to rebuild the trading portfolio. Additionally, pressure on average prices continued as a result of the market environment.

In Mozambique, volumes grew by 138% as CORRE became the sole supplier of one of the main banks of the country for the logistics, handling and delivery activities to all its branches. The conditions of the country and the company's development stage created pressures on profitability and collections from customers, which are being decisively addressed, with return to normality expected in the short term.

To take advantage of e-commerce growth, solutions are being developed to support customers in their export efforts, by providing them with shipment offers specifically oriented to the online segment. For that, CTT joined the e-Commerce Interconnect Programme (e-CIP), a strategic project managed by the International Post Corporation (IPC). In this framework, the above-mentioned network of pick-up and drop-off convenience points is being implemented.

The 1% decline in the revenues of this business unit attributable to the decrease in average prices together with the impact of the above-mentioned restructuring in Spain, entailed a 44.5% reduction in the recurring EBITDA of this business unit vis-à-vis the same period of 2013, despite volumes growth, which impacted variable costs.



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## Financial Services

Following a 1<sup>st</sup> quarter marked by strong 19.9% growth year-on-year in the revenues of this business unit, the 2<sup>nd</sup> quarter performance was even more positive, exceeding expectations with a 31.0% revenue growth at the end of the semester (20.8% excluding non-recurring revenues) and raising this business unit to an even more prominent position both within the CTT portfolio of businesses and within the strategic development plan of the company. When analysing the revenues, the amount from the front fee of the agreement with BNP Paribas Personal Finance for the sale and distribution of consumer credit products was considered as non-recurring.

### Financial Services Business Unit Revenues, Costs and EBITDA

€ million	Reported			Recurring		
	1H14	1H13	Δ%	1H14	1H13	Δ%
<b>Revenues</b>	<b>38.4</b>	<b>29.3</b>	<b>31.0</b>	<b>35.4</b>	<b>29.3</b>	<b>20.8</b>
Sales and services rendered	33.9	27.7	22.3	33.9	27.7	22.3
Other operating income	4.5	1.6	180.3	1.5	1.6	-6.4
Intragroup revenues	0.0	0.0	>>	0.0	0.0	>>
<b>Operating costs (*)</b>	<b>16.3</b>	<b>16.3</b>	<b>0.0</b>	<b>16.2</b>	<b>16.3</b>	<b>-0.4</b>
External supplies and services	5.4	5.0	8.6	5.4	5.0	8.6
Staff costs	1.7	1.5	9.0	1.7	1.5	9.0
Other costs	0.2	0.2	13.6	0.2	0.2	13.6
Intragoup costs	9.0	9.6	-6.2	9.0	9.6	-6.7
<b>EBITDA</b>	<b>22.2</b>	<b>13.1</b>	<b>69.7</b>	<b>19.2</b>	<b>13.0</b>	<b>47.3</b>
<b>EBITDA MARGIN</b>	<b>57.7%</b>	<b>44.6%</b>	<b>13.1 p.p.</b>	<b>54.1%</b>	<b>44.4%</b>	<b>9.7 p.p.</b>

(\*) Excluding depreciations / amortisations, impairments and provisions.

The strong revenue growth was accompanied by a 15% increase in the amounts transacted by CTT SA, which reached €8.7 billion in the semester.

Among all Financial Services businesses, savings products were the highest contributor to the strong growth of the activity and the revenues, where the post offices attracted €2.07 billion in the different marketed savings products (public debt securities, capitalisation insurance and PPR – Retirement Savings Scheme), with a 220% growth vis-à-vis the same period of 2013.

In the remaining Financial Services businesses, Payments performed according to expectations, with revenues 6.4% below those of the same period of 2013, mainly influenced by the decrease in mobile top-ups penalised by the growing preference of consumers of pre-paid products for quadruple play communications packages. Noteworthy is the fact that Payshop reached 3,878 payment agents in the 1<sup>st</sup> half of 2014, almost the same as last year's. This fact proves significant network resilience, even in an unfavourable economic environment for retail.

In the 2<sup>nd</sup> quarter 2014, a special mention should be made to the signing of an agreement between CTT and BNP Paribas Personal Finance for the sale and distribution of consumer credit products through the CTT Retail Network and website, thus completing a further expansion of the Financial Services product portfolio, adding a new partner and widening the value proposition. The launch of this activity took place in June with an initial offer of consumer credit. The phased introduction of new products and solutions, so as to allow for the adequate process of training of and information to the Retail Network, is under consideration.



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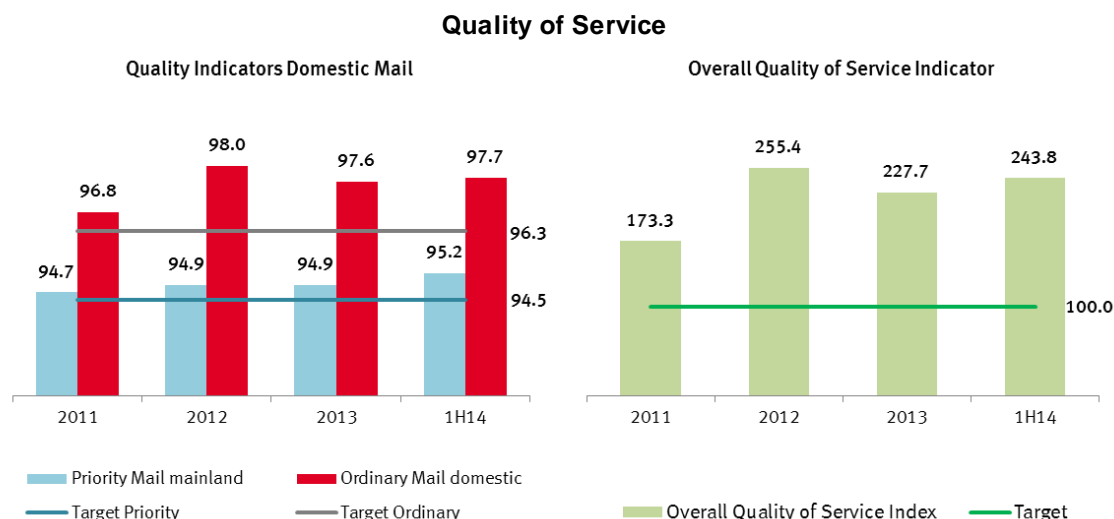
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It should also be noted the continued efforts of technological development, process integration and automation between the sales points, the back-office area and the partners, in a line of action that combines key improvements in the customer experience and quality of service, while leading to high efficiency gains and improved profitability of this business unit. Security measures have been adopted in the transport of valuables in accordance with a prudent safety policy of life and property and the legal requirements. The costs of these measures were fully offset by the above-mentioned automation, and recurring operating costs decreased by 0.4% vis-à-vis the same period of the previous year. This decrease combined with the strong revenue growth led to a 47.3% increase in the recurring EBITDA of this business unit.

## QUALITY OF SERVICE

In the 1<sup>st</sup> half of 2014, CTT continued to have high quality of service levels, with the OSQI – Overall Service Quality Indicator – registering 243.8 points, compared to a target of 100, 13.8 points above those achieved in the same period of 2013.



In international mail, the quality of service targets set by the EU Postal Directive for the postal sector were outstripped by far in the Portuguese case. The good operational performance levels have resulted in a positive perception by customers: 85.6% of the customers have classified postal service quality as good or very good. In the first half of 2014, all the variables of the quality agreement signed between the regulator and CTT surpassed the specified targets.

In this period, CTT applied again to the Committed to Excellence level in the framework of the European Excellence Model of EFQM (European Foundation for Quality Management). This application covers the whole CTT operational network: Retail Network, postal distribution offices and sorting centres. It is worth noting that CTT was the first postal operator to have achieved the Committed to Excellence recognition.

## 2. NEW BUSINESS OPPORTUNITIES

### CITIZEN'S BUREAU AREAS

The provision of services of general economic interest by the CTT Retail Network following the signature (in November 2013) of a protocol with the Government for the creation of Citizen's Bureau Areas in the CTT Retail Network showed, despite some delays, significant progress during the 1<sup>st</sup> quarter of 2014.



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Counters for the Citizen's Bureau Areas opened in 24 CTT post offices. These counters provide a wide number of services on behalf of 11 entities. The Government intends to set up 1,000 Citizen's Bureau Areas all over the country, having CTT, with its Retail Network, as a main partner.

Work on the economic model underlying this partnership is expected to proceed in the 3<sup>rd</sup> quarter of 2014, building upon the pilot experience, and then the conditions will be met to set up a more structured and long-lasting agreement between the Government and CTT.

## **POSTAL BANK**

Following the authorisation granted by the Bank of Portugal in 2013, a detailed review and update of the study within the CTT project proposal on the possibility of setting up a Postal Bank started in the 2<sup>nd</sup> quarter of 2014. This involves an in-depth analysis of the economic and strategic model of the Postal Bank so that a decision may be taken by the Board of Directors during the 4<sup>th</sup> quarter of 2014.

## **NEW FINANCIAL PRODUCTS**

Independent of but related to the decision on the Postal Bank, new financial products and / or new partnerships are under study to complement the current offer and ensure the sustainable growth of this business area. Health insurance and prepaid cards are some of the initiatives under consideration within the Transformation Programme.

The agreement with *IGFSS* (Social Security Financial Management Institute) for the payment of new social benefits through postal money order is already formalised and will ensure the growth of this product line in the 2<sup>nd</sup> half of 2014.

## **3. OTHER RELEVANT INITIATIVES OF THE TRANSFORMATION PROGRAMME**

### **INTEGRATION OF THE MAIL AND EXPRESS & PARCELS DELIVERY NETWORKS**

The integrated management initiative involving the Mail and Express & Parcels networks, allowing for increased use of the mailmen network for the last-mile delivery of small / medium-size parcels, which will allow to absorb the growth of the B2C segment by using the installed capacity, will be implemented throughout the 2<sup>nd</sup> half of 2014 with relevant effects in 2015.

### **NEW CONTRACTS FOR THE SUPPLY OF IT AND COMMUNICATION SERVICES REGARDING BASIC INFRASTRUCTURE SERVICES, HELPDESK AND DESKTOP MANAGEMENT, AND FIXED VOICE AND DATA TELECOMMUNICATIONS SERVICES**

The initiative aiming at the transformation of the Information Technologies (IT) area addresses different aspects of the management: organisation / governance model; architecture and applications; launch of tender procedures to the renewal of IT outsourcing contracts; and process optimisation, having progressed as scheduled in the 1<sup>st</sup> half of the year.

In this context, following three invitations to tender subject to previous qualification, CTT decided to award the IT and communication services contracts regarding Basic Infrastructure Services, Helpdesk & Desktop Management Services, and Fixed Voice and Data Telecommunications Services. Although the time limit to lodge opposition to the contract award decision has not yet expired, CTT expects to be able to formalise the above-mentioned contracts at the soonest possible date.

The tender procedures were launched and the contracts awarded for a period of 3 years, including an initial phase of 3 months at the most to transfer the services. As a result of these contract awards, CTT expects to obtain, starting from 2015, annual savings (excluding transition costs) of around 57% (€14m) in the referred services vis-à-vis the former operating costs, which in 2014 are around €25m, as the annual cost of the referred services is estimated to be around €11m.





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## HUMAN CAPITAL DEVELOPMENT POLICIES

In the 2<sup>nd</sup> quarter of 2014, several initiatives aiming at developing and strengthening CTT's human capital were launched, involving active policies of training, career plans and variable remuneration indexed to short and medium-term objectives. These measures, which are still in the design stage, are to be implemented in the 2<sup>nd</sup> half of 2014 and will allow the company to retain valuable human resources and attract new managers.

The development of the Financial Services and Express & Parcels business areas will require the strengthening of the CTT human capital and the partial indexation of the remunerations to the future growth and profitability objectives.

## 4. ECONOMIC AND FINANCIAL ANALYSIS

### REVENUES

The above-mentioned business developments resulted in recurring **revenues** of €353.5m, an increase of 1.4% (€4.9m) in relation to the same period last year, excluding non-recurring revenues and considering like-for-like adjustment to the 2013 figures, excluding the consolidation of the subsidiary EAD given the sale by CTT of its 51% stake in that company during the 1<sup>st</sup> quarter of 2014.

The €3m front fee received from the agreement with the new partner for the sale and distribution of consumer credit products was considered as a non-recurring item in the 1<sup>st</sup> half of 2014.

It should be noted that this growth, corresponding to a reversal of the declining trend observed since 2009 (i.e. 5 consecutive years of declines), is the combined consequence of the implemented increases in the prices of mail services, which have allowed CTT to mitigate the impact of declining volumes, and of the strong revenue growth in the Financial Services businesses, maximised by the initiatives defined for this unit under the Transformation Programme.

Revenues				
€ million				
	1H14	1H13	Change	
			Amount	%
<b>Total reported revenues</b>	<b>356.5</b>	<b>350.6</b>	<b>5.9</b>	<b>1.7</b>
Business units	369.2	365.9	3.3	0.9
Mail	268.1	273.3	-5.2	-1.9
Express & Parcels	62.7	63.3	-0.6	-1.0
Financial Services	38.4	29.3	9.1	31.0
Central structure and Intragroup eliminations	-12.7	-15.3	2.6	16.9
<b>Comparison excluding EAD from 1H13 and non-recurring revenues</b>				
<b>Total recurring revenues</b>	<b>353.5</b>	<b>348.6</b>	<b>4.9</b>	<b>1.4</b>
Business units	366.2	363.9	2.3	0.6
Mail	268.1	271.3	-3.2	-1.2
Express & Parcels	62.7	63.3	-0.6	-1.0
Financial Services	35.4	29.3	6.1	20.8
Central structure and Intragroup eliminations	-12.7	-15.3	2.6	16.9





The business performance described above resulted in the increase of €6.1m (+20.8%), excluding the effects of non-recurring revenues, in Financial Services revenues, and the increase of revenues allocated to the Central Structure, mainly due to the recovery of taxes, namely VAT paid, offsetting the 1.2% (-€3.2m) decrease in the Mail revenues (considering the like-for-like comparison without EAD) and the 1.0% (-€0.6m) reduction in the Express & Parcels revenues. The VAT recovery was a consequence of a more efficient and active management of the tax obligations of the company, where additional measures are being taken to obtain more benefits of this nature throughout 2014.

### EVOLUTION OF OPERATING COSTS<sup>3</sup>

The evolution of the operating costs in 2014 stemmed mostly from the implementation of the 2<sup>nd</sup> stage of the **Transformation Programme** described above and from the impacts of the 1<sup>st</sup> stage initiatives which were fully implemented in the 2<sup>nd</sup> half of 2013. The reductions achieved resulted in the decrease of the consolidated costs in the 1<sup>st</sup> half of 2014 vis-à-vis the previous year, despite the growth of the Financial Services business and Express & Parcels volumes, the latter with a strong percentage of variable costs.

The initiatives carried out for the **optimisation and rationalisation of the operations and distribution** have led not only to cost reductions in operations but also to increased productivity levels and more operational efficiency, as well as to greater synergies between the Mail and the Express & Parcels distribution networks. At the end of the 1<sup>st</sup> half of 2014 CTT owned 273 postal delivery offices and operated 3,436 vehicles.

With regard to the **optimisation of the Retail Network**, the initiatives carried out arise as a follow-up of the work undertaken in 2013. This aims at cost cutting and better quality of service, safeguarding the Universal Service obligations and supporting growth in Financial Services. On 30 June 2014, CTT had 2,343 outlets, of which 624 were own post offices and 1,719 were partnership branches (postal agencies).

As a result of the various measures implemented, consolidated operating costs (excluding impairments, provisions, depreciation and non-recurring costs) amounted to €287.2m, €3.2m (-1.1%) below those of the same period of 2013. The sale of CTT's stake in EAD also contributed to this year-on-year reduction, as EAD costs amounted to €1.4m of the consolidated costs of the 1<sup>st</sup> half of 2013.

Operating Costs <sup>3</sup>						
€ million	Reported			Recurring		
	1H14	1H13	Δ%	1H14	1H13	Δ%
<b>Operating costs</b>	<b>287.8</b>	<b>284.2</b>	<b>1.3</b>	<b>287.2</b>	<b>290.4</b>	<b>-1.1</b>
External supplies & services	114.4	115.6	-1.0	114.3	115.6	-1.1
Staff costs	161.6	155.7	3.8	161.2	162.0	-0.5
<i>Current costs</i>	160.2	161.5	-0.8	159.1	161.0	-1.1
<i>Employee benefits</i>	1.4	- 5.8	-124.2	2.0	1.0	104.8
Other operating costs	11.8	12.9	-8.5	11.7	12.9	-8.9

ES&E costs were significantly reduced as a result of the abovementioned initiatives and of the additional use of the installed capacity in Financial Services.

In terms of staff costs, the decrease of only 0.5% in recurring costs despite the significant reduction in the number of staff is due to changes in the applicable law / regulations as a result, on one hand, of the privatisation which led to changes in the remuneration regime (such as the end of State-imposed remuneration reductions and the resumption of the career progressions) and, on the other hand, of the

<sup>3</sup> Excluding impairments, provisions and depreciations, and non-recurring costs.



CTT – Correios de Portugal, S.A.

Sociedade Aberta

Avenida D. João II, n.º 13

1999-001 LISBOA

Capital social EUR 75.000.000,00

NIPC 500 077 568 CRC Lisboa

2013 State Budget Law that modified the contribution base for CGA (State Pension Scheme). These changes increased the unit labour costs.

### CTT Headcount

	30.06.2014	30.06.2013	Δ 2014/2013	
Mail	10,344	10,660	-316	-3.0%
Mail & Business Solutions	7,624	7,887	-263	-3.3%
Retail Network	2,720	2,773	-53	-1.9%
Express & Parcels	1,176	1,174	2	0.2%
Financial Services	103	104	-1	-1.0%
Other	1,099	1,218	-119	-9.8%
<b>Total, of which:</b>	<b>12,722</b>	<b>13,156</b>	<b>-434</b>	<b>-3.3%</b>
Permanent	11,586	11,989	-403	-3.4%
Fixed-term contracts	1,136	1,167	-31	-2.7%
<b>Total in Portugal</b>	<b>12,164</b>	<b>12,615</b>	<b>-451</b>	<b>-3.6%</b>

### STAFF

Human resources management continued to be driven by the following priorities: (i) maintaining a sound social climate; (ii) continued investment in training and qualification; and (iii) optimisation and adequacy of staff to meet the evolving needs and challenges of the markets CTT operates in.

During the 1st half of 2014, only 35 employees were hired (24 by Tourline Express in Spain, 1 by Payshop, 4 by CTT Expresso and 6 by the parent company), while 97 left. Of these, 34 employees retired and 52 terminated their contracts.

Additionally, employees with special conditions were reassessed, to assign them to more adequate jobs within the CTT subsidiaries and business units, while the insourcing of operating activities, whenever possible, was promoted.

As a result of the necessary policy to match human resources and market evolution, on 30 June 2014 CTT headcount (permanent staff and employees on fixed-term contracts) consisted of 12,722 employees, 434 (-3.3%) less than in the 1<sup>st</sup> half of 2013. This includes 7,173 mail operations and delivery staff (around 5,000 of who are delivery postmen) and 2,720 employees in the Retail Network.

In January 2014, the 1<sup>st</sup> programme of identification and development of potential for young managerial staff of CTT and its subsidiaries was launched. This programme is part of the human capital development initiatives in a perspective of talent and competence management. The ongoing programme covers a first group of 100 participants and involves their respective managers.

### RECURRING EBITDA

The operating activity generated a €66.3m recurring EBITDA (before depreciations, impairments, non-recurring results, financing costs and taxes), 10.1% (€6.1m) above that of the same period of 2013, with an EBITDA margin of 18.7% vs. 17.2% in the 1<sup>st</sup> half of 2013. The impact of the sale of the stake in EAD in these figures is €0.6m (contribution of EAD to consolidated EBITDA in the 1<sup>st</sup> half of 2013), which means that the actual growth of recurring EBITDA was €6.6m (+11.1%).

These results correspond to the evolution, as described above: €2.9m revenue growth (excluding non-recurring revenues) combined with a €3.2m cost reduction (excluding impairments, provisions, depreciations and non-recurring costs).



CTT – Correios de Portugal, S.A.

Sociedade Aberta

Avenida D. João II, n.º 13

1999-001 LISBOA

Capital social EUR 75.000.000,00

NIPC 500 077 568 CRC Lisboa

The EBITDA, including non-recurring revenues and costs, was €68.7m, 3.5% higher than that of the 1<sup>st</sup> half of 2013, resulting in a 19.3% reported EBITDA margin.

Non-recurring costs affecting EBITDA in the 1<sup>st</sup> half of 2014 amounted to -€2.5m (vs. -€6.2m in 1<sup>st</sup> half of 2013). This was a result of €3m non-recurring revenues from the front fee of the agreement for the sale and distribution of consumer credit products and of non-recurring costs totalling €0.5m.

Non-recurring items affecting only EBIT in the 1<sup>st</sup> half of 2014 were €2.9m (mainly due to increases and reversals of provisions), which were lower than those of the 1<sup>st</sup> half of 2013.

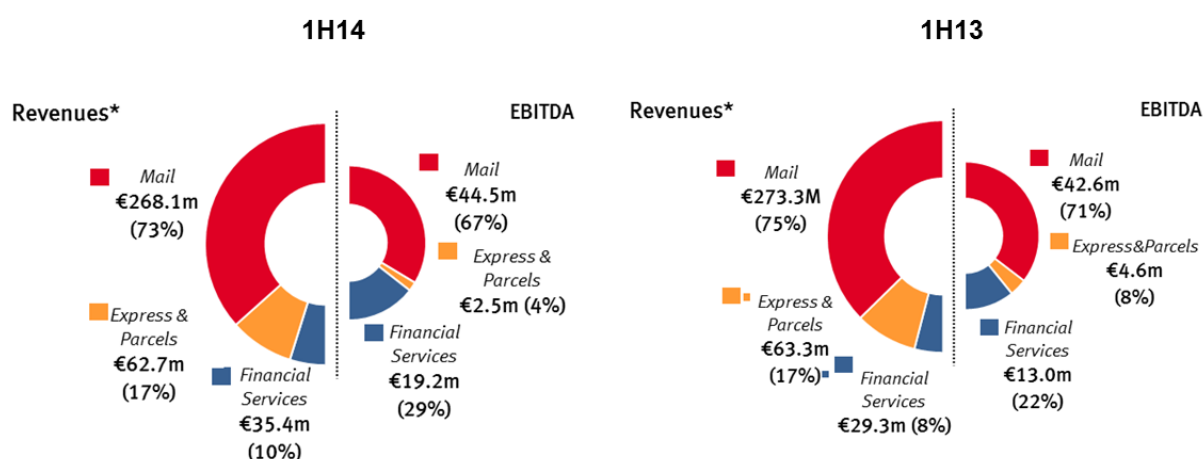
€ million	1H14	1H13	Δ %
Non-recurring costs and revenues	0.4	-1.9	122.6
affecting EBITDA	-2.5	-6.2	60.1
affecting only EBIT	2.9	4.4	-33.2

The company's EBITDA growth resulted from the strong growth of Financial Services, which had a recurring EBITDA of €19.2m, an increase of 47.3% vis-à-vis the 1<sup>st</sup> half of 2013.

The EBITDA margin of the Mail segment increased from 15.6% to 16.6% as a result of the cost reduction due to the operations and Retail Network optimisation and rationalisation initiatives which surpassed the revenue reduction mitigated by the price increase and by a more favourable volumes evolution in the 2<sup>nd</sup> quarter vis-à-vis the one of the 1<sup>st</sup> quarter of 2014.

The Express & Parcels EBITDA margin reduced to 4.1% at the end of the 1<sup>st</sup> semester, as a result of a 1% decrease in revenues due to a reduction of average prices and a 2.4% increase in operating costs caused by Tourline Express restructuring and by increased variable costs from volumes growth.

### Revenues and Recurring EBITDA by Business Unit



- Includes internal services rendered and intragroup transactions which are eliminated in consolidated accounts. Does not include revenues related to CTT Central Structure and Intragroup Eliminations amounting to -€12.7m in 1H14 and -€15.3m in 1H13.



CTT – Correios de Portugal, S.A.  
Sociedade Aberta  
Avenida D. João II, n.º 13  
1999-001 LISBOA  
Capital social EUR 75.000.000,00  
NIPC 500 077 568 CRC Lisboa

## RECURRING EBIT AND NET PROFIT

Recurring EBIT increased €9.7m (+21.3%) to €55.4m. The EBIT margin was 15.7%, 2.7 p.p. above that of last year.

In the 1<sup>st</sup> quarter of 2014, consolidated financial results amounted to -€3.2m, which represents a year-on-year decrease of €1.8m. Interest income was affected by lower remuneration rates and decreased 35.8% vis-à-vis the same period of last year. Interest expenses incurred in this quarter reached €6.0m, which includes interest costs associated with the employee benefits of €5.8m.

Financial results also include gains in associated companies of €0.3m related to the capital gain on the sale of the 51% stake in the company EAD – Empresa de Arquivo de Documentação, S.A.

Tax on income reached €15.7m, 9.2% higher when compared to the same period of last year, resulting from a 12.0% (+€5.5m) higher EBT than the one of last year. The effective tax rate was 30.4%.

Consolidated Net Profit came to €36.1m, which represents a positive change of €4.5m (+14.0%) vis-à-vis the previous year. This corresponds to a 10.1% Net Income margin.

To summarise, the consolidated results of CTT – Correios de Portugal, S.A. for the 1<sup>st</sup> half of 2014 are as follows:

### Consolidated P&L

€ million

	Reported			Recurring		
	1H14	1H13	Δ %	1H14	1H13	Δ %
Revenues	356.5	350.6	1.7	353.5	350.6	0.8
Sales and services rendered	345.0	344.2	0.2	345.0	344.2	0.2
Other operating income	11.5	6.4	79.2	8.5	6.4	32.8
Operating costs	287.8	284.2	1.3	287.2	290.4	-1.1
<b>EBITDA</b>	<b>68.7</b>	<b>66.4</b>	<b>3.5</b>	<b>66.3</b>	<b>60.2</b>	<b>10.1</b>
Depreciation / amortisation, impairments and provisions	13.8	18.9	-26.9	10.9	14.5	-25.0
<b>EBIT</b>	<b>54.9</b>	<b>47.5</b>	<b>15.6</b>	<b>55.4</b>	<b>45.7</b>	<b>21.3</b>
Financial income, net	-3.5	-1.3	-163.2	-3.5	-1.3	-163.2
Gains / (losses) in associated companies	0.3	0.0	-	0.3	0.0	-
<b>Earnings before taxes (EBT)</b>	<b>51.8</b>	<b>46.2</b>	<b>12.0</b>	<b>52.2</b>	<b>44.3</b>	<b>17.7</b>
Income tax for the year (*)	15.7	14.4	9.2	15.9	13.8	14.8
Losses / (gains) attributable to non-controlling interests	-0.03	0.17	-114.6	-0.03	0.17	-114.6
<b>Net profit attributable to equity holders</b>	<b>36.1</b>	<b>31.6</b>	<b>14.0</b>	<b>36.4</b>	<b>30.3</b>	<b>19.8</b>

(\*) The income tax on recurring EBT is calculated by using the effective tax rate from the reported accounts.

## FREE CASH FLOW

In the 1<sup>st</sup> half of 2014, the operating free cash flow generated was €191.4m, vs. €199.1m in the 1<sup>st</sup> half of 2013. The change in cash and cash equivalents was €131.0m, which is €25.3m (-16.2%) below that of the same period of the previous year. In the 1<sup>st</sup> half of 2014 a €60m dividend was paid, while in the 1<sup>st</sup> half of 2013 the net dividend paid was €37.5m (€50.0m gross dividend, less €12.5m income tax withheld in June 2013).

In the 1<sup>st</sup> half of 2014, the net Financial Services creditors increased by €125.6m vs. 31 December 2013, which impacted CTT's cash and equivalents, therefore, the operating free cash flow for the 1<sup>st</sup> half of 2014 (excluding net Financial Services payables) was €65.9m.



CTT – Correios de Portugal, S.A.

Sociedade Aberta

Avenida D. João II, n.º 13

1999-001 LISBOA

Capital social EUR 75.000.000,00

NIPC 500 077 568 CRC Lisboa

### Cash-flow

€ million

	Reported			Recurring <sup>(*)</sup>		
	1H14	1H13	Δ %	1H14	1H13	Δ %
Cash flow from operating activities	187.8	198.0	-5.2	62.2	28.1	121.1
Cash flow from investing activities	3.7	1.1	247.5	3.7	1.1	247.5
<b>Operating free cash flow</b>	<b>191.4</b>	<b>199.1</b>	<b>-3.8</b>	<b>65.9</b>	<b>29.2</b>	<b>125.7</b>
Cash flow from financing activities	-59.7	-42.7	-39.7	-59.7	-42.7	-39.7
Change in consolidation perimeter	-0.7	-	-	-0.7	-	-
<b>Change in cash and equivalents (free cash flow)</b>	<b>131.0</b>	<b>156.3</b>	<b>-16.2</b>	<b>5.5</b>	<b>-13.5</b>	<b>140.4</b>

(\*) Cash flow from operating activities excluding change in Net Financial Services payables.

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The highlights of the comparison between the Statement of Financial Position as at 30 June 2014 and that at the end of the 2013 financial year are:

A €174.4m (+15.9%) increase in **total assets**, which amount to €1,274.5m. This change occurred mainly as a result of the €131.0m (+24%) increase in cash and treasury applications, as well as of other Financial Services current assets (€53.3m, +2,760.5%).

**Equity** decreased €26.0m (-9.4%) vis-à-vis 31 December 2013, as a result of the distribution of dividends of the 2013 financial year (€60.0m), which occurred in May and is not yet fully compensated by the Net Profit for the period (€36.1m). During this semester the sale of the 51% stake in EAD took place, which resulted in a €1.6m reduction in non-controlling interests.

In relation to **liabilities**, the €200.4m (+24.3%) increase originated mostly from the €178.9m increase of Financial Services creditors, driven by the growth in this business.

### Consolidated Financial Position

€ million

	30.06.2014	31.12.2013	Δ% 14/13
Non-current Assets	376.5	391.7	-3.9
Current Assets	898.0	708.4	26.8
<b>Assets</b>	<b>1,274.5</b>	<b>1,100.1</b>	<b>15.9</b>
<b>Equity</b>	<b>249.9</b>	<b>275.9</b>	<b>-9.4</b>
<b>Total Liabilities</b>	<b>1,024.6</b>	<b>824.2</b>	<b>24.3</b>
Non-current Liabilities	328.7	334.7	-1.8
Current Liabilities	695.9	489.5	42.2
<b>Total Equity and Liabilities</b>	<b>1,274.5</b>	<b>1,100.1</b>	<b>15.9</b>

In the 1<sup>st</sup> half of 2014, liabilities related to employee benefits amounted to €296.0m, 0.8% less than in December 2013. In the first half of 2013, the benefit regarding the telephone subscription was modified, enabling a €8.4m reduction in liabilities.



**CTT – Correios de Portugal, S.A.**

Sociedade Aberta

Avenida D. João II, n.º 13

1999-001 LISBOA

Capital social EUR 75.000.000,00

NIPC 500 077 568 CRC Lisboa

#### **Liabilities related to employee benefits**

€ million

	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>Δ %</b>
Total responsibilities	296.0	298.5	-0.8
Healthcare	263.7	263.4	0.1
Staff (suspension agreements)	17.2	19.7	-12.9
Other employee benefits	15.1	15.4	-2.3

## **5. FINAL NOTE**

This press release is based on CTT – Correios de Portugal, S. A. condensed interim consolidated accounts for the 1<sup>st</sup> half of 2014, reviewed by a CMVM registered auditor.

Lisbon, 29 July 2014

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.

This information is also available on CTT's Investor Relations website at:

[http://www.ctt.pt/fectt/wcmserMet/ctt/en/investidores/info/relacoes\\_investidores/press\\_releases.html](http://www.ctt.pt/fectt/wcmserMet/ctt/en/investidores/info/relacoes_investidores/press_releases.html)

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Avenida D. João II, n.º 13

1999-001 LISBOA

Capital social EUR 75.000.000,00

NIPC 500 077 568 CRC Lisboa

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### **Forward-looking statements**

*This press release 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 are forward-looking statements. Statements that include the words “expects”, “intends”, “plans”, “believes”, “anticipates”, “will”, “targets”, “may”, “would”, “could”, “continues” and similar statements of a future or forward-looking nature identify to 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.*

*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, that could cause 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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