



CTT – Correios de Portugal, S.A.

Public Company

Avenida D. João II, Lote 1.12.03

1999-001 LISBON

Share capital EUR 75,000,000.00

Lisbon commercial registry and fiscal no. 500 077 568

Announcement - Lisbon, 12 March 2014

Material Information

CTT – Correios de Portugal, S.A. (“CTT”) hereby informs about the 2013 consolidated results.

CTT – CORREIOS DE PORTUGAL, S.A.

PUBLIC COMPANY

CONSOLIDATED RESULTS OF 2013

- **Privatisation implemented through a successful IPO, achieving all set objectives.**
 - **The rate of decline of revenues slows down significantly with positive performance of all business units in the 4th quarter of 2013:**
 - **Mail & Business Solutions revenues decrease only 2.1% partly due to a 4.2% average mail price increase;**
 - **Express & Parcels revenue growth reverses the declining trend from previous years, accelerating growth in the 4th quarter;**
 - **Financial Services expand product offer, registering strong 19.1% revenue growth in the 4th quarter.**
 - **Double-digit growth rate of EBITDA¹ (11%) and EBIT¹ (16%):**
 - **2013 Transformation Programme initiatives almost fully implemented with positive and growing impact of €21 million on results, which allowed the absorption of the non-recurring cost of the privatisation process (€4.4m) in the 4th quarter;**
 - **Cost reduction in Mail business more than offsets decrease in revenues.**
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- ✓ **€61.0m Net Profit (+70.7% vs. €35.7m in 2012) and €110.4m operating free cash flow despite €4.4m non-recurring costs with the privatisation process.**
- ✓ **Recurring EBITDA¹ grows by 10.8% to €122.9m, with Mail contributing 71%, Financial Services 22% and Express and Parcels 7%.**
- ✓ **Revenues of €704.8m, only 1.3% below those of 2012, with 1.2% and 5.5% revenue growth in Express and Parcels and Financial Services, respectively.**
- ✓ **Operating costs² decrease by 3.5% to €581.9m, despite the reintroduction of Christmas bonus in 2013. The decrease in costs more than offsets the decrease in revenues.**
- ✓ **6.0% reduction in total staff (to 12,383), due to non-substitution of retiring permanent employees and non-renewal of fixed-term contracts, as a result of the Transformation Programme.**
- ✓ **Strong levels of financial standing preserved and Balance Sheet liquidity levels grow as a result of the business growth in Financial Services.**
- ✓ **Quality and customer satisfaction stay at high levels.**

¹ Before non-recurring costs and income.

² Excluding impairments, provisions and depreciations / amortisations, and non-recurring costs.



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2013 was a quite successful year for CTT as the company managed to implement a new Transformation Programme with visible results with a 90% implementation rate, and to execute a demanding Privatisation Process through a successful Initial Public Offering for domestic retail and domestic and international institutional investors. The final stage of these two processes, i.e. the 4th quarter of 2013, brought a positive boost to the company's results and allowed it to reach year-end at an even better position than at the end of the first 9 months.

Action priorities were maintained:

- Maintain leadership in the mail and parcels and promote a regulatory framework that supports the Universal Postal Service sustainability;
- Maintain efficiency through continuous transformation programmes;
- Strongly consolidate and develop the express and parcels business to take advantage of the expected market growth, especially in e-commerce, by accelerating the restructuring plan;
- Strengthen and promote a wider financial services platform by offering new and better products with fees that promote growth.

To support this strategy, CTT counts on its competitive advantages such as the unique postal delivery and retail networks with wide coverage, and a consumer-trusted brand with a strong reputation in the marketplace.

With the new organisational structure in place at the beginning of the year, very relevant steps were taken in implementing the Transformation Programme pursuant to the above mentioned action priorities. All activities are aligned with the targets of i) increasing the profitability and value of CTT, a profitable company with a solid balance sheet and a strong cash flow generation capacity, ii) ensuring the sustainability of the Universal Postal Service, iii) always guaranteeing high quality of service and proximity to the populations by expanding the service offer and quality of the retail network, and iv) promoting quality jobs, matching the work requirements and the existing workforce at each moment.



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1. OPERATING ACTIVITY

BUSINESS UNIT PERFORMANCE

Mail & Business Solutions

Mail volume decrease continued to affect the performance of this business unit in 2013 with a 7.3% rate of decline, much below the one in 2012 (-8.8%). This rate of decline slowed down throughout the year to 7.1% in the last three months, below that recorded by the end of September (-7.4%). This improvement throughout the year and the various quarters confirms the reversal of the declining trend as of the 2nd quarter, in line with the improvement of the macroeconomic conditions in Portugal, an important driver of this activity.

The progressive decline of physical mail as a communication means due to the growing use of IT by individuals and companies is the main reason for this decrease, which has been mitigated through the intensification of the commercial activity, the pricing policy and further market segmentation.

The lower drop in mail volumes in the 4th quarter was mainly due to the performance of transactional mail, which reached year-end with a 6.6% decline vs. the previous year. For this negative scenario contributed the volume changes in ordinary mail (-7.8%), priority mail “*correio azul*” (-4.1%), and international outbound and inbound mail (-8.7% and -2.7%, respectively), which were not offset by the growth in registered mail volumes (4.5%) and “green” mail/*correio verde* (4.0%). Despite a better performance in the last quarter when compared to the first 9 months of the year, editorial mail recorded a -3.2% annual volume decrease.

Finally, advertising mail volumes decreased significantly in the addressed relational marketing segment. Advertising mail activity fell by 15% year on year as a consequence of the evolution of the advertising market in general and of the difficulties of business customers. These customers used more unaddressed advertising mail which led to 1.7% volume growth at lower prices.

In the 4th quarter of 2013, the Mail & Business solutions business unit revenues grew by 1.0% resulting primarily from the combined impact of the price increases of April and November (4.2% on average). Growth in other operating income stems from intragroup services that are cancelled in the accounting consolidation process.



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Mail & Business Solutions Business Unit Revenues, Costs and EBITDA

€ million

	January-September			4Q13			FY13		
	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12
Revenues	403.6	416.7	-3.2%	143.6	142.2	1.0%	547.2	559.0	-2.1%
Sales and services rendered	377.7	388.8	-2.9%	132.9	132.5	0.3%	510.6	521.4	-2.1%
Other operating income	12.8	13.0	-1.4%	5.5	4.8	16.1%	18.4	17.8	3.3%
Intragroup revenues	13.1	14.9	-11.9%	5.1	5.0	3.8%	18.2	19.8	-8.0%
Operating costs ⁽²⁾	342.5	363.7	-5.8%	117.8	118.8	-0.9%	460.3	482.5	-4.6%
External supplies and services	80.9	88.4	-8.4%	28.3	27.8	1.8%	109.2	116.2	-6.0%
Staff costs	178.7	185.6	-3.7%	60.9	58.6	4.0%	239.6	244.2	-1.9%
Other costs	15.3	15.1	1.6%	7.2	7.4	-3.4%	22.5	22.5	-0.1%
Intragroup costs	67.6	74.6	-9.4%	21.4	25.0	-14.5%	88.9	99.5	-10.6%
EBITDA ⁽¹⁾	61.0	53.1	15.0%	25.8	23.4	10.2%	86.9	76.5	13.6%
EBITDA MARGIN	15.1%	12.7%	2.4 p.p.	18.0%	16.5%	1.5 p.p.	15.9%	13.7%	2.2 p.p.

The 2.1% decline in revenues of this business unit does not directly mirror the fall in volume due to the adopted mail products and services pricing policy: CTT initiated a profound restructuring of pricing, of which is to be highlighted the introduction of the “zonal pricing” concept. The revision of prices in 2013 impacted all three segments of mail products and services:

- Price adjustment for the Universal Postal Service on 1 April and later on 1 November. Prices had been unchanged for 3 years and on 1 April they were updated to incorporate greater differentiation on rates for private and business customers, the introduction of specific prices for contractual customers for the majority of products and the introduction of zonal pricing in the business segment, which includes the major national bulk mailers, other companies and government bodies. On 1 November the rates for the 1st weight bracket of domestic ordinary mail were also updated. These two price adjustments correspond to an average price increase of 4.2%.
- Editorial Mail price adjustment as of 1 June due to a service redefinition, resulting in an average price increase of 4%.
- New Direct Mail prices (which updated the ones in force since 2009), starting on 1 July, corresponding to an overall price increase of 2.1%.

The above mentioned price and product changes led to the implementation of new mail features which updated the concept of standardised mail items by transferring to customers the benefits resulting from the technological evolution and the operational efficiency of the postal activity.

With regard to the provision of public services at the CTT Retail Network, the preparation of the pilot to implement “Citizen’s Bureau” areas in the retail network started during the 4th quarter. The implementation started this week and will occur in around 20 CTT post offices.

¹ See note 1 on page 1.

² See note 2 on page 1.



Express & Parcels

Volumes in the Express & Parcels business grew by 11.1% in 2013 and revenues by 1.2% to €129.5m, reversing the declining trend of previous years. The annual growth was mostly the result of the increase in revenues in the 4th quarter, when they grew by 3.7%. Recurring EBITDA margin also improved slightly compared to the first 9 months of 2013 but is still below that of 2012, due to the growth of the B2C segment, where prices are lower, and to the reorganization of the operation in Spain.

Express & Parcels Business Unit Revenues, Costs and EBITDA¹

€ million

	January-September			4Q13			FY13		
	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12
Revenues	95.1	94.8	0.3%	34.5	33.2	3.7%	129.5	128.0	1.2%
Sales and services rendered	93.9	93.9	0.0%	34.1	32.8	3.9%	128.0	126.7	1.0%
Other operating income	1.2	0.9	27.3%	0.4	0.4	-7.7%	1.6	1.3	15.9%
Intragroup revenues	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
Operating costs ⁽²⁾	88.9	88.7	0.2%	32.0	30.1	6.1%	120.9	118.9	1.7%
External supplies and services	70.0	69.4	0.8%	26.1	23.3	12.1%	96.1	92.7	3.7%
Staff costs	17.4	18.0	-3.6%	5.6	5.9	-5.8%	22.9	23.9	-4.1%
Other costs	1.5	1.3	16.7%	0.3	0.9	-70.6%	1.8	2.2	-18.4%
Intragoup costs	0.0	0.0	-	0.0	0.0	-	0.0	0.0	-
EBITDA ⁽¹⁾	6.2	6.1	2.1%	2.5	3.1	-19.9%	8.7	9.1	-5.3%
EBITDA MARGIN	6.5%	6.4%	0.1 p.p.	7.2%	9.3%	-2.1 p.p.	6.7%	7.1%	-0.5 p.p.

During this period a wide range of initiatives were carried out as part of the strategic redefinition included in the Transformation Programme. In commercial terms, mention should be made to: i) reorganisation of the activity (with increased integration with the remaining CTT businesses), ii) the acquisition of new franchisees at Tourline Express in delivery areas and the growth of Tourline's own network (increase of own controlled zones) with impact on the acquisition of direct customers and on increased control over the operations; and iii) the start of the implementation of convenience networks for the collection and delivery of parcels (Pick-up / Drop-off – PuDo) in the B2C market. In this area, and as regards the customer offering, important steps were taken in the design of competitive products suited to the evolving customer needs, with offers addressed to the various market segments, including better integration of the two Iberian operations in terms of product offer.

In 2013 CTT Express & Parcels recorded volumes of 12.1 million items in Portugal (+4.4% year-on-year) and increased leadership in the domestic market with a 28.6% market share in the 4th quarter 2013 (source: ANACOM). In Spain, annual volumes reached 13.1 million items representing a growth of 18.5% year on year. This represents a very positive evolution of the activity in these two markets in the last three months of 2013 and enabled the company to reach year-end with revenue growth above that obtained at the end of the 3rd quarter.

¹ See note 1 on page 1.

² See note 2 on page 1.



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In Portugal the average price per item decreased, due to the focus on the B2C market and the customers' increased concerns with cost-cutting. Customers opted for products with extended delivery times, such as EMS Bank. In Spain, where higher unit price products represent a smaller share of the global mix, the average price per item also experienced a smaller decrease and revenues grew despite the unfavourable macroeconomic environment. In Mozambique, the business stagnated in the last part of the year as an important customer decided to insource the transport and delivery of consumables and as a result of the country's political situation.

With regard to the activity in Spain, in 2013 the emphasis was on further consolidation of the network involving the expansion of own zones, a wider offer, a new item management and invoicing system and improved geographical coverage. Mention should also be made to the mobility plan involving the implementation of state-of-the-art PDA devices in the delivery process.

Concerning the implementation of the PuDo network for the Express & Parcels services through a partnership signed in the beginning of October with Worten, a major Portuguese retailer (also with significant presence in Spain), joint work proceeds to design the operating model that will lead to the opening of the first outlets of that network very soon. This PuDo network will allow CTT to provide, besides its widespread retail network present all over the country, a more convenient network with extended opening hours in shopping centres and local supermarkets. Thus, CTT will manage to have a comprehensive offer for final customers, with options of delivery at home, at the workplace, at a nearby CTT post office, or at any Worten shop after labour hours.

Financial Services

For the Financial Services, 2013 was the year when the product offer expansion and consolidation strategy was set in motion. It was also the year in which CTT improved its position as a relevant financial operator in the Portuguese market. Revenues of this business unit grew by 5.5% compared to 2012, to €60.9m. In the last quarter alone, revenues grew by 19.1% year-on-year, with a strong acceleration of the pace of growth, due to the renegotiation of partnership agreements, with full impact in this quarter, and to the strong growth of savings products sales.



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Financial Services Business Unit Revenues, Costs and EBITDA²

€ million

	January-September			4Q13			FY13		
	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12	2013	2012	Δ% 13/12
Revenues	44.1	43.6	1.1%	16.8	14.1	19.1%	60.9	57.7	5.5%
Sales and services rendered	41.8	41.3	1.1%	15.5	13.0	19.6%	57.3	54.3	5.5%
Other operating income	2.3	1.8	29.0%	1.2	0.9	22.3%	3.5	2.7	26.7%
Intragroup revenues	0.0	0.5	-97.6%	0.1	0.1	-48.8%	0.1	0.6	-86.5%
Operating costs ⁽²⁾	24.2	24.0	1.0%	9.2	8.4	10.5%	33.5	32.3	3.5%
External supplies and services	7.8	6.6	17.8%	2.9	2.5	13.1%	10.7	9.2	16.5%
Staff costs	2.3	2.4	-2.0%	0.9	0.8	4.2%	3.2	3.2	-0.4%
Other costs	0.3	0.3	-10.6%	0.1	0.1	18.3%	0.4	0.4	-2.4%
Intragoup costs	13.8	14.7	-5.8%	5.4	4.9	10.1%	19.2	19.5	-1.9%
EBITDA ⁽¹⁾	19.9	19.6	1.3%	7.5	5.7	31.7%	27.4	25.4	8.1%
EBITDA MARGIN	45.1%	45.0%	0.1 p.p.	44.9%	40.6%	4.3 p.p.	45.0%	44.0%	1.0 p.p.

Savings and Insurance products were mostly responsible for the overall positive result achieved, as a result of the extraordinary growth in capitalisation insurance (52% growth in the value of placements and 56% growth in revenues) and in Portuguese public savings and treasury certificates (340% growth in the value of placements and 199% growth in revenues), as well as in tax payment transactions which grew, for the first time since 2006, by 7.6%.

The savings products growth stems from:

- The stronger performance of savings products placement which reached €2.2 billion with special emphasis to the newly launched (on 31 October) Treasury Certificates *Poupança Mais*, which recorded subscriptions of around €600m in only two months;
- The strong growth of capitalisation insurance placement, of around 52%, that boosted CTT to a record high in this product category;
- The launch of a new PPR – Retirement Savings Scheme – the placement of which was 21% above that of 2012.

2013 was also marked by the renegotiation of strategic partnership agreements that increased partnership stability, aligned CTT fees to those of the market and promoted adequate sales incentives. Revised partnership agreements were concluded with Fidelidade (the leading insurance company in Portugal) to sell capitalisation insurance, as well as with IGCP to sell “Certificados de Aforro” (retail Portuguese sovereign debt), with Western Union for international money transfers and with Estradas de Portugal to support (and increase customer convenience in) toll payments.

Worth mentioning is also the continued strong position of CTT in the services payment market, with 72 million transactions involving over €6.4 billion in the CTT retail network. To be highlighted is also the reversal of the downward trend in terms of tax collection services, the revenues of which grew by 10.6%.

¹ See note 1 on page 1.

² See note 2 on page 1.



The PayShop network, the widest and most convenient network of personalised cash payments, maintained its profitability rate and revenue growth in 2013 as a result of a careful agent and customer management, and also due to the communication network upgrade, which will be completed in the 2nd semester of 2014, leading to a significant cost reduction.

2. ECONOMIC AND FINANCIAL ANALYSIS

REVENUES

The trends mentioned above drove total **revenues** to €704.8m, a year-on-year decrease of only 1.3% (€-9.4m). It should be noted that the last quarter performance was more positive than the one of the first nine months, with a slight year-on-year growth of 0.7% in Sales and Services Rendered. This trend reversal is consistent with the improvement of the overall economic conditions during that period, and results from the price increase in mail services, the increased revenue growth in Express & Parcels and Financial Services, and also from reviewed partnership agreements in the latter business unit.

Revenues			
€ million	2013	2012	Δ%
Total operating revenues	704.8	714.2	-1.3%
Business areas	737.6	744.6	-0.9%
Mail & Business Solutions	547.2	559.0	-2.1%
Express & Parcels	129.5	128.0	1.2%
Financial Services	60.9	57.7	5.5%
Central structure and Intragroup eliminations	-32.7	-30.4	-7.6%

In 2013, despite the 7.3% drop in addressed mail volume, which is an important driver of the Mail & Business Solutions business unit revenues, and the fact that business unit represented 74% of the total revenues, the consolidated revenues decreased only 1.3%.

The 2.1% drop in Mail & Business Solutions revenues, lower than the decrease in volumes due to the pricing policy adopted, was partially offset by revenue growth in Express & Parcels (1.2%) and Financial Services (5.5%).

The evolution of the values under the “Central structure and intragroup eliminations” heading result on one hand from the fall in costs of the central services (-9%) and the subsequent decrease of revenues originating in their internal allocation, and, on the other hand, from the change in the reporting methodology: a much greater share (90%) of internal direct invoicing of the Central Structure to the business units, either for internal provision of services or for services rendered to the subsidiaries, has improved the quality and adequacy of the allocation of such costs (based on services rendered). Therefore, the revenues and gains of the Central Structure grew by 46%, thus



substantially reducing (-70%) the part that is subsequently allocated to the business units according to the number of employees rather than according to the services actually rendered.

EVOLUTION OF OPERATING COSTS²

The evolution of the operating costs resulted mostly from the implementation of the 1st stage of the **Transformation Programme**, which was designed with two objectives: to optimise operations and to defend the current businesses, while maximising short-term growth opportunities.

The initiatives carried out for the **optimisation and rationalisation of the operations and the distribution** have clearly surpassed the initial objectives and led not only to cost reductions in operations but also increased productivity and efficiency levels and greater synergies with the networks of other business units.

With regard to the **optimisation of the retail network**, the actions undertaken involved the redefinition of the working models and the geographical coverage, safeguarding the Universal Service Obligation, but securing nonetheless the business competitiveness, quality of service and profitability in a fully liberalised market. Hence, it was sought to match the offer and the demand, aligning the type of access point with the market needs and the sustainability of the business, using productivity optimisation models, as well as right-sizing and segmenting the network.

On 31 December 2013, CTT had 2,443 sales points, of which 623 were CTT own and 1,820 were partnership branches (postal agencies). In 2013, the network was right-sized in line with the current demand levels, involving the closing of 125 own branches and transferring their duties to 89 new postal agencies created throughout the year and to other branches. At the end of the year CTT also had 285 postal delivery offices and operated 3,465 vehicles.

In terms of **optimisation and integration of the Express & Parcels businesses**, internal process optimisation and efficiency initiatives were carried out, particularly in the operations, IT systems and administrative-financial areas. Some initiatives involving (non-recurring) restructuring costs were also accelerated to optimise the Tourline Express network, increasing control over it, expanding the own controlled areas and terminating work contracts with some employees. The decision to accelerate this process had two goals:

- prepare for the growth in the B2C segment, associated with e-commerce
- benefit from a better performance of the Financial Services business unit which enabled the absorption of these costs.

As a result of the various measures implemented, consolidated operating costs (excluding impairments, provisions, depreciation and non-recurring costs) amounted to €581.9m, i.e. €21.3m (-3.5%) below those of 2012.

² See note 2 on page 1.



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Operating costs

€ million

	2013	2012	Δ%
Operating costs²	581.9	603.2	-3.5%
External supplies & services	237.3	246.4	-3.7%
Staff costs	317.5	326.7	-2.8%
Other operating costs	27.1	30.2	-10.3%

STAFF

Human resources management remained driven by the following priorities: i) maintaining a sound social climate; ii) continued investment in training and qualification; and iii) optimisation and adequacy of the staff to the need to meet the market evolution and challenges CTT is faced with.

The number of staff was reduced by not refilling jobs of early-retiring or retiring permanent employees (benefiting from the high number of natural attrition), diminishing the number of fixed-term contracts, and negotiating the departure of employees willing to leave the company. Additionally, employees with limitations were reassessed, to assign them to more adequate jobs within the CTT units. Mobility also became a focus, with the promotion as much as possible of insourcing.

As a result of the necessary policy to match human resources and market evolution, on 31 December 2013 CTT headcount (permanent staff and employees on fixed-term contracts) was 12,383 employees, 784 (-6.0%) less than at the end of 2012. This includes 6,844 mail operations staff (around 5,000 of whom are delivery postmen) and 2,698 in the retail network.

² See note 2 on page 1.



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Number of CTT Staff

	31.12.2013	31.12.2012	△ 2013/2012	
Mail & Business Solutions	10,013	10,668	-655	-6.1%
Mail & Business Solutions	7,315	7,744	-429	-5.5%
Retail network	2,698	2,924	-226	-7.7%
Express & Parcels	1,170	1,201	-31	-2.6%
Financial Services	103	114	-11	-9.6%
Other	1,097	1,184	-87	-7.3%
Total, of which:	12,383	13,167	-784	-6.0%
Permanent	11,730	12,308	-578	-4.7%
Fixed term contracts	653	859	-206	-24.0%
Total in Portugal	11,830	12,624	-794	-6.3%

Only 96 employees were hired (84 by Tourline Express in Spain, 8 by CORRE in Mozambique, 2 by EAD and 2 by CTT, S.A.), while 687 left. Of those, 522 were due to retirement and 154 to termination of the employment contract, of which 38 through termination agreements and 11 due to death. 201 suspension agreements were entered into with employees having already applied for retirement.

During 2013 CTT chose to insource Occupational Safety services and terminated the existing agreement with the external supplier, as well as to change the supplier of Occupational Health services; these two changes shall enter into force at the beginning of 2014 and will imply cost reductions.

After a long and demanding negotiation, an agreement was reached with all the unions that took part in the negotiations and a new Company Agreement (CA) was entered into in March 2013. The conclusion of a single CA is quite satisfactory as it simplifies the management, provides good social climate and fosters the stabilisation of the collective labour relations, all of which are fundamental elements for the new challenges arising in an environment of full market opening. It also allows for harmonised working conditions.

CTT privatisation process and its subsequent status of publicly-traded company, mainly owned by private shareholders, no longer demands that the legal requirements regarding remuneration reductions and other measures for State-owned companies apply to it. Hence, as of 5 December 2013 all State-imposed reductions to the employee remunerations ceased, and promotions and career progressions and seniority payments were resumed, as laid down in the CA.



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RECURRING EBITDA¹

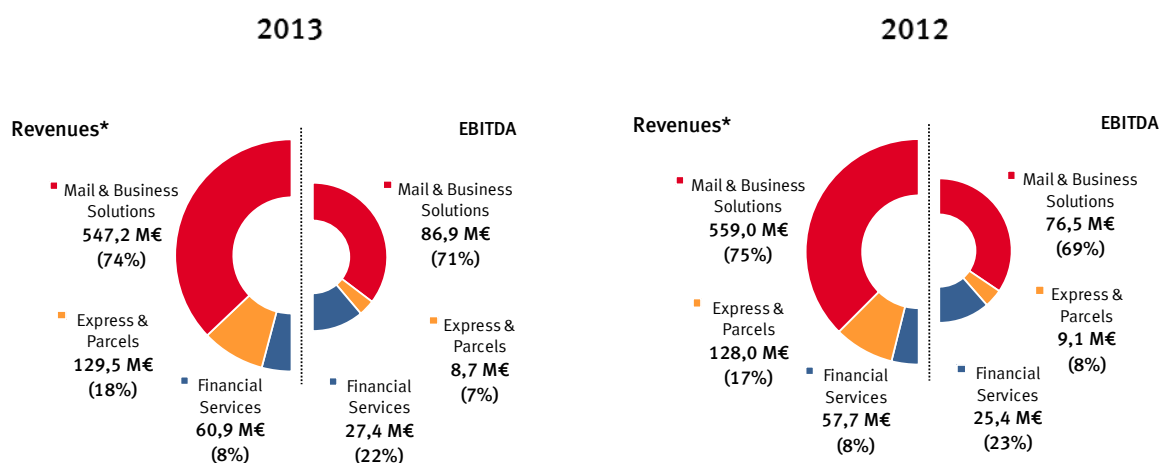
In 2013 the operating activity of the Group generated a €122.9m recurring **EBITDA**, 10.8% higher than in 2012, equivalent to a margin of 17.4%, +1.9 p.p. than in 2012.

This evolution in EBITDA occurred because the year-on-year decrease in revenues was substantially lower than the cost reductions achieved, even if it had to take into account the reintroduction of the Christmas salary bonus, which in 2012 was not paid to most employees pursuant to the State Budget law.

The pro-rata contribution of the last quarter for the recurring EBITDA of the year was 23% superior to the contribution of the 3 first quarters of 2013, due to the favourable performance of the different businesses and to the consolidation of the effects of the transformation programme, which impacted costs.

EBITDA, including non-recurring costs and income was €122.1m, which is 17.1% higher than that of 2012, resulting in a 17.3% EBITDA margin. In 2013 the management achieved non-recurring savings by reviewing some benefits granted by the company and adapting them to the market conditions. This offset a number of non-recurring costs, namely related with the privatisation process and with restructuring measures within the Transformation Programme, mainly within the Express & Parcels business unit and the retail network. With the privatisation process CTT incurred €4.4m non-recurring costs.

Revenues and recurring EBITDA¹ by Business Unit



*Includes internal provision of services and intragroup transactions which are eliminated in the consolidation process; excludes income related to CTT Central Structure and intragroup eliminations amounting to -€32.7m in 2013 and -€30.4m in 2012.

In terms of business units, the Mail and Business Solutions recurring EBITDA grew considerably given that the Transformation Programme envisaged cost and operational efficiency initiatives for

¹ See note 1 on page 1.



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this area, the results of which can be more rapidly achieved and are easily monitored. In Express & Parcels the same programme foresaw measures with impact focused on revenues, depending on market conditions and medium-term results. Financial Services' EBITDA improved in nominal terms and currently represents 22% of CTT EBITDA mainly due to the revenue performance of this business unit in the 4th quarter of the year.

Non-recurring Costs and Income

€ million

	FY 2013	FY 2012	Δ %
Non recurring costs	8.9	25.7	-65.5
. Affecting EBITDA and EBIT	0.8	6.7	-88.0
. Affecting only EBIT	8.1	19.1	-57.7

The company has benefited from some non-recurring gains resulting from the continuous optimisation of CTT liabilities financial management to accelerate ongoing transformation programmes which originate restructuring costs, thus impacting less CTT results.

Non-recurring net gains obtained in the 1st half of 2013 have helped to absorb the high non-recurring costs incurred in the 4th quarter, particularly with the privatisation process (€4.4 million).

RECURRING EBIT¹ AND NET PROFIT

Recurring EBIT increased by €13.4m (+16.2%) to €96.1 million. EBIT margin was 13.6%, 2.0 p.p. above that of last year.

Net income amounted to €61.0m, which represents a positive change of €25.3m (+70.7%) vis-à-vis the previous year. This corresponds to 8.7% net income margin. Tax on accounted profits came to €22.1m, corresponding to an effective tax rate of 26.6%.

To summarise, CTT – Correios de Portugal, S.A. consolidated results of the financial year of 2013 are as follows:



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Consolidated Results

€ million

	Reported			Recurring		
	FY 2013	FY 2012	Δ %	FY 2013	FY 2012	Δ %
Revenues	704.8	714.2	-1.3	704.8	714.2	-1.3
Sales and services rendered	690.1	699.3	-1.3	690.1	699.3	-1.3
Other operating income	14.8	14.9	-0.8	14.8	14.9	-0.8
Operating costs	582.7	609.9	-4.5	581.9	603.2	-3.5
EBITDA	122.1	104.3	17.1	122.9	111.0	10.8
Depreciation / amortisation, impairments and provisions	34.9	47.4	-26.3	26.8	28.3	-5.2
EBIT	87.2	57.0	53.1	96.1	82.7	16.2
Financial income, net	-4.0	-4.4	8.6	-4.0	-4.4	8.6
Gains / (losses) in associated companies	0.0	0.2	-91.5	0.0	0.2	-91.5
Earnings before taxes (EBT)	83.3	52.8	57.6	92.1	78.6	17.3
Income tax for the year	22.1	16.9	31.3	24.5	25.1	-2.3
Losses / (gains) attributable to non-controlling interests	0.1	0.2	-61.5	0.1	0.2	-61.5
Net profit attributable to equity holders	61.0	35.7	70.7	67.5	53.3	26.8

The consolidated net income for this period, despite being higher than that of 2012, incorporates the reintroduction of the costs regarding Christmas salary bonus. In 2012 most of the employees did not receive any of the bonuses: the costs regarding the holiday bonus to be paid in 2013 are included in the 2012 accounts, but not the costs related to the Christmas bonus. This difference would have led to added staff costs in 2012 amounting to circa €17 million, amplifying the reduction obtained in 2013.

In this framework, the ongoing Transformation Programme had a relevant impact on the CTT cost structure, especially in the Mail business unit, as it accounted for a high share of the €26 million reduction in staff costs, considering 14 months in 2012.

CONSOLIDATED FINANCIAL ANALYSIS

The comparison of the Balance Sheets on 31 December 2013 and 31 December 2012 shows a €37.0m increase in the **total assets** of CTT and its subsidiaries to €1,100.1m, as a result of:

- an increase in cash and equivalents (€55.6m; 11.4%); and
- a decrease of net tangible and intangible assets, and investment property of circa €14.6m as the investment effort remained below the amortisation for the period.



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Consolidated Balance Sheet and Key Figures

€ million	31.12.2013	31.12.2012	Δ% 13/12
Non-current Assets	391.7	405.4	-3.4
Current Assets	708.4	657.8	7.7
Assets	1,100.1	1,063.2	3.5
Equity	275.9	273.5	0.9
Total Liabilities	824.2	789.7	4.4
Non-current Liabilities	334.7	340.3	-1.6
Current Liabilities	489.5	449.4	8.9
Total Equity and Liabilities	1,100.1	1,063.2	3.5
Current ratio	144.7%	146.4%	-1.6 p.p.
Adjusted Equity to debt ratio ^(a)	53.5%	50.6%	2.9 p.p.
Net debt (Cash) (€ m)	-19.9	-13.5	47.1
Net debt (Cash) / EBITDA	-0.2 x	-0.1 x	-0.04 x
Coverage of tangible assets	247.1%	235.7%	11.5 p.p.

^(a) Equity/(total liabilities - net financial services payables)

With regard to **liabilities** of €824.2m (€34.5m more than in December 2012), it is important to highlight the increase in the accounts payable heading (€42.7m) which results mostly from the increase of around €52.4m of financial services creditors, due to the strong increase in activity mostly in savings products placement and tax payment.

Liabilities with employee benefits as at 31 December 2013 came to €298.5m, 1.6% less than in December 2012 and include the global liabilities of CTT with future expenses associated to post-retirement health benefits (€263.4m) and the long term liabilities with suspended employment contracts (€19.7m) and other employee benefits (€15.4m). The phone subscription fee benefit was rearranged in 2013 leading to a reduction in liabilities concerning this benefit amounting to around €8.2 million.

At the end of 2013, **equity** stood at €275.9m, increasing 0.9% (€2.5m), because the net profit of the full year 2013 surpassed the distribution of dividends relative to 2012.

3. QUALITY OF SERVICE

In 2013 CTT continued to have high quality of service levels, with the OSQI – Overall Service Quality Indicator – registering 227.7 points, compared to a target of 100 and 27.7 points below the figure achieved in 2012. Such figures were attained despite the negative impact of some labour strikes, particularly the national strike of 27 June.



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With regard to international mail, the quality targets set by the EU Directive for the postal sector were largely exceeded in the Portuguese case.

Results are shown in the table below:

Quality level	Minimum	Target	Score
Priority Mail			
% Delivered on the following day (Mainland)	93.50	94.50	94.90
% Delivered within two days (Azores and Madeira)	84.00	87.00	93.30
% Delivered within ten days	99.75	99.85	99.87
Ordinary Mail			
% Delivered within three days	95.50	96.30	97.60
% Delivered within fifteen days	99.77	99.86	99.85
Newspapers and Periodicals			
% Delivered within three days	95.50	96.30	97.50
International Mail			
% Delivered within three days	85.00	88.00	93.10 *
% Delivered within five days	95.00	97.00	98.90 *
Parcels			
% Delivered within three days	90.50	92.00	95.50
Waiting time at post offices			
% Customers assisted within 10 minutes	75.00	85.00	90.40

* Weighted average of 4th quarter 2012 and first three quarters 2013.

CTT continued in 2013 the effort to maintain integrated management systems that include environment and safety in addition to quality, and all existing ISO certifications were maintained, while some extensions were obtained for the safety certification in the Sorting Centre of the south of Portugal and for environment certification in PostContacto.

In 2013 service certification was obtained for all postal delivery offices. As at 31 December 2013 600 own branches and 285 postal delivery offices were certified.

The good operational performance levels achieved by CTT have resulted in a positive perception of service quality by customers. Customer surveys undertaken by the company show that almost 80% of the customers visiting CTT post offices have classified postal service quality as good or very good, thus strengthening the CTT brand image.

4. CASH FLOW AND DIVIDENDS

The General Meeting of 30 May 2013 approved the dividend distribution in the amount of €38,554,129 related to the financial year of 2012, equivalent to the total net profit for the year, which corresponded then to €2.20 per share. In addition, the shareholder approved the extraordinary dividend distribution in the amount of €11,445,871 (then €0.65 per share), of which



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€10,555,947 originated from distributable reserves and €889,924 from retained earnings. The payment to the shareholder was made in June 2013.

For the year ending 31 December 2013, the Board of Directors will propose a dividend distribution in the amount of €60 million (€0.40 per share), to be paid in 2014 subject to approval of the competent corporate bodies, taking into account that the proposal for dividend distribution depends on a proposal of the Board of Directors prepared on the basis of the accounts for the financial year, subject to approval at the Shareholders' General Meeting.

Considering the strong operating free cash flow generation in 2013, the dividend distribution proposal represents 54% of that cash flow (42% in 2012).

Operating free cash flow

€ million	2013	2012	Δ %
Cash flow from operating activities	109.4	130.6	-16.2%
Cash flow generated by operations	95.5	158.5	-39.8%
Payables / receivables from income taxes	-23.2	-26.9	13.6%
Other receivables / payables	37.2	-1.0	»
Cash flow from investment activities	1.0	-12.7	107.9%
Operating free cash flow	110.4	117.9	-6.3%

5. ONGOING REGULATORY INITIATIVES IN THE POSTAL SECTOR

Ongoing initiatives in terms of regulatory framework fall within the **new Postal Act (Law no.17/2012, of 26 April)**, which transposed into national law the **3th Postal Directive (Directive 2008/6/EC)**. The regulatory framework defined by this law, which marks the start of the full opening of the postal sector in Portugal, together with the guarantee of **free competition in the postal market**, also ensures the sustainable **continuity of a high quality universal service** and full national coverage, setting CTT - Correios de Portugal, S.A. (CTT) as incumbent till 2020.

Under the new Postal Act, the Government amended **the basis of the concession** and issued Decree-Law no. 160/2013, of 19 November, following which the fourth **amendment of the universal postal service concession agreement**, which had been entered into between the Portuguese State and CTT on 1 September 2000, was issued on 31 December 2013.

With regard to the **funding of the universal service** and considering that the provision of reserved postal services as funding source has been abolished, the new legal framework foresees that the provider of the universal service is entitled to compensation for the net cost of the universal service when it constitutes an unfair financial burden. Such compensation is to be made through a **compensation fund** funded by the providers of postal services. The functioning of the fund will be defined by law-decree.



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On 18 February 2014 the regulatory authority (ANACOM) announced the **methodology for the calculation of the net cost of universal service**, rendered by CTT as universal service provider, and for **the unfair financial burden concept** to compensate the net cost of universal postal service purposes, as well as the underlying terms to its determination.

Regarding the **contribution to the compensation fund** to finance the universal service, on 3 October 2013 the Government approved a draft law, which is pending Parliament's approval, that specifies that the contributions for such fund are to be made by those providers of postal service that render services that, from the view point of the user, are considered as interchangeable with those included in the universal service.

As far as **pricing** is concerned, the amended Postal Law, through Decree-Law no. 160/2013 of 19 November, included an amendment to the pricing system that provided for the introduction of the **special price scheme**, specifying the special conditions associated to the postal services included in the universal service offer applicable to bulk mailers (special prices), which are different from the condition applicable to the remaining services.

Following this, **ANACOM's draft decision** issued on 29 July 2013 with the aim of **defining the universal service pricing criteria** to be complied with by CTT as designated universal service operator, **will have to be revised**. Hence, the **price-setting rules of the Price Convention** signed between CTT and ANACOM on 10 July 2008 (with the amendments introduced on 9 July 2010) **are still in force**.

In terms of the **quality of the universal postal service**, the **price convention for the year 2013 maintained the high quality standards** required for the postal services in Portugal, which CTT has always exceeded.

6. CITIZEN'S BUREAUX AREAS

With regard to the provision of public services by the CTT retail network, it is to be highlighted the signature of a protocol with the Government for the creation of Citizen's Bureaux areas in the retail network, with a pilot at 20 CTT post offices, which will gradually be extended to all CTT counters. The Government intends to set up 1,000 Citizen's Bureaux areas all over the country, having CTT as main partner with its 623 own branches. Renewal of driving licenses, requesting Social Security declarations, land registry certificates, or exemption from Municipal Tax over Real Estate, delivering IRS declarations, or enrolling students in schools are some of the tasks that can be performed in these areas.

Joint work continues, the pilot-project being launched this current week. Worth mentioning is that the economic operating model as well as the operational issues and needed investment are still to be agreed by the parties.



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7. POSTAL BANK

Following an in-depth study and analysis with the support of strategic consultants on the opportunity and feasibility of the set-up of the postal bank, CTT submitted the necessary application to the Bank of Portugal on 5 August 2013. This project, which is consistent with the business structure of most European postal operators and stands as a longstanding ambition of the company, identifies and quantifies a market opportunity that will represent an option for CTT aiming at accelerating growth and widening the offer of Financial Services products.

On 27 November 2013 the Bank of Portugal decided to authorise the set-up of the Postal Bank as proposed by CTT. The company has 12 months to decide on whether to pursue of this project. This deadline may however be extended for another 12 months upon request. This option will be evaluated in 2014 in the framework of the initiatives foreseen for the expansion of Financial Services, given that there are products that can be offered by CTT without the need to create a bank, as is the case of consumer credit intermediation / credit card activities, which are scheduled to be launched in the summer of 2014.

8. PRIVATISATION

The Privatisation Process started as scheduled in the 2nd quarter with the choice of the financial and legal advisors of the Government / Parpública and of CTT. On 25 July 2013, the Council of Ministers approved the Decree-Law governing the privatisation of CTT, published as Decree-Law no. 129/2013 on 6 September 2013, which rules the sale of CTT shares through either a direct sale or an IPO.

The Council of Ministers, at its meeting of 10 October 2103, approved the conditions of the public offering and the specifications of the institutional direct sale, as well as the special conditions of acquisition that the employees of CTT and CTT group subsidiaries or affiliated companies benefited from.

Parpública was thus authorized to sell a number of shares of up to 70% of the company share capital through the following operations: an initial public offering (IPO) within the domestic market; and a direct sale of shares to a number of financial institutions for resale to institutional investors. A percentage of up to 5% of the IPO shares was reserved for purchase by CTT employees. The sale price within this lot of shares benefited from a 5% discount on the price set by the resolution of the Council of Ministers for the shares offered to the public in general.

The resolution of the Council of Ministers no. 72-B/2013, published on 18 November, set the number of shares to be allocated to each tranche, as well as the share price range between €4.10 and €5.52. On 19 November the prospectus of the operation was published at the CMVM website. The period to subscribe CTT shares began then for retail investors (general public and CTT employees) and also the bookbuilding period of the institutional direct sale which ran until 2 December 2013. The government set the share price at the maximum value of the range due to high investor demand (€5.52 for the general public and for the institutional direct sale and 5.24 for CTT employees). Application for admission to trading was submitted to Euronext Lisbon for 150,000,000



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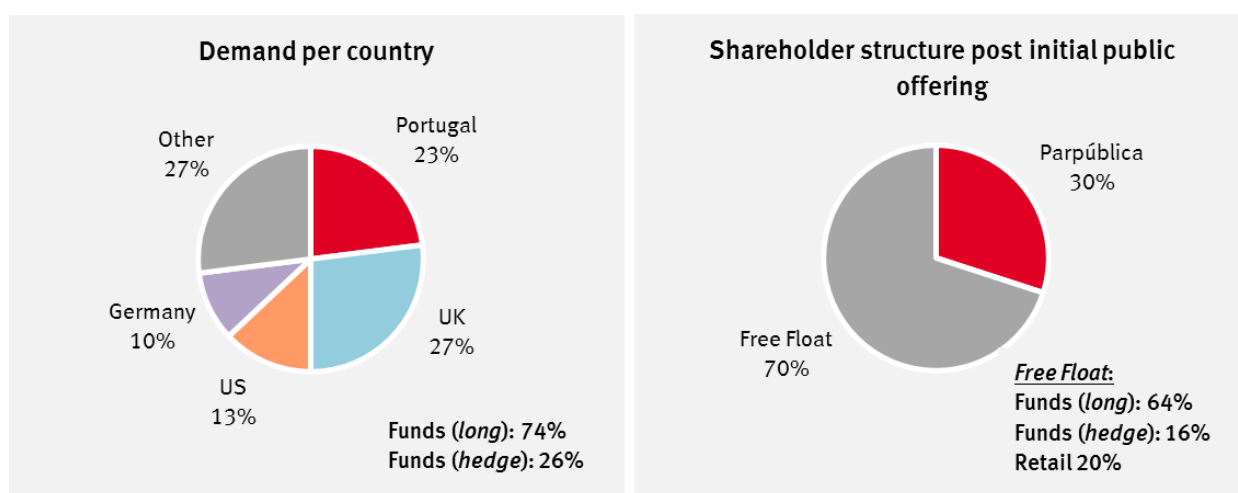
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ordinary shares, both nominative and in book-entry form, with a nominal value of €0.50 each, representing 100% of CTT share capital. Admission of the shares to trading occurred on 5 December 2013. It was already announced that the shares of CTT will become part of the PSI 20 index from the 24th of March onward.

After the Offering, CTT share capital holding was as follows: 30% of the State, through Parpública, 56% of institutional investors, 12.62% general public and 1.38% CTT employees. The shares purchased by CTT employees within the lot of the public offering reserved for them were subject to a “lock-up period” of 90 days, counting from the date the shares were registered in accounts.

The institutional direct sale had a diversified demand, both in geographical and in investor profile terms, as per the graphics below.



9. CORPORATE GOVERNANCE

The current corporate governance model of CTT includes the Shareholders’ General Meeting Board, the Board of Directors, the Audit Board and the Statutory Auditor.

To adapt the company’s governance model to the new shareholding structure after the privatisation and to the best practices applicable to listed companies, the Chairman of the Board of the Shareholders’ General Meeting of CTT called an Extraordinary General Meeting for 24 March 2014 where the proposal to amend the Company Articles of Association will be submitted to the shareholders’ approval. These proposals include the adoption of an Anglo-Saxon corporate governance model and the appointment of the future members for the corporate bodies.

The Anglo-Saxon corporate governance model, which had been approved by Parpública on 30 October 2013, at the time as sole shareholder of CTT, is based upon the existence of a Board of Directors with eleven members, of which five are executive and 6 non-executive, comprising an Audit Committee made up of three of the non-executive directors, and a Statutory Auditor to be elected by the General Meeting on proposal of the Audit Committee.



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The Audit Committee is responsible for, among other things, supervising company management and the independence of the Statutory Auditor, as well as the Company's internal control, audit and risk management systems.

Under the new model, the organisational structure of CTT will also include a Remuneration Committee voted by the Shareholders' General Meeting and responsible for setting the remunerations of the members of the corporate bodies.

In accordance with this new corporate governance system, once the new members of the Board of Directors are elected and the Audit Committee is formed, the Board of Directors shall have the necessary conditions to delegate on an Executive Committee the necessary powers for the day-to-day management of the Company, aiming at the progressive adoption of the recommendations and best governance practice applicable in terms of organisation and specialised committees.

10. FINAL NOTE

This press release is based on CTT – Correios de Portugal, S. A. financial statements for the financial year 2013 audited by an auditor registered with the Portuguese Securities Market Commission (CMVM).

Lisbon, 12 March 2014

The Board of Directors



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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.

Forward-looking statements are not guarantees of future performance, nor have they been reviewed by the auditors of CTT. You are cautioned not to place undue reliance on the forward-looking statements herein.

All forward-looking statements included herein speak only as at the date of this press release. Except as required by applicable law, CTT does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



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http://www.ctt.pt/fectt/wcmservlet/ctt/en/investidores/info/relacoes_investidores/press_releases.html

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