



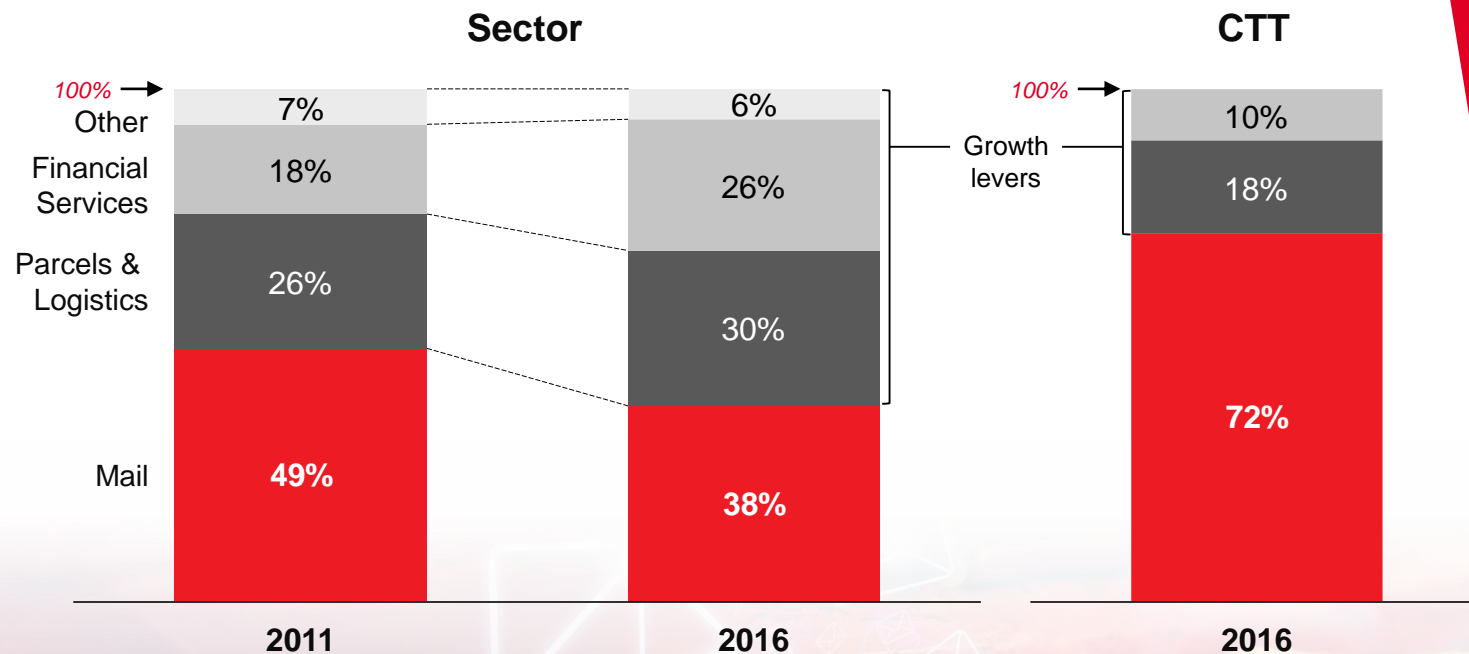
**LAUNCHING THE NEXT WAVE
OF GROWTH AND OPERATIONAL
EFFICIENCY AT CTT**

CTT - Correios de Portugal, S.A.
Operational Transformation Plan, approved by the
Board of Directors on 19 Dec. 2017

The postal sector is undergoing a process of fast diversification, with CTT still at the early stage of this transformation



Revenues per line of business



➤ Postal operators have been adapting their business model to offset the structural decline of the Mail business

➤ Parcels & Logistics and Financial Services have been a common diversification choice

➤ CTT is pursuing a similar diversification strategy but is lagging behind vs. sector due to (i) the still limited penetration of e-commerce parcels in Portugal, and (ii) Banco CTT having started operations only in 2016

Sector trends



Digitalisation

Paper-based communications declining



E-Commerce

Online shopping growing at a high pace



Efficiency

Continuous operational / cost optimisation and integration of operations



Diversification

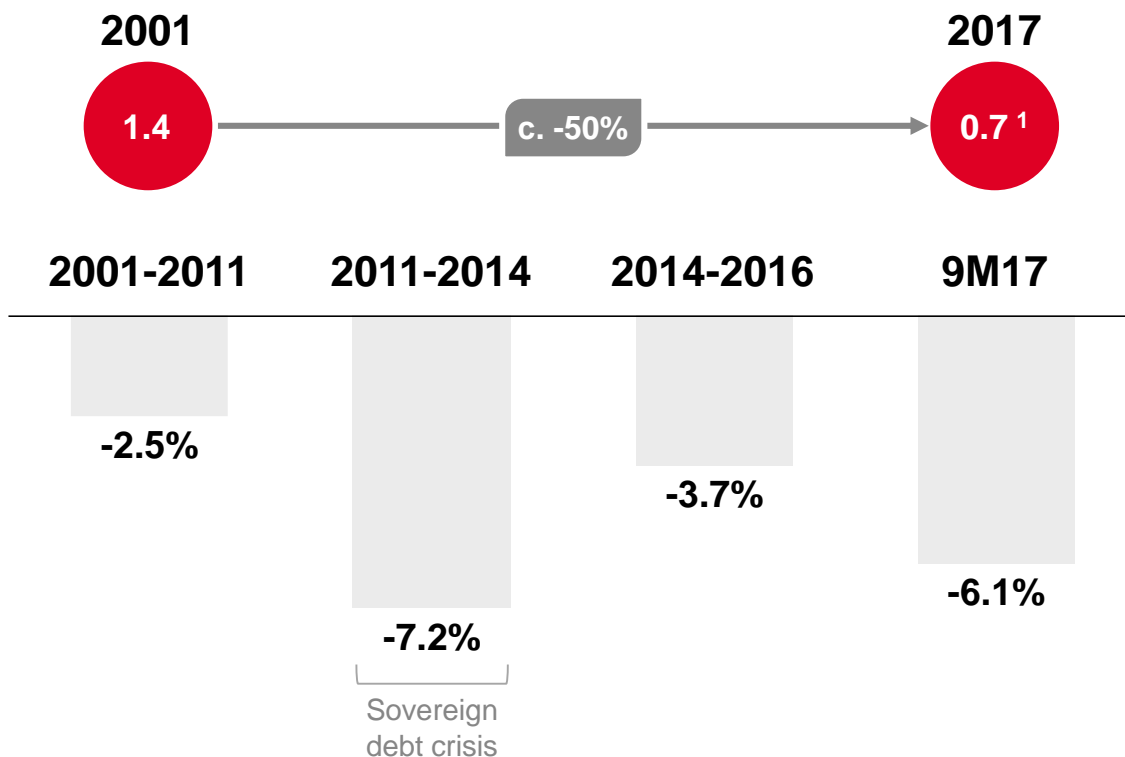
New services based on established networks (e.g. banking)

The continued electronic substitution is impacting revenues as CTT is still very dependent on mail



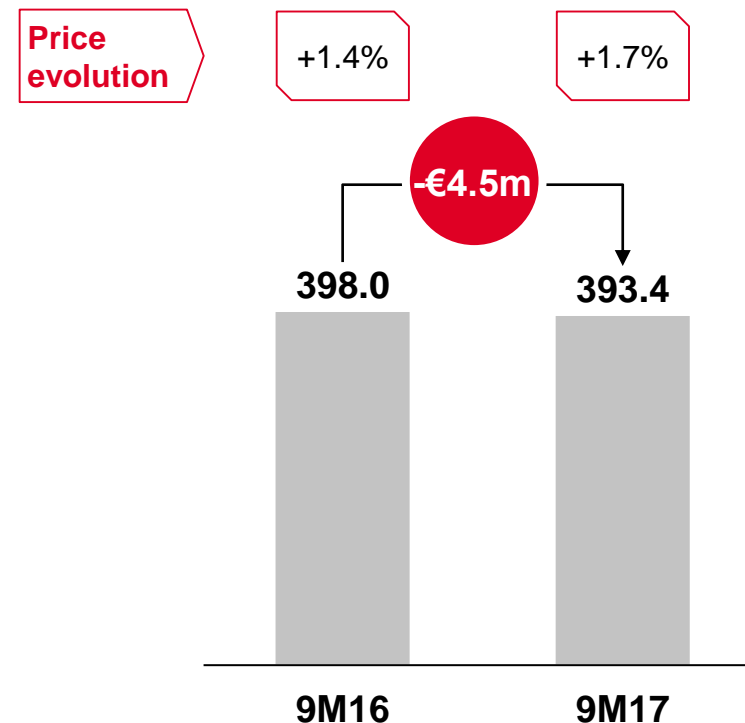
CTT addressed mail volumes

Billion items; CAGR (%)



CTT Mail revenues

€ million; change vs. prior year



- **The decline of addressed mail volumes accelerated** in recent quarters, putting pressure on revenues, only partially offset by mix and price effect

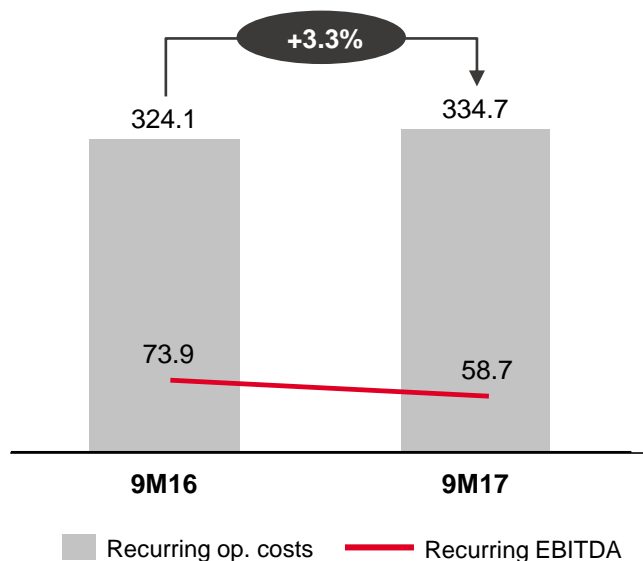
¹ Last 12 months, ending September 2017.

The Mail operating costs have been under pressure given CTT's commitment to the USO and the support to the growth businesses



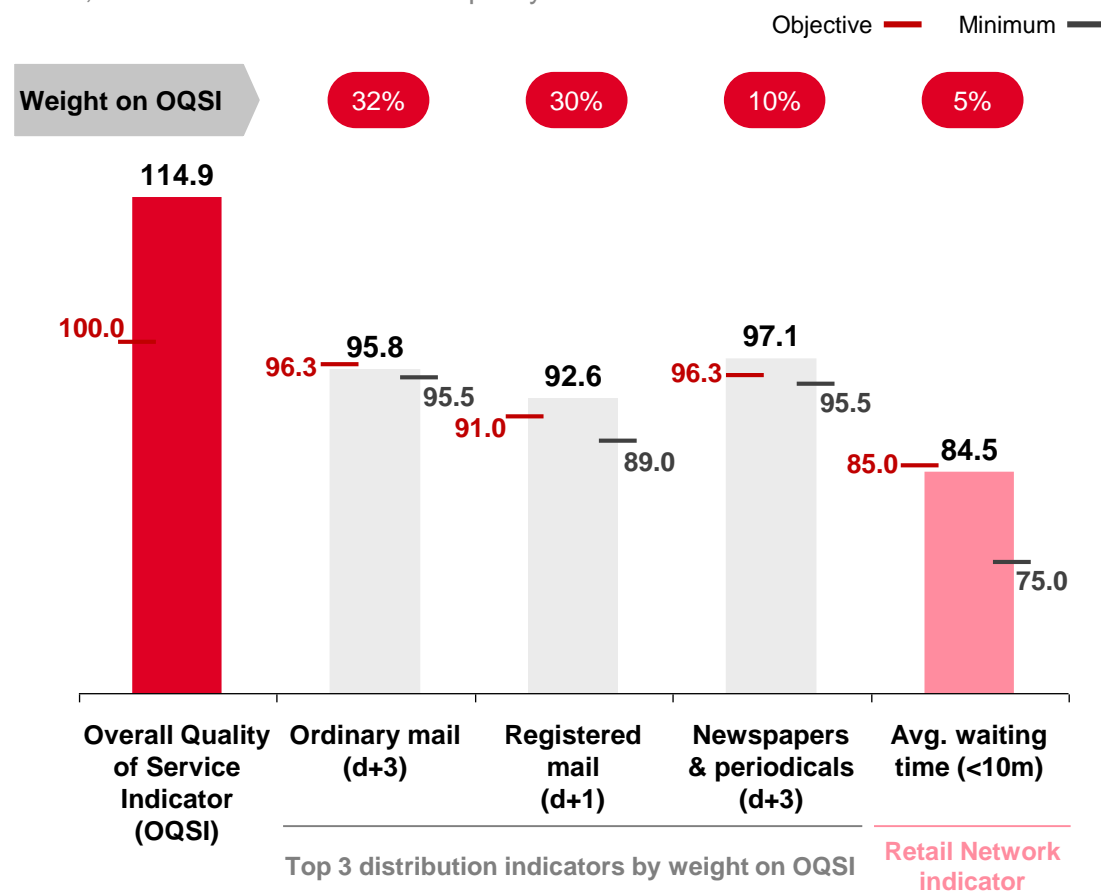
CTT Mail recurring operating costs and EBITDA

€ million; % change vs. prior year



Universal postal service quality indicators

9M17; OQSI & selected individual quality indicators ¹



Mail operating costs have been under pressure:

- Compliance with OQSI and 9 out of 11 quality indicators as at 30 September 2017, despite significant volumes decline in 9M17
- Growth businesses (E&P and Banco CTT) operating in the CTT Retail and Distribution networks

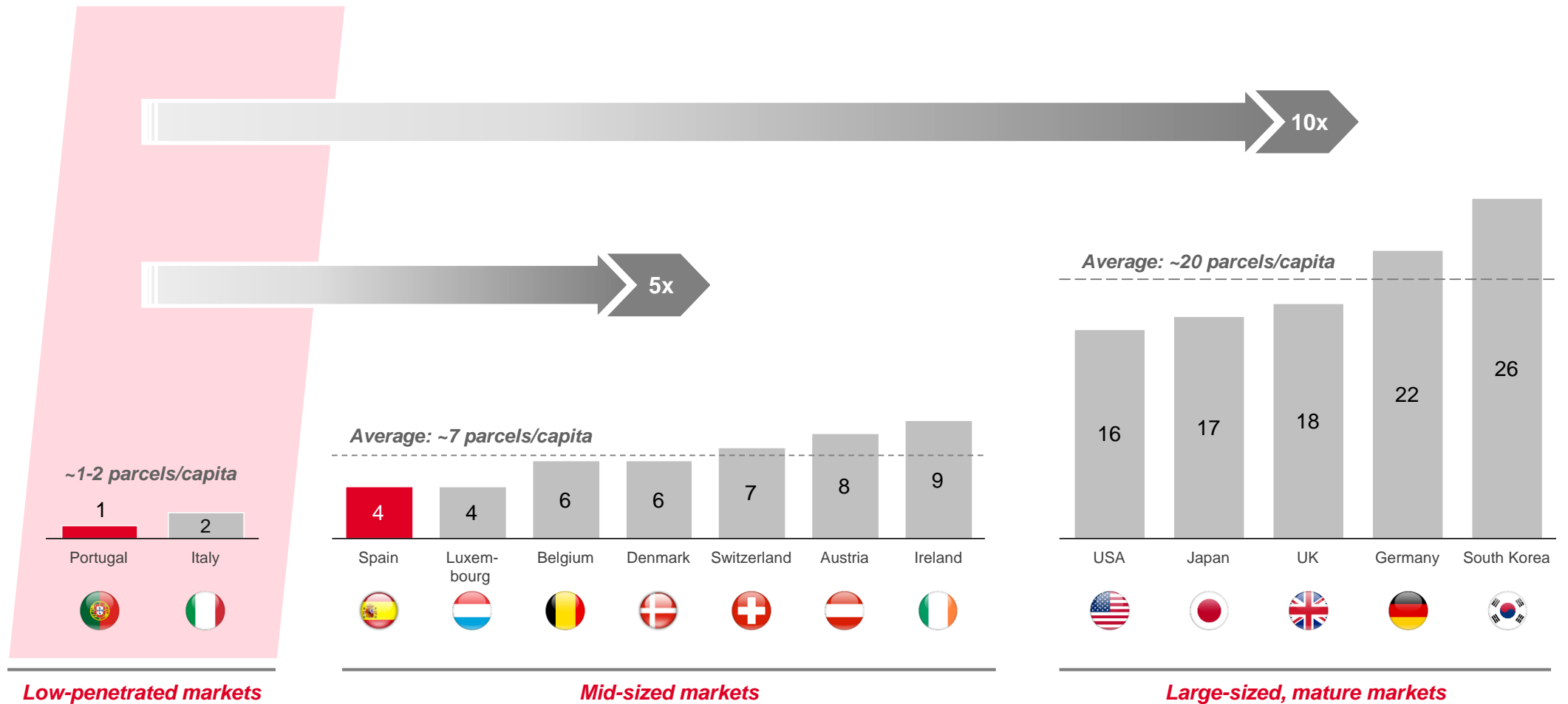
¹ Indicators computed by an external provider (PWC). OQSI and individual quality indicators are provisional and subject to change. Final numbers calculated only at year end.

Significant upside potential exists in the e-commerce market, which remains underpenetrated in Portugal and Spain



E-commerce parcel penetration

Parcels per capita, per year ¹



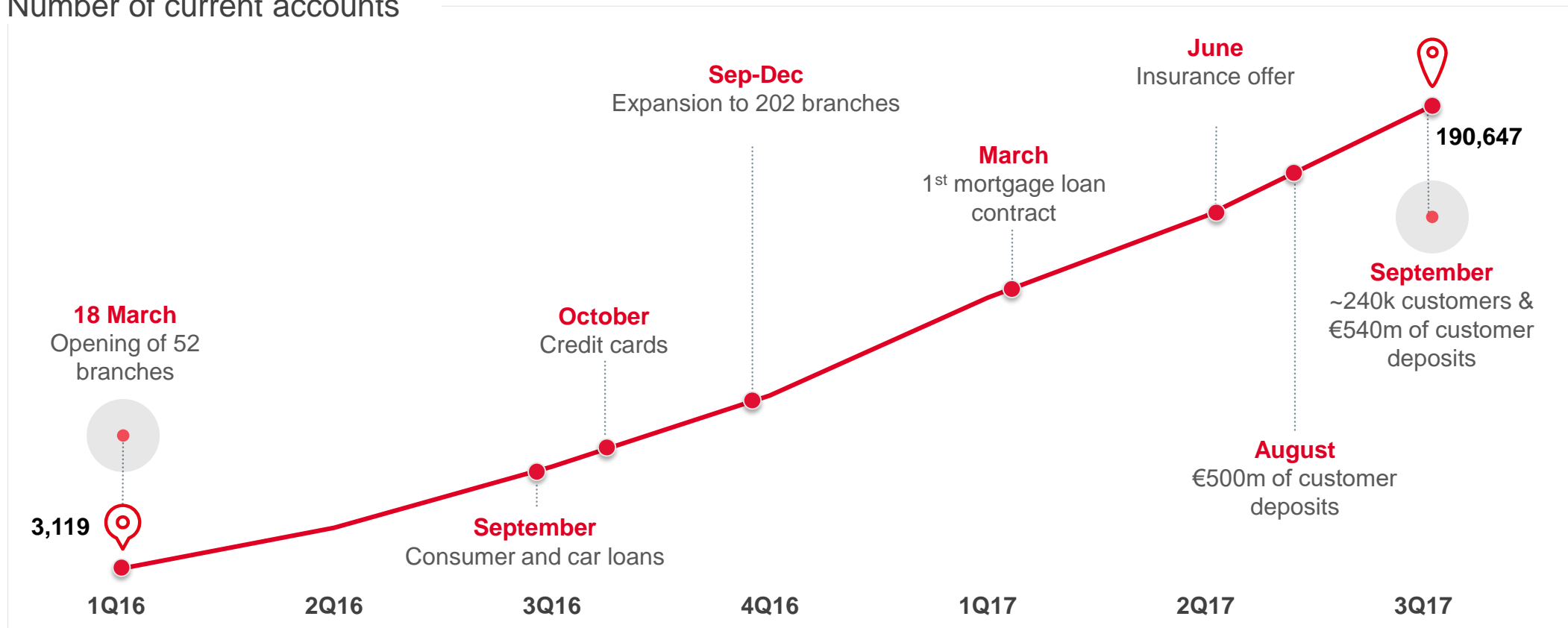
¹ E-commerce relevant is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country.

Banco CTT: a fast growing “start-up”, very well received by the population



banco**ctt**

Number of current accounts



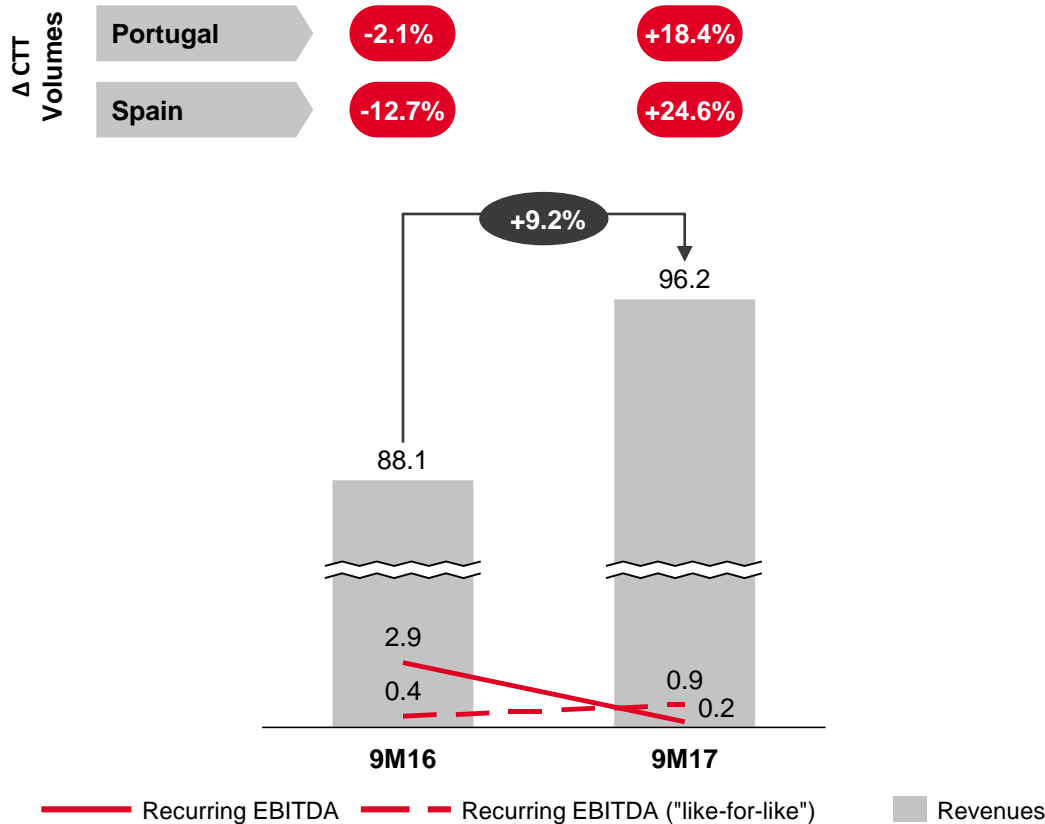
Branches	66	106	202	203	203	203
Deposits (€m)	56	182	254	331	424	540

CTT's parcels and banking businesses are growing, but their contribution to profitability still requires time



CTT Express & Parcels recent performance ¹

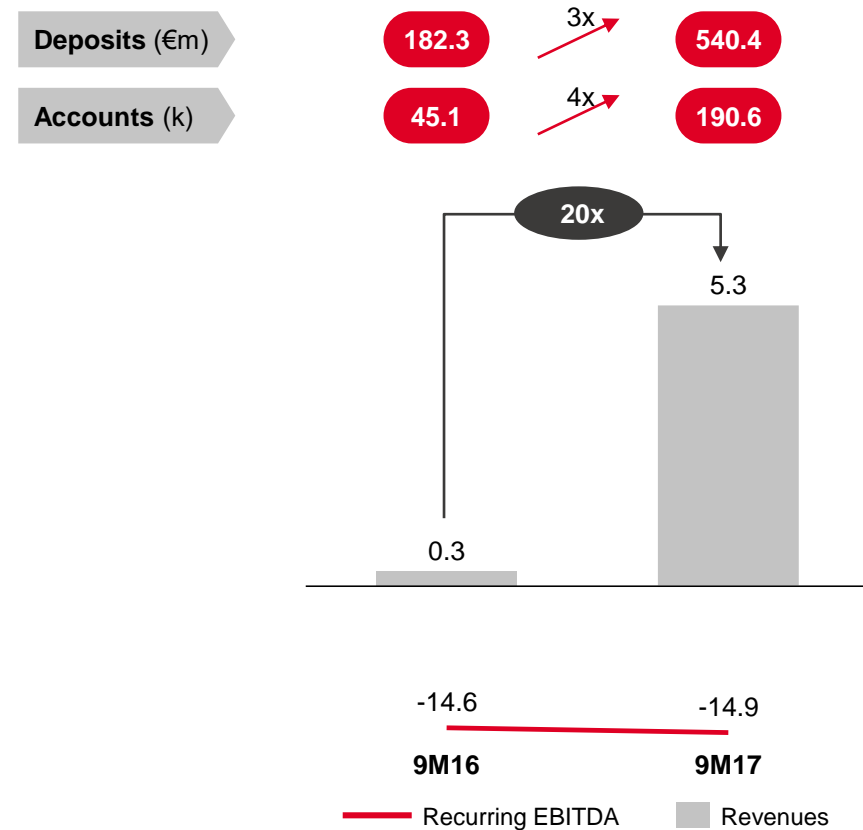
€ million; % change vs. prior year



- Market leader in Express & Parcels in Portugal
- Upgraded product offer & e-commerce solutions
- Tourline committed to achieve breakeven in 4Q17

Banco CTT recent performance

€ million



- Very strong customers / deposits acquisition
- Mortgage product launched in 2017 and growing consistently (from a small base)

¹ Recurring EBITDA ("like-for-like") excludes the impacts on Recurring EBITDA of the Altice contract in 9M16 (+€2.5m) and the Transporta acquisition in 9M17 (-€0.7m)

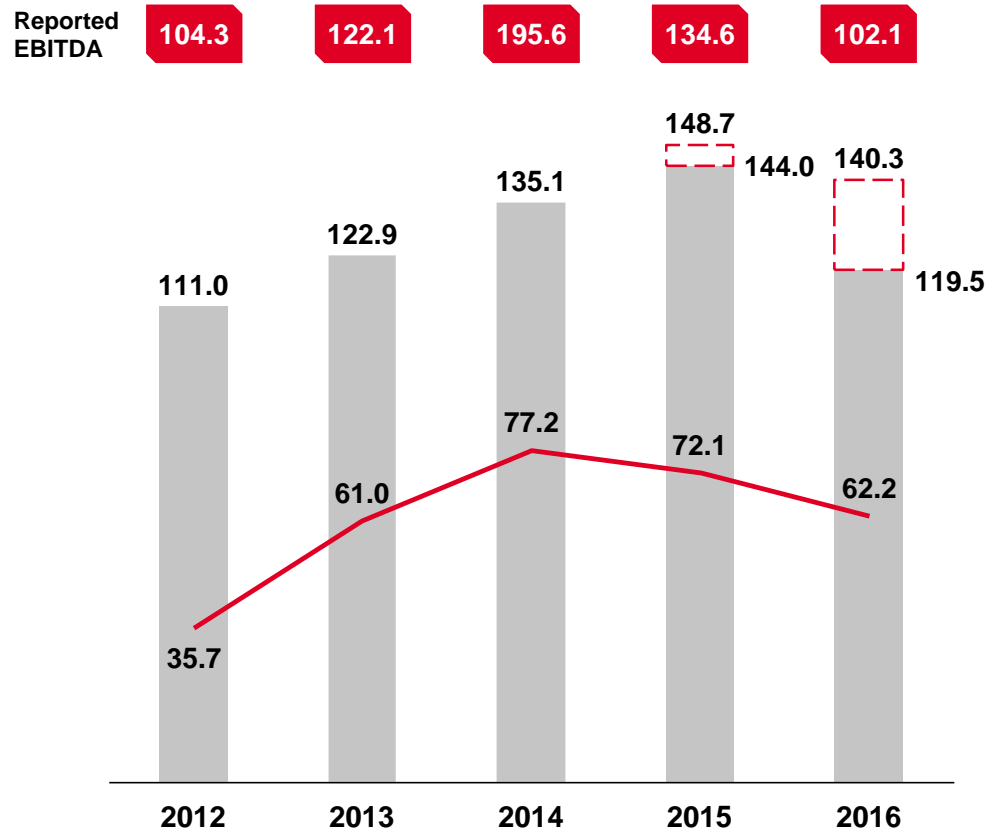
Overall, results have been under pressure since mid-2016, making a sizeable operational transformation plan a necessity



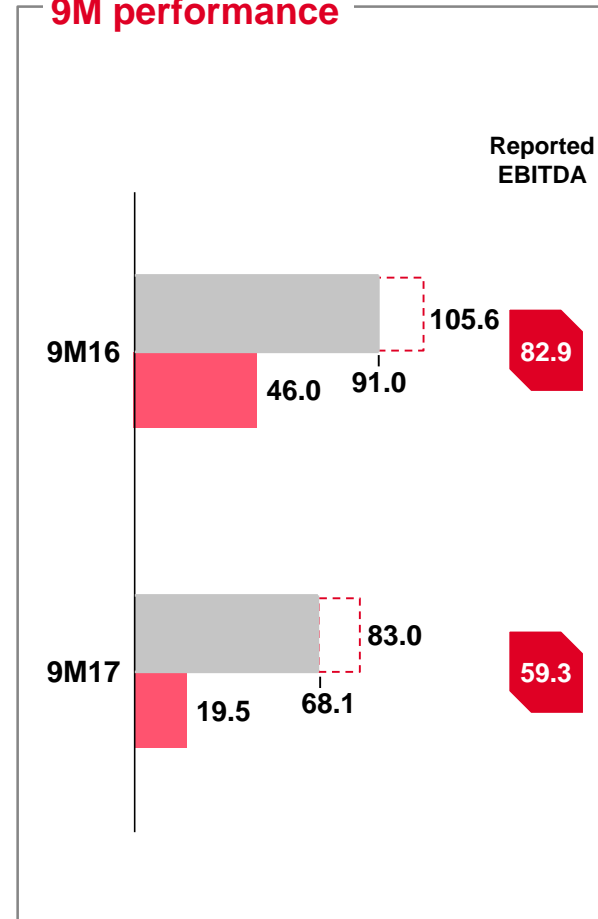
Recurring EBITDA & Net Profit

€ million

Yearly results



9M performance



- Results have been under pressure in 2016 & 2017 due to worse than expected mail volumes decline and increase in operating costs
- The contribution to profitability of E&P is still very limited and Banco CTT continues on its path towards breakeven



Therefore, **CTT will implement a sizeable operational transformation plan** focused on the postal business to improve profitability, reinforce quality of service and sustain the mid-term transformation of the Company

 Recurring EBITDA (excl. Banco CTT business unit)
 Recurring EBITDA
 Net Profit

Ambitious operational transformation plan to improve profitability levels, complying with all regulatory obligations



1



Adjust HR policies and deepen the ES&S cost reduction efforts

- Adjust remuneration & incentive schemes
- Further reduce costs not related to the growth businesses
- Adopt stricter expenses policies and control processes

2



Reinforce HR optimisation programme and rationalise non-core assets

- Further elimination of redundancies
- Rationalise non-core assets (real estate)

3



Optimise the Retail Network maintaining proximity to the citizens

- Optimise the Retail Network footprint by converting into postal agencies or closing post offices with low customer demand
- Further develop the 3rd party managed postal agencies model

4



Reengineer the Distribution Network to improve operational efficiency

- Redesign the Distribution Network footprint to adjust to new volumes and items mix
- Streamline the transportation and fleet network
- Improve productivity of sorting and sequencing
- Reduce absenteeism and improve workforce flexibility

EXECUTION MODEL AND GOVERNANCE

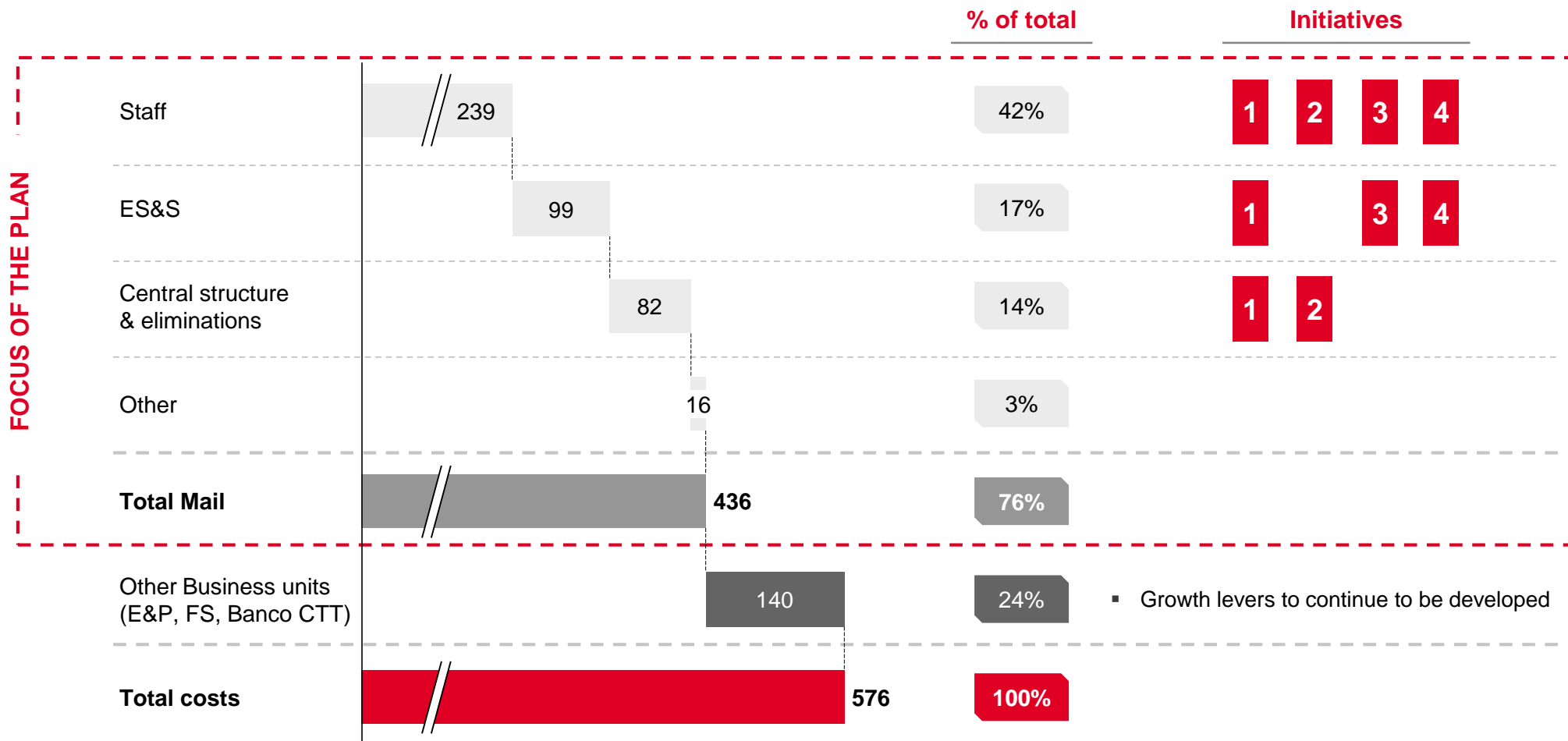
- **Reinforcement of the Executive Committee** to provide increased focus on the execution of the plan
- Ongoing engagement of the Executive Committee and **follow-up at Board level – Implementation Monitoring Committee** – lead by the Chairman and comprising of Non-Executive Board Members (incl. the Member of the Board representing shareholders)

The operational transformation plan addresses a large part of the CTT cost base, across all cost categories



FY16 recurring operating costs

€ million



1 Adjust HR policies and deepen the ES&S cost reduction efforts



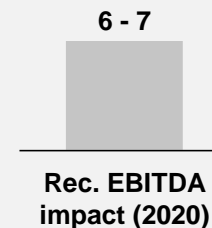
Board of Directors and staff compensation

- 25% reduction of fixed compensation for the Chairman and the CEO and 15% reduction for the remaining Executive and Non-Executive Board Members in 2018 (vs. current levels)
- No variable compensation for the Executive Committee relative to 2018 (neither in 2017)
- Limitation of non-mandatory salary increases for staff in 2018
- Strong reduction of staff variable compensation relative to 2017

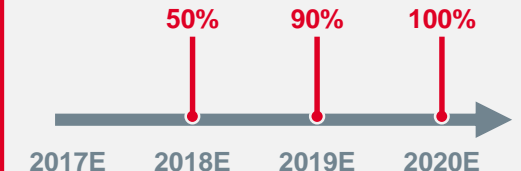
ES&S (External Supplies & Services) costs

- Reduction of costs not related to the growth businesses, such as IT, leases, utilities, communications and fleet costs
- Supported by contract renegotiations and rationalisation of usage of services / premises

Annual savings objective (€ million; 2020)



Savings realised (%)

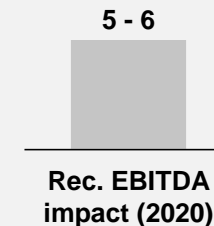




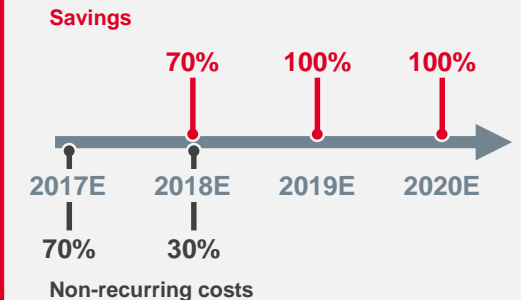
Reinforce HR optimisation programme

- Further elimination of redundancies
- Target reduction of ~200 permanent FTEs (~140 FTEs already accepted in the last weeks)
- Estimated costs of €14m (one-time)

Annual savings objective (€ million; 2020)



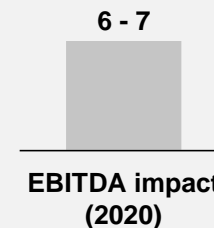
Costs / savings realised (%)



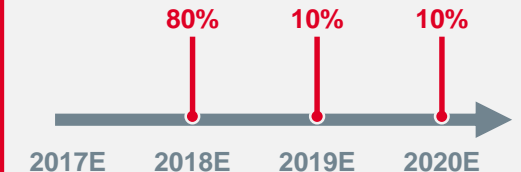
Rationalise non-core assets (real estate)

- Sale of non-core assets, saving associated costs (~30 properties)
- Estimated proceeds (cash inflow) of €12m to €13m
- Current book value of €6m

Total gains objective (€ million; before tax; 2020)



Gains realised (%)

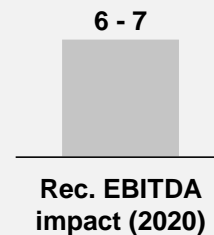




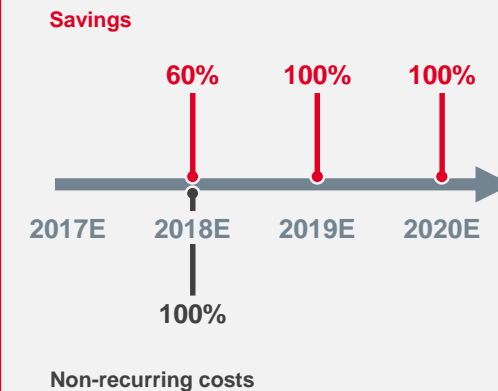
Optimise Retail Network

- Optimise the Retail Network footprint by converting into postal agencies or closing post offices with low customer demand
- Estimated costs of €15m (one time)
- Number of access points to remain stable, ensuring proximity to the citizens, quality of service and meeting regulatory requirements

Annual savings objective (€ million; 2020)



Costs / savings realised (%)





4.1. Redesign Distribution Network

- Redesign the Distribution Network architecture and footprint
- Adjust fleet size and type and concentrate PDOs ¹

Annual savings objective
(€ million; 2020)

10 - 12

Rec. EBITDA
impact (2020)

4.2. Operations & mail processing optimisation

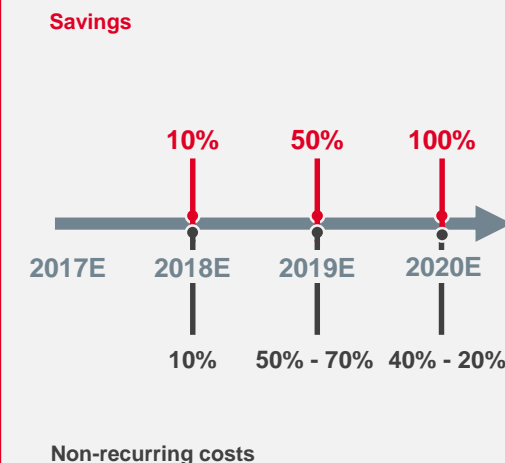
- Increase efficiency of sorting and sequencing processes through automation
- Increase productivity through reduction in absenteeism

Annual savings objective
(€ million; 2020)

11 - 13

Rec. EBITDA
impact (2020)

Costs / savings realised (%)



Impact on FTEs & capex / associated costs

- Initiatives imply potential **reduction of ~800 FTEs in Operations over 3 years, driven by mail volumes decline**, out of a total ~6,700 ², of which ~6,200 FTEs permanent and ~500 FTEs fixed-term contracts
- Total estimated **one-time (non-recurring) costs of €25m** and **incremental capex investment of €25m** (the latter front-loaded in 2018/2019 to capture benefits in 2020)
- Contributions from initiatives 4.1. and 4.2. may vary, according to the execution, **subject to the total objective reaching €21m to €25m annual savings in 2020**
- Path of growth in parcels and logistics, essentially driven by e-commerce, will **determine the offset of part of the FTE reduction in Mail**

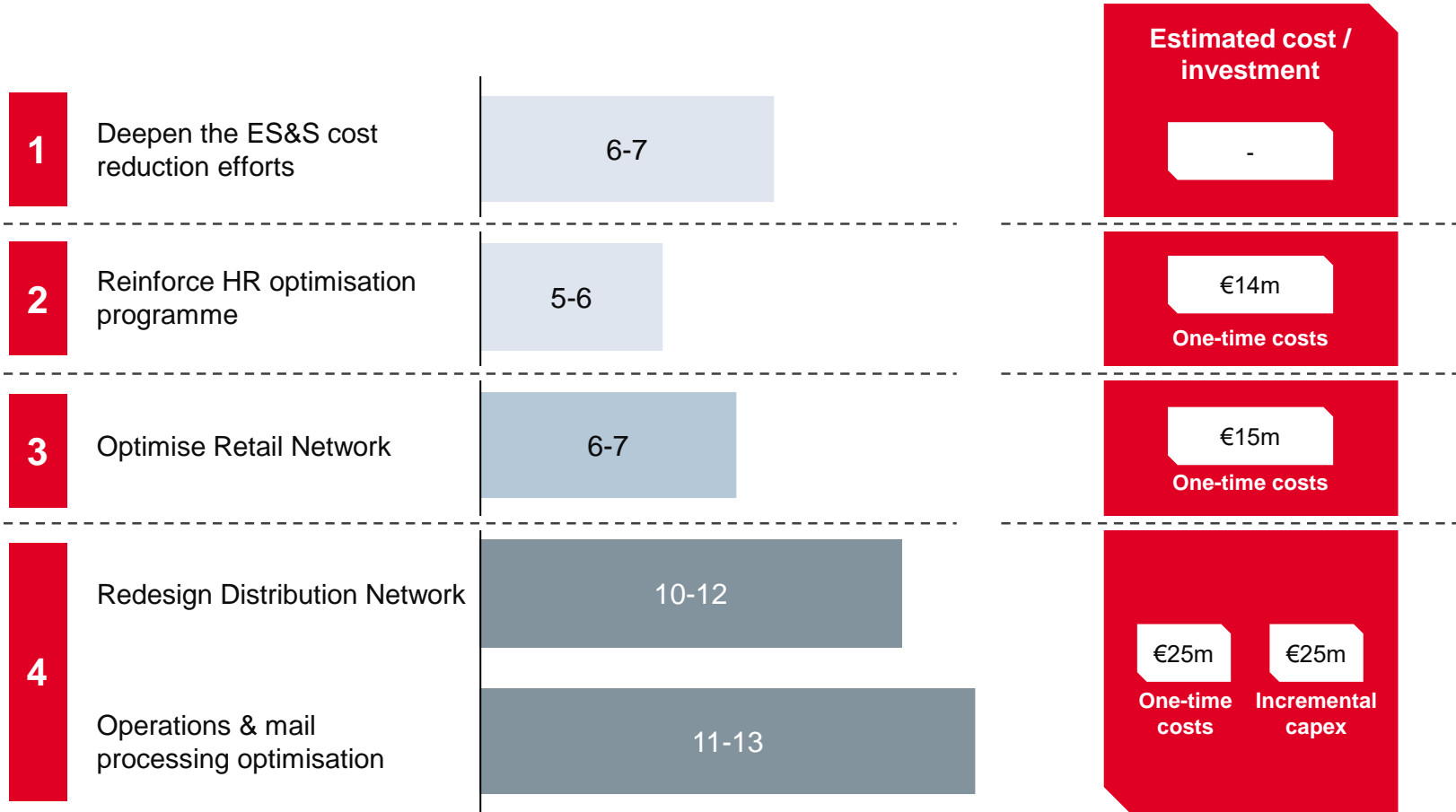
¹ PDOs – Postal Delivery Offices; ² As of September 2017, permanent employees were ~6,200 and fixed-term contracts of ~950. However, September fixed-term contracts number was impacted by seasonality effect – at year end the number is expected to be ~500 FTEs.

The operational transformation plan is expected to have strong contribution to the recurring EBITDA, counteracting the impact of the mail volumes decline



2020 Recurring EBITDA impact

€ million



➤ The operational transformation plan is expected to have **up to €45m positive contribution to recurring EBITDA from 2020 onwards** and **help counteract the continued structural decline of the Mail business**

Up to €45m recurring EBITDA impact

- One-time costs of c.€55m
- Incremental capex of c.€25m

Increased urgency to restructure the postal business to add resilience to the strategic mid-term transformation of the Company



Restructure the postal business

- Adjust fixed-cost structure to mid-term needs
- Maintain high operational standards



Adjust HR policies and deepen the ES&S cost reduction efforts



Reinforce HR optimisation programme and rationalise non-core assets



Optimise the Retail Network maintaining proximity to the citizens



Reengineer the Distribution Network to improve operational efficiency

Transform and grow non-postal businesses

- Modernise the business model
- Leverage on existing platforms
- Continue to invest in current capabilities



Stimulate sales and increase profitability



Continue Banco CTT's path towards breakeven



Grow above market in parcels and value-added services (mail & parcels)



Upgrade technology and data management platform (analytics, digitalisation)

The operational transformation plan will prepare the next wave of growth and operational efficiency at CTT, but will impact dividend policy in the short term



- The Board of Directors reaffirms its commitment to propose a FY17 dividend of €0.38 per share, payable in 2018
- During the investment period of the operational transformation plan (2018-2019), the Board of Directors intends to propose that **the Company implements a policy of aligning dividend payments with Net Income**, also supplemented by the utilisation of distributable reserves
- **The planned measures** are expected to **generate a positive impact on recurring EBITDA starting from next year**, counteracting the mail volumes decline (despite one-time associated costs)
- **The focus on diversification is preserved** – the Company **continues to develop its Express & Parcels and Banking businesses**, the growth levers for the future

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