

Consolidated Results

2015



ctt



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

FULL YEAR 2015 CONSOLIDATED RESULTS

**STRONG 10.3% GROWTH IN THE EBITDA OF THE LIKE-FOR-LIKE BUSINESSES SUPPORTS
€23.2m INVESTMENT AND COSTS IN THE PREPARATION OF THE LAUNCH OF BANCO CTT
WITHOUT DETERIORATING THE STRONG €279m CASH POSITION OF CTT**

- Growth in recurring EBITDA¹ to €144.0m (+6.6%) – with Mail contributing 69%², Financial Services 28%² and Express & Parcels 3%². Excluding the recurring costs related to Banco CTT, EBITDA grew by 10.3% on a like-for-like basis.
- Decline of addressed mail volumes stood at 3.2%, an improvement vis-à-vis the year 2014 (5.7% decrease when compared to 2013).
- Recurring revenues grow to €727.2m (+1.3%):
 - Mail revenues grow by 1.5%, due to the slowdown in the rate of volumes decline and to the 4.1% increase of the average price;
 - Express & Parcels revenues grow by 1.7% and volumes by 3.2%, impacted by the emphasis on the network integration in Portugal and the ongoing restructuring process in Spain;
 - Financial Services strengthen their offer and market position and obtain a 1.9% growth in recurring revenues, consolidating as a fundamental overall growth lever for CTT and paving the way for Banco CTT.
- Operating costs³ stabilise, totalling €583.2m, mainly as a result of the reintroduction of recurring variable remuneration and salary increases being offset by cost reductions obtained from the new healthcare plan, the IT outsourcing, and the rationalisation of operations and of the Retail Network. Excluding €5.0m recurring costs incurred with Banco CTT, a slight reduction was obtained.
- Reported net profit of €72.1m influenced by non-recurring costs of €9.8m, of which €6.4m related to Banco CTT, posted a 6.6% decrease vs. 2014 when a number of non-recurring measures contributed to a strong growth of the net profit. Recurring net profit increases by 12.5% (+€9.0m).
- Progress of reorganisation initiatives in Express & Parcels in Portugal with the conclusion of the network integration (over 70% of the parcels are currently delivered through the basic distribution network), and in Spain with staff reduction through ERE (*Expediente de Regulación de Empleo*).
- Banco CTT launched on 27 November as scheduled, through a soft opening process in a controlled environment and for CTT employees. On this coming 18 March it will open to the public on 52 branches.
- Positive evolution of the Human Resources policies, with initiatives of rejuvenation and further qualification of the staff based on a trainee recruitment and integration programme underway.
- Quality and customer satisfaction remain at high levels.
- Strong levels of financial standing and good liquidity with an adjusted cash position at the end of 2015 amounting to €279m, equal to the 2014 closing position, despite the high 94.8% growth of investment in 2015 to €32.3m and the recurring and non-recurring costs with the implementation of Banco CTT (€11.5m).

¹ Before non-recurring revenues and costs.

² The weight of the businesses is calculated excluding -€4.7m related to Banco CTT's EBITDA.

³ Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.



SUMMARY OF CONSOLIDATED RESULTS

The summarised consolidated results of CTT – Correios de Portugal, S.A. are as follows:

Consolidated Results

€ Million

	Reported			Recurring		
	2015	2014	Δ	2015	2014	Δ
Revenues	727.2	718.8	1.2%	727.2	717.8	1.3%
Sales and services rendered	705.2	703.3	0.3%	705.2	703.3	0.3%
Other operating income	22.0	15.5	42.1%	22.0	14.5	51.9%
Operating costs	592.6	523.1	13.3%	583.2	582.7	0.1%
EBITDA	134.6	195.6	-31.2%	144.0	135.1	6.6%
Depreciation / amortisation, impairments and provisions	24.6	60.2	-59.1%	24.2	23.6	2.7%
EBIT	109.9	135.4	-18.8%	119.8	111.5	7.4%
Financial income, net	-5.4	-7.5	28.1%	-5.4	-7.5	28.1%
Gains / (losses) in associated companies	0.1	0.1	13%	0.1	0.1	13%
Earnings before taxes (EBT)	104.6	128.0	-18.3%	114.4	104.1	9.9%
Income tax for the period (*)	32.5	51.2	-36.4%	32.9	31.9	3.0%
Losses / (gains) attributable to non-controlling interests	0.01	-0.3	1015%	0.01	-0.3	1015%
Net profit attributable to equity holders	72.1	77.2	-6.6%	81.6	72.5	12.5%

(*) Recurring net profit excludes non-recurring revenues and costs and considers a nominal tax rate.

REVENUES

Recurring revenues amounted to €727.2m, a year-on-year increase of 1.3% (+€9.4m)

Revenues

€ Million

	Reported			Recurring		
	2015	2014	Δ	2015	2014	Δ
Total reported revenues	727.2	718.8	1.2%	727.2	717.8	1.3%
Business Units (*)	761.2	750.1	1.5%	761.2	749.1	1.6%
Mail	554.6	546.2	1.5%	554.6	546.2	1.5%
Express & Parcels	131.3	129.0	1.7%	131.3	129.0	1.7%
Financial Services	75.3	74.9	0.5%	75.3	73.9	1.9%
Central structure and Intragroup eliminations	-34.0	-31.3	-8.6%	-34.0	-31.3	-8.6%

(*) The revenues of Banco CTT business unit in 2015 amounted to 1.7 thousand Euros.

This growth is mainly a consequence of the Mail business unit revenues growth which in turn results from the combined effect of (i) the price increase in mail services (4.1% on average) and the change in the discounts policy, which fully offset the impact of the decline in volumes (-3.2%), as well as (ii) the increase of other revenues of this business unit as a result of the increased use of the distribution network (for the delivery of over 70% of the Express & Parcels volumes as from the 4th quarter) and the Retail Network (financial services and other).



The revenues of the Mail business unit stood at €554.6m, a 1.5% growth vis-à-vis the previous year, with a 73% weight in CTT total revenues⁴, the same as in 2014.

The comparison of the decline of **addressed mail volumes** of 2015 (-3.2%) vs. the year 2014 (-5.7%) is favourable and reflects the impact on mail consumption of the positive evolution of the national economy, which posted growth in internal consumption (+2.6%) and investment (+3.6%).

Mail Volumes									
Million items									
	9M15	9M14	Δ	4Q15	4Q14	Δ	2015	2014	Δ
Transactional Mail	522.8	541.8	-3.5%	165.5	176.2	-6.1%	688.3	718.0	-4.1%
Editorial Mail	34.3	35.2	-2.7%	12.0	12.4	-3.5%	46.2	47.6	-2.9%
Advertising Mail	54.3	54.0	0.5%	25.9	21.6	19.8%	80.2	75.7	6.0%
Addressed Mail	611.4	631.1	-3.1%	203.4	210.2	-3.3%	814.7	841.3	-3.2%
Unaddressed Mail	345.0	370.4	-6.9%	128.4	137.2	-6.4%	473.4	507.7	-6.7%

Transactional mail volumes decreased by 4.1% in 2015. This evolution is the result of changes in the volumes of priority mail (-0.1%), ordinary mail (-4.3%), registered mail (-8.2%) and international outbound mail (-8.1%). These changes were mitigated by the positive evolution of international inbound mail (+5.9%), and "green mail" / *correio verde* (+8.0%) volumes. Worth mentioning are the following main factors for such changes: the decrease in registered mail due mainly to the Government and the Public Administration's decline in consumption, especially in the 4th quarter, and the significant influence of e-commerce growth in international inbound mail, mainly small cross-border packages originating from China.

Domestic editorial mail volumes decreased (-2.9%) in 2015 following the drop that took place in the 4th quarter (-3.5%) which was stronger in the non-contractual segment. This drop was strongly offset by the 10.7% price increase in this product, thus allowing for a 4.7% growth of its revenues.

Addressed advertising mail volumes grew (+6.0%) in 2015, boosted by the sharp increase registered in the 4th quarter (+19.8%) resulting from the higher number of advertising campaigns held by large customers when compared to those carried out in the same period of the previous year. This trend, a result of both the initiatives we have been introducing and the economic evolution, impacted this segment's revenue growth, which stood at 2.1%, also due to the price mix effect.

The **Express & Parcels** business unit posted revenues of €131.3m, a 1.7% (+€2.3m) year-on-year increase resulting from the growth in Portugal (+3.1%) and Mozambique (+25.4%), as in Spain revenues decreased by 1.2%. In Portugal, revenues excluding income from the banking segment, which fell by 32.5% in 2015, increased by around 9% as a consequence of the strong growth of e-commerce originated parcels and the MoU with Altice (€1.8m). In Spain, the growth strategy in own managed zones did not present the expected results, thus not allowing for the offset of the loss of franchisees in 2014 and at the beginning of 2015. The weight of this business unit in CTT total revenues⁴ stayed at 17%, the same as in 2014.

In terms of volumes handled, the Express & Parcels overall volumes grew by 3.2% year-on-year (4.8% in Portugal and 2.3% in Spain).

In 2015, the **Financial Services** business unit grew by 0.5% (1.9% excluding the impact of non-recurring revenues recorded in 2014), thus maintaining the weight of this business unit in CTT total revenues⁴ at 10%, as in 2014.

⁴ Excluding revenues allocated to the CTT Central Structure and Intragroup Eliminations for the amount of -€34.0m in 2015.



A special note for the Savings & Insurance business line whose revenues grew by 7.9% year-on-year. This clearly shows the Retail Network's extraordinary ability to attract placements and reflects the recurring maintenance fees of the products subscribed by the customers. Placements totalled around €4.3 billion for the whole year, including Retirement Savings Plans (PPR), Capitalisation Insurance products and, above all, Public Debt products. In this regard it is particularly worth noting the placement of €2,200 million in January, an unparalleled record in the 50-year history of the marketing of public debt certificates by CTT. This positive contribution was lessened by the evolution of the Payments business line, mainly the negative effect of the strong decrease in mobile phone top-ups due to the migration to 4P (post-paid) offers, and the Money Orders & Transfers business line (particularly, in the domestic segment, the payment of social allowances, with a major impact on revenues, posted a decline).

The strong investment in the creation and launch of **Banco CTT** (which has been converted into a new business unit) has been and will be the focus of our activity aiming at an even more solid position of CTT within the financial system, now with a comprehensive financial services offer.

From the beginning of 2015, more specifically since February, CTT has carried out all the procedures and initiatives for the start of operation of Banco CTT in 2015. These procedures and initiatives led to the opening of the first branch at headquarters on 27 November. This occurred in a soft opening process, under controlled conditions and for CTT employees. The teams are thus being able to test the systems, procedures and operations aiming at an opening to the public of 52 branches that is now scheduled for 18 March 2016.

The item **Central Structure and Intragroup Eliminations** is mainly impacted by the decrease in the amount of revenues as a result of the optimisation and efficiency measures taken in these areas in 2014 with impact in 2015, especially the internal provision of IT (strong reduction in the amount of outsourced IT / communications systems contracts) and human resources services (renegotiation of the healthcare plan and the new company agreement) for a total of -€12.9m.

OPERATING COSTS³

The evolution of the recurring operating costs in 2015 continued to depend mostly on the implementation of the **Transformation Programme**. The reductions achieved brought about the stabilisation of the consolidated costs (+€0.5m; +0.1%) vis-à-vis 2014, despite the €4.7m recurring costs from Banco CTT and the reintroduction on a recurring basis of variable remunerations (€9.7m).

The initiatives carried out for the **optimisation and rationalisation of the operations and the distribution networks integration** had a particular positive effect in the **ES&S** costs, leading not only to the reductions of operating costs but also to increased productivity levels and higher operational efficiency, as well as to greater synergies between the Mail and the Express & Parcels distribution networks. Also, in relation to the **optimisation of the Retail Network**, the initiatives carried out arise as a follow-up of the work undertaken in 2014 aimed at adapting the offer and the quality of service levels, while complying with the Universal Postal Service obligations.

³ Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.



Operating costs

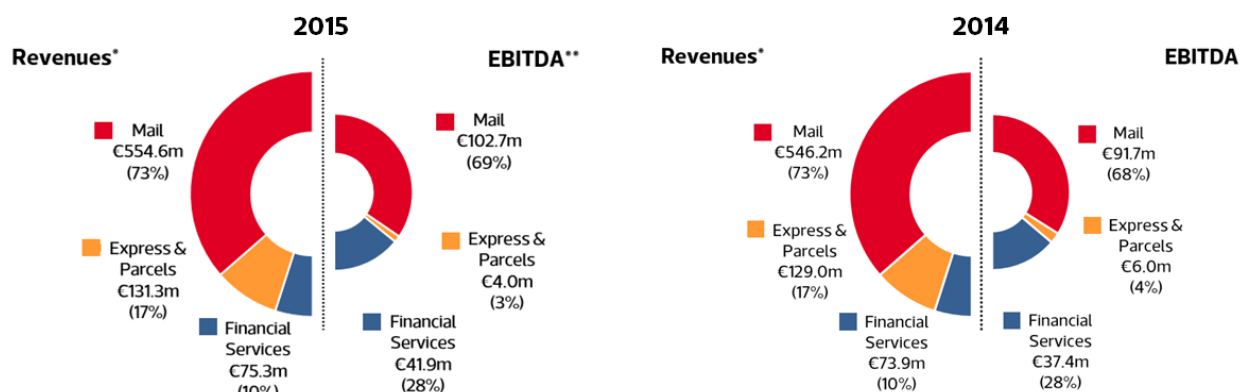
€ Million	Reported			Recurring		
	2015	2014	Δ	2015	2014	Δ
Operating costs^(*)	592.6	523.1	13.3%	583.2	582.7	0.1%
External supplies & services	233.1	237.7	-19%	224.7	234.8	-4.3%
Staff costs	331.8	258.0	28.6%	331.7	320.4	3.5%
Other operating costs	27.8	27.4	1%	26.8	27.4	-2.3%

(*) Excluding depreciation / amortisation, impairments and provisions.

With a negative effect in the evolution of ES&S costs in 2015 are the increases in (i) the transport of valuables as a result of the growing number of post offices covered by such transport to strengthen security within the current legal framework, (ii) the costs of goods transportation in Spain, (iii) the Banco CTT's recurring costs, and (iv) the costs with foreign postal operators (outbound mail), mainly due to the exchange rate appreciation of the SDR (Special Drawing Rights), currency used in the definition of the fees applied in the transactions performed among the postal operators, against the Euro.

As far as **staff costs** are concerned, the €11.3m (+3.5%) increase in recurring costs is mainly due to the variable remuneration accrual (€9.7m) in 2015 referring to amounts to be paid in 2016 (an amount similar to the one in 2014, but now considered as recurring), to salary increases (2.0% in CTT, S.A. and 1.25% in its subsidiaries, with minimum and maximum thresholds) amounting to around €3.9m and to the Banco CTT staff costs of €2.3m (considered as recurring). On the other hand, there was a €3.9m reduction in healthcare costs due to the renegotiation of the Regulation of the Social Works and the reduction of the healthcare plan management fee as a result of the contracting of a new service provider.

RECURRING EBITDA



* Including internal provision of services and intragroup transactions eliminated in the consolidation process; excluding income related to CTT Central Structure and Intragroup Eliminations amounting to -€34.0m in 2015 and -€31.3m in 2014.

** The weight of the businesses is calculated excluding -€4.7m related to Banco CTT's EBITDA.

The operating activity generated a €144.0m recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results), 6.6% (+€8.9m) above that of 2014, with a recurring EBITDA margin of 19.8% (+1.0 p.p. than in 2014). It is important to mention that even this recurring EBITDA is affected by €4.7m recurring costs from Banco CTT as well as €0.4m recurring costs from Banco CTT project booked in the Financial Services business unit, which did not exist in 2014 and without which the growth of recurring EBITDA would have been 10.3% (+€13.9m).



These results correspond to the evolution described above: €9.4m growth in revenues combined with a lower increase of €0.5m in operating costs (excluding depreciation and amortisation, impairments, provisions and non-recurring costs), including Banco CTT's recurring costs.

Consolidated EBITDA by Business Unit

€ Million

	Reported			Recurring		
	2015	2014	Δ	2015	2014	Δ
EBITDA	134.6	195.6	-31.2%	144.0	135.1	6.6%
Mail	103.0	151.0	-31.8%	102.7	91.7	12.0%
Express & Parcels	0.8	5.8	-86.6%	4.0	6.0	-33.4%
Financial Services	38.2	38.8	-1.7%	41.9	37.4	12.2%
Banco CTT	-7.4	-	-	-4.7	-	-

CTT's EBITDA performance resulted from EBITDA growth in the Mail business unit (+€11.0m; +12.0%) and in the Financial Services business unit (+€4.6m; +12.2%), which had a recurring EBITDA of €102.7m and €41.9m, respectively. The EBITDA margin also grew due to the weight of Financial Services in CTT, a business unit presenting higher than 50% EBITDA margin. The sale of financial services at the Retail Network and the integration of the Mail and Express & Parcels distribution networks also allowed the growth of the Mail EBITDA margin due to an increased use of the networks following a growth strategy supported by the scalability of the unique assets of CTT.

RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax, and non-recurring results) posted a year-on-year positive change of €8.3m (+7.4%) to €119.8m and the recurring EBIT margin was 16.5% (+1.0 p.p. above that of last year).

Consolidated financial results amounted to -€5.3m, which represents an improvement of €2.1m vs. those of 2014. Financial costs incurred reached €6.9m, including financial costs associated with employee benefits which decreased €4.8m as a result of the reduction in the costs of post-employment benefits due to the renegotiation of the healthcare plan at the beginning of 2015 as well as to the decrease in the discount rate from 4% to 2.5%. Interest and other financial income decreased by 65.7% vis-à-vis 2014, as they were affected by the sharp fall in the rates of return on term deposits and by the continued policy of very conservative treasury management by CTT.

CTT obtained a €72.1m consolidated reported net profit attributable to shareholders, which is 6.6% below that of 2014 and corresponds to a result of €0.48 per share and to a 9.9% reported net profit margin on the consolidated revenues (10.8% in 2014). As mentioned in the 2014 results presentation, net profit excluding the strong non-recurring impact totalled €72.5m. The net profit in 2015 is similar despite the recurring and non-recurring costs of the implementation of Banco CTT. This proves the ability of CTT to support the development of this new business area through its recurring businesses.

NON-RECURRING COSTS AND REVENUES

In 2015, CTT had negative non-recurring results of 9.8m, including, within ES&S, €8.4m of costs incurred with studies and consulting on strategic projects, especially those related to (i) the Banco CTT launch project (€6.4m), but also to (ii) the IT systems strategic plan, (iii) regulatory issues and (iv) a management information and cost accounting improvement plan.



Non-recurring costs and revenues

€ Million

	2015	2014
Non-recurring costs	9.8	-23.9
affecting EBITDA	9.4	-60.5
. Other operating income	-	-10
. External supplies & services and other costs	9.4	2.9
. Staff costs	0.03	-62.4
affecting only EBIT	0.4	36.6
. Provisions (reinforcements / reductions)	0.04	12.9
. Impairments (losses / reductions)	0.4	23.7

In terms of staff costs, the negative impact of (i) €1.7m regarding the collective redundancies (ERE - *Expediente de Regulación de Empleo*) at Tourline in Spain, (ii) €2.2m associated to compensations for termination of the continuous working hours resulting from the 2015 Company Agreement and (iii) €2.3m concerning compensations paid for termination of employment contracts by mutual agreement, was offset by the gains obtained with the €4.8m reduction of the costs related to employee benefits.

INVESTMENT

Capex amounted to €32.3m, 94.8% above that of last year (+€15.7m); to highlight are the investments in the Banco CTT project (€11.7m), essentially in IT systems (mainly the Core Banking System and the bank's digital channels).

Within the company's current activity, investment was made in the acquisition of cargo and transport vehicles (€3.0m), particularly the acquisition of electric vehicles, strengthening of productive infrastructures, especially via the acquisition of a sorting machine for flat items (€1.9m) to support the growth of e-commerce and the renovation / conservation of buildings.

Further to highlight are several investments for a total of €3.6m associated with the start of the implementation of the IT strategic plan and partly replacing recurring maintenance investments.

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) decreased from €101.1m in 2014 to €93.9m in 2015. The adjusted operating free cash flow (excluding the change in net financial services payables) totalled €68.3m, 35.8% less than in 2014 due to the strong growth in investment.

The net change in cash amounted to -€60.9m, €180.6m below that of 2014. Excluding the €138.6m change in the financial services receivables / payables item, the change in CTT's cash was slightly above zero (+€0.1m): even given the strong investment, mainly in the Banco CTT set up, the Operating Free Cash Flow generated is similar to the needs of the Cash Flow from Financing Activities.

This situation results mostly from: (i) €19.2m increase in payments to employees – influenced by the 2014 variable remunerations (€9.0m), by the 2% salary increase in CTT, S.A. and 1.25% in the subsidiaries (€3.9m) and the staff costs of Banco CTT (€2.3m); (ii) €20.8m increase in payments regarding investments – both those occurred at the end of 2014 and paid in 2015, and the strong investment made and paid for in 2015 (especially in Banco CTT and IT systems); and also (iii) the positive change in working capital (€5.4m increase in collections from customers; €17.5m reduction in payments to suppliers).

It should also be highlighted that CTT paid in 2015 €9.8m more in dividends in comparison to the amount paid in 2014 (consistent with the dividend policy) and €5.5m more in taxes; on the other hand CTT received €9.1m less



financial income (from interest and similar income due to the interest rates and financial investments which benefited from the sale of EAD in 2014 - €4m).

Cash flow						
€ Million						
	Reported			Adjusted (*)		
	2015	2014	Δ	2015	2014	Δ
Cash flow from operating activities	32.8	178.7	-816%	93.9	101.1	-7.1%
Cash flow from investing activities	-25.5	5.3	<<	-25.5	5.3	<<
Operating free cash flow	7.3	184.1	-96.0%	68.3	106.4	-35.8%
Cash flow from financing activities	-68.2	-63.7	-7.2%	-68.2	-63.7	-7.2%
Change in consolidation perimeter	0.02	-0.7	102.5%	0.02	-0.7	102.5%
Net change in cash	-60.9	119.7	-150.9%	0.1	42.1	-99.7%
Cash and equivalents at the end of the period	603.6	664.6	-9.2%	279.0	278.9	0.0%

(*) Cash flow from operating activities excluding change in Net Financial Services payables (-€610m in 2015 and €77.6m in 2014).

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 31 December 2015 and that at the end of the 2014 financial year are:

Total assets decreased €61.5m (-5.2%) reflecting (i) the increase in non-current assets resulting from the €14.2m increase in intangible fixed assets (due to the strong investment in information systems, namely the development of the Banco CTT IT platform), the reduction in deferred tax assets (-€3.9m) and the €3.5m reduction in investment property; and (ii) the decrease in current assets (-€65.9m) resulting from the decrease in cash and cash equivalents (-€60.9m; -9.2%) where the reduction in financial services receivables / payables represented €61.0m influenced by the strong purchases of Treasury Certificates Poupança Mais and tax payments in December 2014.

Equity increased €2.6m (+1.1%) as a result of the distribution of dividends for the 2014 financial year (€69.8m) that took place in May being already fully offset by the net profit for the period (€72.1m).

Liabilities decreased €64.1m (-6.9%) mostly due to the €67.0m (-16.8%) decrease in Financial Services payables, reflecting the impact of the high purchase of Savings and Treasury Certificates and tax payments during the month of December 2014, the €17.4m (-6.3%) decrease of the liabilities related to employee benefits, the €9.2m (+11.2%) increase in other current liabilities resulting mostly from a transitional situation of process adjustment of the new healthcare management service provider, the €8.2m increase in current deferrals, which reflects the amount regarding the Agreement with Altice to be booked in 2016 (its recognition was spread over a period of 18 months corresponding to the "first refusal" period granted to Altice), as well as the €5.2m increase in short-term debt obtained for Tourline via cash pooling.



Consolidated Balance Sheet

€ Million	31.12.2015	31.12.2014	Δ
Non-current Assets	354.9	350.5	13%
Current Assets	764.6	830.5	-7.9%
Assets	1,119.5	1,181.0	-5.2%
Equity	251.8	249.2	1.1%
Total Liabilities	867.6	931.8	-6.9%
Non-current Liabilities	292.7	314.4	-6.9%
Current Liabilities	575.0	617.4	-6.9%
Total Equity and Liabilities	1,119.5	1,181.0	-5.2%
Current liquidity ratio	133.0%	134.5%	-15 p.p.
Adjusted solvency ratio ^(a)	46.4%	45.6%	0.7 p.p.
Net debt ^(b)	-82.6	-74.9	10.3
Net debt/EBITDA	-0.57x	-0.55x	-0.02x
Tangible fixed asset coverage	237.0%	239.0%	-2.0 p.p.

^(a) Equity/(Total liabilities - Financial Services payables).

^(b) Negative net debt corresponds to net cash.

As at 31 December 2015, the **liabilities related to employee benefits** amounted to €262.8m, 5.7% less than in December 2014.

Liabilities related to long-term employee benefits

€ Million	31.12.2015	31.12.2014	Δ
Total responsibilities	262.8	278.7	-5.7%
Healthcare	236.8	241.2	-18%
Staff (suspension agreements)	8.2	17.8	-53.8%
Other benefits to Corporate Bodies	3.0	14	117.1%
Other long-term benefits	14.8	18.3	-19.2%

Worth mentioning is also the €9.6m reduction in liabilities related to suspension agreements resulting mainly from the renegotiation of termination agreements with some employees in such situation and the payments made in 2015. Significant was also the reduction of the liability relating to the other long-term benefits for a total amount of -€3.2m.

The item Other benefits to Corporate Bodies includes the liability defined by an independent actuarial study regarding the long-term variable remuneration (to be paid in company shares to the executive members of the Board of Directors at the end of the 2014-2016 term of office) linked to the achievement of objectives for the Total Shareholder Return - TSR (comparison of the TSR performance of the company shares and the average weighted TSR of a peer group - PSI20 listed companies and other relevant European postal sector peers).



STAFF

As at 31 December 2015, the CTT headcount consisted of 12,057 employees, 63 less (-0.5%) than in 2014. There was a reduction of 162 permanent employees and an increase of 99 with fixed-term contracts to address ad hoc needs during the network integration process. Worth mentioning is also, within the scope of the Banco CTT project, the hiring of experienced new staff for Banco CTT itself and for the Retail Network.

Headcount

	31.12.2015	31.12.2014	Δ 2015/2014	
Mail	9,651	9,717	-66	-0.7%
Mail & Business Solutions	6,974	7,042	-68	-10%
Retail Network	2,677	2,675	2	0.1%
Express & Parcels	1,074	1,205	-131	-10.9%
Financial Services	102	101	1	10%
Banco CTT	65	0	65	-
Other	1,165	1,097	68	6.2%
Total, of which:	12,057	12,120	-63	-0.5%
Permanent	11,365	11,527	-162	-14%
Fixed-term contracts	692	593	99	16.7%
Total in Portugal	11,600	11,550	50	0.4%

The number of employees includes 6,603 mail operations and delivery staff (including 4,944 delivery postmen) and 2,677 employees in the Retail Network.

In 2015, 168 employees were hired (100 in Portugal, of which 65 for Banco CTT, and 68 abroad), 18 who had been working for the joint-venture companies TI-POST and Postal Network returned to the company as well as 3 following a secondment in the public interest, while 351 left CTT. Of these, 63 employees retired, 272 terminated their contracts or are on leave without pay and 16 passed away.

In the framework of the human capital enhancement and development required for the growth of CTT, several measures have been implemented to promote the recruitment of staff with new skills and resources, to strengthen particularly the growing areas. In this field it is to be highlighted the **Trainee Programme** designed with a view to attract and retain high-potential youngsters, promote their development within a structured company-wide programme, contribute to the rejuvenation of the staff, foster a mobility culture, tailor a pipeline of leaders in the medium term and position CTT as an “employer of first choice”.

QUALITY OF SERVICE

In 2015, CTT continued to have high quality of service levels in the provision of the Universal Postal Service, with the OQSI – Overall Quality of Service Indicator – registering 206.4 points, compared to a target of 100.

All the quality of service parameters defined by ANACOM and laid down in article 13(1) of the Postal Law (Law no. 17/2012, of 26 April) performed above the established targets in 2015.

As far as international mail is concerned, the quality of service objectives defined by the EU Postal Directive were exceeded. CTT is following-up the developments on this matter to improve the cross-border mail and parcels quality of service.



REGULATORY FRAMEWORK

Complying with the pricing criteria for the 2015/2017 period as defined by a decision of ANACOM of 21.11.2014, the proposal on the prices of the universal service submitted by CTT on 17.12.2014, and revised on 06.02.2015, was approved by ANACOM by a deliberation of 12.02.2015. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 01.03.2015, except for the prices of newspapers & periodicals and books which were effective as of 01.06.2015. Also in the pricing field, as far as the special pricing arrangement for the postal services included in the universal service offer applicable to senders of bulk mail is concerned, such prices were also updated on 01.03.2015 following a proposal submitted to the Regulator on 14.01.2015.

As regards the quality of the universal postal service, as per the new Postal Law, the implementation of a new quality of service levels measurement and control system is to be carried out by an external body. On 05.11.2015, CTT launched an international tender limited through a previous qualification to select the external entity that will be responsible for such measurement.

BANCO CTT

On 4 November 2014, the Board of Directors of CTT approved the launch of the Postal Bank, as a continuation of the strategy to expand the Financial Services product offer. The Bank of Portugal approved a 12-month extension period (until 27.11.2015) of the Postal Bank launch authorisation.

From the beginning of 2015, more precisely since February, CTT undertook all the procedures and initiatives to start the operation of Banco CTT. The creation of CTT Serviços, S.A. the subsidiary that would later give way to Banco CTT, S.A., made possible the interaction with the Regulator to assess and implement all the conditions defined and listed in the authorisation letter of the License granted by the Bank of Portugal in November 2013 and reiterated in November 2014.

In a process that involved more than 150 people, Banco CTT became a reality on 27 November 2015 after successfully passing through the consecutive stages of a demanding and exhaustive process that was crowned by the start of operation on that date.

Over more than 9 months, the definition of the governance model, the hiring of 65 experienced professionals for Banco CTT's management and central functions, the implementation of the IT system (core banking system and its components), the set-up of the policies, processes, procedures, manuals and supports were essential. Special emphasis was also given to the training and preparation of the CTT Retail Network – it will be the main vehicle, as a face-to-face channel, for the distribution of the offering of Banco CTT.

Following confirmation of the offer and positioning based upon market surveys and visits to postal banks in Europe which resulted in a deep knowledge of the different models, several focus groups were implemented throughout the year based on potential customers of the target segment, firstly to collect their assessments and inputs before designing the offer and, secondly, to validate the value proposition for Banco CTT's target segment.

The first branch opened on 27 November 2015 in a soft opening process only for CTT employees and in a controlled environment. It was thus possible to implement the whole KYC – *Know Your Customer* process to support the opening of accounts as well as to perform term deposits and bank transfers.

With strength, trust and transparency as values, Banco CTT appears in the market as a straightforward bank close to the citizens. After the soft-opening period, under a controlled environment that allowed the testing of systems and processes and will last until the end of the 1st quarter of 2016, Banco CTT will open for the general public on



18 March 2016 on 52 branches (Head Office + 51 CTT branches), with a simple but diversified offer and most of all geographically spread across the country, thus allowing for financial inclusion, one of the bank's strategic goals.

NEW BUSINESS OPPORTUNITIES

The Citizen's Bureau areas to be set up in 300 post offices of the CTT Retail Network within the scope of the protocol between CTT and the Government signed in January 2015 are already available at 127 post offices and the preparatory initiatives of CTT to open such areas in the remaining post offices included in the 1st stage have been completed. This project contributes not only to bringing the CTT Retail Network closer to the citizens, but it also makes the Retail Network more encompassing, qualified and diversified in its service offer, working for the customers as a "one-stop shop" where they can find all the products they need.

Regarding the Memorandum of Understanding (MoU) with Altice, in July of 2015 the latter paid CTT the initial fee established in the agreement following the conclusion of the acquisition of PT Portugal by Altice. The negotiations regarding the details of the specific business partnerships that will create value for both companies did not have further development so far, in particular the joint optimisation of the Retail Networks, the development of joint ventures in the area of e-commerce, as well as opportunities for the creation of value in the Financial Services and Banco CTT areas.

TRANSFORMATION PROGRAMME: OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS

In 2015, a new stage leading to a further integration of the Mail and Express & Parcels distribution networks started, with a view to an increased use of the mailmen network for the last-mile delivery of parcels and "day-definite" packages, using the installed capacity and the high capillarity of the network.

The delivery of EMS 48 items is performed by the basic CTT network since 2014. The integration of the delivery of EMS 19 items into the basic network developed gradually in 2015 by geographical coverage areas with an integrated rationale and vision and was concluded at the end of the 3rd quarter. It involved 135 postal delivery offices (100% of those scheduled) and increased the EMS delivery through the basic CTT network to 70%.

In the context of optimisation of the operations, the printing & finishing operations were fully moved to the Production and Logistics Centre of Cabo Ruivo (Lisbon), and the CTT Contacto operations were moved to Pinheiro de Fora, thus saving time and space in the mail production and processing stages and allowing for further rationalisation of resources.

TRANSFORMATION PROGRAMME: IT STRATEGIC PLAN

Following the renegotiation of the IT and communication systems outsourcing contracts, in 2015 a new stage of the IT and communication systems transformation programme started with the definition of an IT systems strategic plan which aims to provide CTT with a modern technological platform that supports business growth and the new customer requirements and includes the growing incorporation of features in the Mail and Express & Parcels products, as well as in the Financial Services products.

DIVIDENDS

In 2015, CTT paid a dividend of €0.465 per share relative to the year 2014, corresponding to a total shareholder return (capital gain + dividend, calculated on the basis of the share price as at 31 December 2014) of 15.9% for the



period, one of the highest TSR of the European postal sector, achieved due to the share price appreciation and to a high dividend yield.

For the dividend relative to the 2015 financial year, the Board of Directors of CTT will propose to the General Meeting of Shareholders to be held on 28 April 2016 a distribution of dividends for the total amount of €70.5m (47 cents of Euro per share), subject to the General Meeting's favourable decision. The dividend is scheduled to be paid on 25 May 2016.

For 2015 and subsequent financial years, the Board of Directors, taking into account the Company's interests and the long-term interests of the CTT shareholders, changed the dividend policy as from 2015, so that it now aims at a **stable and sustainable dividend growth**. The development of the Banco CTT will have a negative impact in the company results during the first years of operation and, given the high balance sheet liquidity of CTT and its capacity to create cash flow, it is not expected to have an impact on the ability to pay a growing dividend. CTT's dividend policy, always considering the company's situation and economic environment, will seek to match the objectives of shareholder remuneration to the sustainable development of the company's business.

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S. A. statutory reported financial information for the year 2015, audited by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 15 March 2016

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/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1>

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This document 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 and investments are forward-looking statements. Statements that include the words “expects”, “estimates”, “foresees”, “predicts”, “intends”, “plans”, “believes”, “anticipates”, “will”, “targets”, “may”, “would”, “could”, “continues” and similar statements of a future or forward-looking nature identify forward-looking statements.

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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, what could cause the models, objectives, plans, estimates and / or projections to be materially reviewed and / or 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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