

Consolidated Results

1st Half of 2019



ctt



CTT – CORREIOS DE PORTUGAL, S.A. – PUBLIC COMPANY (“COMPANY”)

1ST HALF OF 2019 CONSOLIDATED RESULTS

- **Revenues** in line with 1H18 reach €355.0m (-€0.1m) where the performance of **Mail & Other** (-€11.0m) was offset by the performances of **Banco CTT**¹ (+€7.8m), **Financial Services**¹ (+€3.0m). Excluding the inorganic effect of 321 Crédito, acquired in May 2019, revenues totalled €349.9m (-€5.2m).
- The decline of **addressed mail volumes** was 10.3% in 1H19 vs 1H18 (-8.8% per working day). There was an expected improvement in 1Q19 vs 2Q19, corresponding to -11.3% and -6.1% per working day, respectively.
- **Operating costs**² performed very positively in 2Q19 (-€2.1m; -1.3%), leading to a year-on-year reduction of €0.5m in 1H19 (-0.1%). Excluding 321 Crédito, costs decreased even more in 2Q19 (-€4.0m; -2.6%) allowing for a year-on-year reduction in 1H19 of €2.4m (-0.8%).
- **EBITDA**² stood at €46.4m, a year-on-year increase of €0.3m (+0.7%). This evolution is due to the good performances of Financial Services (+€4.1m) and Banco CTT (+€3.3m) which offset the declines of Mail & Other (-€4.4m), impacted by the number of working days, and Express & Parcels (-€2.6m). Excluding 321 Crédito, EBITDA amounted to €43.2m (-€2.8m; -6.2%).
- **Operating cash flow** of €7.3m in 1H19.
- **Net profit**³ grows to €9.0m in 1H19 (+€1.6m; +21.0%) reflecting the lower impact of specific items, which amounted to €11.7m (-€5.5m).

Consolidated Results

	1H18 Restated	1H19	€ million Δ % 19/18
Revenues	355.1	355.0	-0.0%
Mail & Other	254.1	243.1	-4.3%
Express & Parcels	72.8	72.8	0.1%
Banco CTT ¹	15.7	23.6	49.7%
Financial Services ¹	12.5	15.6	24.1%
Operating costs ²	309.1	308.6	-0.1%
EBITDA	46.1	46.4	0.7%
IFRS 16 (impact on EBITDA)	16.7	13.7	-17.6%
EBITDA incluindo IFRS 16	62.7	60.1	-4.2%
Impairments & provisions	-0.4	2.3	»
Depreciation & amortisation	27.8	26.4	-4.8%
Specific items (+/-)	-17.2	-11.7	32.2%
EBIT	18.1	19.7	8.9%
Financial results	-4.8	-5.0	-4.6%
Income tax for the period	5.9	5.7	-2.4%
Non-controlling interests	0.0	0.0	-106.3%
Net profit attributable to equity holders	7.4	9.0	21.0%

¹ In 2019 and in the same period of the previous year (proforma), part of the payments segment of the Financial Services business unit is considered within Banco CTT business unit, to which it migrated, and excluded from Financial Services. 321 Crédito was merged into Banco CTT business unit in May 2019.

² Excluding depreciation / amortisation, impairments and provisions, as well as the impact of IFRS 16 and specific items.

³ Attributable to equity holders.



OPERATIONAL AND FINANCIAL PERFORMANCE OF THE BUSINESS UNITS

MAIL

The **revenues of the Mail** business unit reached €240.7m in 1H19, -€11.2m (-4.4%) vis-à-vis 1H18, mostly due to the decline in the revenues of **addressed mail** (-€8.9m; -3.9%) and **philately** (-€0.8m; -21.4%) mitigated by revenue growth in **Business Solutions** (+€0.8m; +16.1%) and **unaddressed advertising mail** (+€0.2m; +6.0%).

The 2019 annual update of the prices of the postal services was implemented on 4 June 2019. The annual average change of the prices of the Universal Service⁴ will be +1.49% while the average price change in 1H19 vis-à-vis 1H18 is +2.41%.

	Mail Volumes			Million items
	1H18	1H19	Δ	Δ / working day
Transactional mail	307.6	279.0	-9.3%	-7.8%
Advertising mail	30.6	24.4	-20.4%	-19.1%
Editorial mail	19.1	17.3	-9.7%	-8.3%
Addressed mail	357.3	320.6	-10.3%	-8.8%
Unaddressed mail	211.1	237.6	12.5%	14.4%

At the end of 2Q19, with 2 less working days vs 2Q18, **addressed mail** volumes declined by 9.1%, recovering 2.2 p.p. vis-à-vis 1Q19 (-11.3%). The evolution was even more positive when considering the number of working days, as it went from -11.3% to -6.1% (+5.2 pp).

The decline in **transactional mail** volumes in 1H19 (-9.3%) was influenced by the decrease of **ordinary mail** volumes (-10.7%), mainly in the banking and insurance, utilities & telcos, and Government sectors as well as in the occasional channel, and **priority mail** volumes (-11.0%). Transactional mail has a positive evolution from 1Q19 to 2Q19 when considering the number of working days, as it went from -11.0% to -4.4%, respectively (+6.5 pp).

As a positive contribution, **inbound international mail** volumes increased by 5.4%, continuing in a momentum driven by the growth of e-commerce. The volumes growth of tracked mail (Exprès) and registered mail led to an increase of €3.4m (+19.6%) in revenues.

The decline of **addressed advertising mail** volumes (-20.4%) continued the trend that has marked the domestic and international markets in the last year. This business was affected by the dematerialisation of processes and the change of the business model and the communication and marketing vehicles to other advertising solutions, as well as by the implementation of the new General Data Protection Regulation (GDPR).

Unaddressed advertising mail volumes increased in 2Q19 allowing for a growth in volumes of 12.5% at the end of 1H19. Capturing one the largest advertisers in the market from the competition and the European elections process (infomail communication service) were determining factors.

In **Business Solutions**, double-digit revenue growth was once more achieved vis-à-vis 1H18 (+€0.8m; +16.1%), especially in the geographical services business and dematerialisation services.

⁴ Including letter mail, editorial mail and parcels of the Universal Service, excluding inbound international mail.



EXPRESS & PARCELS

The **Express & Parcels revenues** amounted to €72.8m in 1H19, in line with 1H18.

Revenues in Portugal stood at €45.9m, +3.9% vs 1H18. The performance of this business in Portugal resulted mostly from the CEP business, which achieved €34.5m (+5.9%), the banking activity that totalled €3.3m (+5.7%), and cargo and logistics that reached €7.9m (+0.6%).

Volumes in Portugal totalled 9.8 million items, +4.1% over 1H18. CEP growth was the result of the entry of new customers (mainly in the B2B segment), the recovery of the occasional segment, the e-commerce growth and the good performance of the international business. The international business contributed €0.5m (+16.3%) to the CEP business, reflecting, on the one hand, a greater focus on the exploitation of business opportunities and, on the other, a significant increase in volumes originating in Germany and Brazil as a result of trade agreements with operators in those countries. The growth in the banking sector delivery business was due to the entry into force of the renegotiations concluded in 2018 and already during 2019, as well as to the award of new services by the customers.

In May, Dott (www.dott.pt) was launched, an e-commerce marketplace that brings together national sellers and buyers and is based on a partnership between CTT (50%) and Sonae (50%) following a soft launch in March. Dott is born with the ambition of being a national e-commerce champion in Portugal, counting already on about 500 stores that sell 17 categories of products. This is a combination of the logistic know-how of CTT and the retail experience of Sonae, which aims to create an online reference brand for the Portuguese consumer.

In **Spain, revenues** of this business stood at €25.9m (-6.3%), a decrease vis-à-vis 1H18 mainly due to the 8.2% decline in volumes, greatly influenced by the loss of one of the largest customers of Tourline. Excluding the impact of this large customer, the evolution of revenues and volumes in 1H19 would have been +9.0% and +9.1%, respectively, resulting from the capture of new customers and the growth of the franchise network.

The **revenues in Mozambique** stood at €1.0m, +4.2% vs 1H18. The CEP and banking sector delivery businesses made a positive contribution to this growth.

BANCO CTT⁵

The **revenues of Banco CTT** reached €23.6m in 1H19, a growth of €7.8m (+49.7%) over 1H18.

The migration of a part of CTT payments segment to this business unit contributed €6.3m (-8.0%) to the revenues of 1H19. The company 321 Crédito, acquired in May 2019, represented a contribution of €5.1m to the revenues of 1H19.

Excluding the inorganic effect of the acquisition of 321 Crédito, revenues in this segment reached €18.5m, reflecting a year-on-year increase of €2.7m (+17.4%), positively impacted by net interest income growth (+€1.8m; +53.6%) and the growth of the commissions received (+€1.4m, +65.1%) and negatively by the decrease in the area of payments & transfers (-€0.5m; -4.6%).

Noteworthy was the operating performance of Banco CTT, which led to a significant growth of accounts opened to 408 thousand accounts (+124 thousand than in 1H18), along with the continued growth of customer deposits to €1,063.6m (+44.4%), mortgage loan portfolio growth, net of impairment losses, to €312.1m (+136.8% than in 1H18,) and consumer credit production by €21.2m (+12.9% vs 1H18). With the acquisition of 321 Crédito, Banco CTT managed to structurally boost the loan-to-deposit ratio of its credit portfolio from 20.3% in 1H18 to 69.3% in 1H19 through the integration of an amount of €414m in its credit portfolio.

⁵ The Banco CTT business unit includes Banco CTT, Payshop, CTT non-postal payments services and 321 Crédito.



FINANCIAL SERVICES

Financial Services revenues stood at €15.6m in 1H19, a 24.1% growth over 1H18.

The **Savings & Insurance** products contributed €11.9m to the revenues, a 47.2% year-on-year growth, **Public Debt Certificates**⁶ placements reached €1,739.9m, +62.5% vs 1H18, generating revenues of €11.1m (+53.6% vs 1H18). This growth is less than proportional to the evolution of the amount of subscriptions due to the 5 bp reduction in the company's placement fees, in May 2018.

With regard to **Money Orders** (national and international), 7.4 million transactions were carried out, which represented a decrease of 9.5% vis-à-vis 1H18 and translated into €2.8m (-13.0%) in revenues. In the **Payments** business, mainly tax collections, 630 thousand transactions were processed in 1H19, representing a decrease of 11.4% compared to 1H18, corresponding to revenues of €0.6m (-11.5%).

OPERATING COSTS

Operating costs⁷ totalled €308.6m, decreasing 0.1% vs 1H18, due to the reduction of external supplies & services (ES&S) costs (-0.9%) and staff costs (-0.4%), which were partly offset by the increase of other operating costs (+10.2%). Excluding 321 Crédito, operating costs totalled €306.7m (-0.8%).

It is also important to note that the company has been adjusting its operations structure in order to comply with the new quality of service indicators defined by ANACOM, which has weighed on the pace of structural improvement of operational efficiency.

Despite the impact of these regulatory requirements, in 2Q19, the company achieved a steady reduction in its cost structure (-€2.1m; -1.3%) including the acquisition of 321 Crédito. On a like-for-like basis and excluding the effect of the merger of 321 Crédito, operating costs decreased even more significantly in 2Q19 (-4.0M€, -2.6%), showcasing the good progress achieved.

Operating costs⁷				
	€ million			
	1H18	1H19	Δ	Δ%
Operating costs (*)	309.1	308.6	-0.5	-0.1%
Staff costs	169.8	169.2	-0.6	-0.4%
ES&E	127.0	125.9	-1.1	-0.9%
Other operating costs	12.2	13.5	1.3	10.2%

Staff costs decreased €0.6m (-0.4%), or €1.5m (-0.9%) excluding the effect of the merger of 321 Crédito. The initiatives of the Operational Transformation Plan resulted in savings of €4.5m which were partly offset by the increase in the number of permanent staff in Banco CTT and Tourline (+€1.1m), the increase of fixed-term contracts (+€0.7m), as well as by career progression and rejuvenation of some managerial staff. Until the end of June 2019, no decision was made regarding salary updates for the current year.

⁶ Savings Certificates and Treasury Certificates Poupança Crescimento.

⁷ Excluding depreciation / amortisation, impairments and provisions, as well as the impact of IFRS 16 and specific items.



External Supplies & Services costs decreased mainly due to the decrease in costs with buildings and fleet of -€3.2m (-9.6%). This is justified both by the optimisation of equipment and by the implementation of efficiency measures in surveillance, security, electricity and cleaning.

On the other hand, direct costs rose to €66.1m (+€1.0m; +1.5%), impacted by the Express & Parcels business, the costs of which rose by €1.4m (+2.9 %) reflecting traffic growth in Portugal (+4.1%), which was higher than the decrease in other business areas (-2.3%). Excluding the effect of 321 Crédito, External Supplies & Services costs amounted to €125.3m (-€1.7m; -1.4%).

Other operating costs increased mostly due to: (i) the increase in interbank fees paid (+€0.5m; +47.9%) as a result of the increase in the number of bank accounts of Banco CTT (+43.5%), which entails higher total transactionality costs; (ii) the inorganic effect of 321 Crédito (+€0.4m); and (iii) stamp duty related to CTT, S.A. financing operations (+€0.2m).

STAFF

As at 30 June 2019, the CTT headcount (permanent and fixed-term staff) consisted of 12,561 employees, 38 less (-0.3%) than in 1H18. This reduction is justified by the decrease in the business units Mail & Other (-193) and Financial Services (-3), which was partly offset by the increase in the business units Express & Parcels (+18) and Banco CTT (+140, of which 115 result from the integration of 321 Crédito in this business unit). Excluding the effect of the merger of 321 Crédito, the number of employees decreases 153 (-1.2%).

	Headcount			
	30.06.2018	30.06.2019	Δ 2019/2018	
Mail & Other	11,178	10,985	-193	-1.7%
Express & Parcels	1,137	1,155	18	1.6%
Banco CTT ^(*)	253	393	140	55.3%
Financial Services ^(*)	31	28	-3	-9.7%
Total, of which:	12,599	12,561	-38	-0.3%
Permanent	10,946	10,889	-57	-0.5%
Fixed-term contracts	1,653	1,672	19	1.1%
Total in Portugal	12,135	12,090	-45	-0.4%

(*) in 2019 and in the same period of the previous year (proforma), the figures include the migration of the payments services from the Financial Services business unit to Banco CTT business unit.

There was a decrease of 57 in the number of permanent staff and an increase of 19 in the number of staff with fixed-term contracts. The reduction of staff in the Mail & Other business unit (-218) had a notable impact on this evolution.

Together, the areas of operations and distribution (6,027 employees, of whom 4,410 delivery postmen and women) and the retail network (with 2,574 employees) represented circa 78% of CTT headcount.

It should be highlighted that these figures already include 102 exits that occurred in 2019, to which are added 429 exits, divided into 161 in 2017 and 268 in 2018, which occurred in the context of the Human Resources Optimisation Programme included in the Operational Transformation Plan underway.



EBITDA

The Company generated an EBITDA⁸ of €46.4m in 1H19, +€0.3m (+0.7%) vs 1H18, with an EBITDA margin of 13.1% (13.0% in 1H18). Excluding the effect of 321 Crédito, EBITDA amounted to €43.2m (-€2.8m; -6.2%).

The evolution of EBITDA was due to the increase in EBITDA of Financial Services (+€4.1m) and Banco CTT (+€3.3m), which offset the decrease in the EBITDA of Mail & Other (-€4.4m) and Express & Parcels (-€2.6m).

EBITDA by Business Unit

	€ million			
	1H18	1H19	Δ	Δ%
EBITDA	46.1	46.4	0.3	0.7%
Mail & Other	45.6	41.1	-4.4	-9.7%
Mail	68.3	61.1	-7.2	-10.5%
Central structure	-22.7	-20.0	2.7	12.1%
Express & Parcels	1.9	-0.8	-2.6	-141.1%
Banco CTT (*)	-6.7	-3.3	3.3	49.7%
Financial Services (*)	5.3	9.4	4.1	76.9%

(*) in 2019 and in the same period of the previous year (proforma), the figures include the migration of the payments services from the Financial Services business unit to Banco CTT business unit.

SPECIFIC ITEMS

In 1H19, CTT recorded specific items for an amount of -€11.7m, broken down as shown below:

Specific items

	€ million			
	1H18	1H19	Δ	Δ%
Specific items affecting EBITDA	-15.1	-11.7	3.4	22.5%
Specific items affecting EBIT	-17.2	-11.7	5.5	32.2%
Corporate restructuring costs and strategic projects	-15.3	-11.6	3.7	24.4%
Other non-recurring revenues and costs	-1.9	-0.1	1.8	96.2%

The impact on the results of corporate restructuring and strategic projects (-€11.6m) relates mostly to: (i) costs related to termination of employment contracts by mutual agreement in 1H19 (-€6.8m) within the Human Resources Optimisation Programme and costs with consultancy services (-€1.6m) in the context of the Operational Transformation Plan in progress; (ii) costs related to the acquisition of 321 Crédito (-€1.2m); and (iii) costs related to the implementation of the changes to the Quality of Service Indicators (-€1.0m) measurement system, as required by ANACOM.

⁸ Excluding depreciation / amortisation, impairments, provisions, as well as the impact of IFRS 16 and specific items.



EBIT AND NET PROFIT

EBIT stood at €19.7m in 1H19, corresponding to +€1.6m (+8.9%) vis-à-vis 1H18 with a margin of 5.6% (5.1% in 1H18).

The consolidated financial results totalled -€5.0m, which represents a decrease of €0.2m (-4.6%) compared to 1H18.

Financial Results

	€ million			
	1H18	1H19	Δ	Δ%
Financial results	-4.8	-5.0	-0.2	-4.6%
Financial income, net	-4.9	-4.8	0.1	1.3%
Financial costs and losses	4.9	4.9	0.0	0.5%
Financial income	0.0	0.1	0.1	354.3%
Gains / losses in subsidiaries, associated companies and joint ventures	0.1	-0.2	-0.3	-289.2%

Financial costs and losses incurred amounted to €4.9m (+0.5%), mainly incorporating financial costs related to post-employment and long-term employee benefits of €2.7m, as well as to the interest associated to finance leases liabilities linked to implementation of IFRS 16 for an amount of €1.9m.

In 1H19, CTT obtained a consolidated net profit attributable to equity holders of the CTT group of €9.0m, which reflects an increase of €1.6m (+21.0%). This increase is positively impacted by the reduction of specific items (-€5.5m) and the merger of 321 Crédito with a net contribution of +€1.8m to the net profit attributable to equity holders (€1.5m in the individual accounts).

INVESTMENT

Capex of the Group stood at €14.7m in 1H19, +77.9% (+€6.4m) above that of 1H18, lower than the forecast amount. This growth is mostly due to the increase in investment related to postal processing equipment (+€6.4m) in the context of the Investment Monitoring Programme.

CASH FLOW

In 1H19, CTT generated an operating cash flow of €7.3m, an improvement over the previous year.

The evolution of working capital in 2018 resulted from the high amounts paid for terminations of employment contracts by mutual agreement in 1H18 (€22.3m) compared to 1H19 (€6.9m). The evolution of the change in working capital in 1H19 (-€12.8m) was negatively impacted by the amounts receivable from other foreign postal operators (-€5.6m), which is received in the 3rd quarter of each year, and by the mobility allowance (-€5.7m), which is most frequently used in the summer.



Cash flow

€ million

	Consolidated		
	1H18	1H19	Δ 19/18
EBITDA	46.1	46.4	0.3
Specific items*	-15.1	-11.7	3.4
CAPEX	-8.3	-14.7	-6.4
Δ Working capital	-28.1	-12.8	15.3
Operating cash flow	-5.3	7.3	12.6
Employee benefits	-7.0	-6.7	0.3
Tax	-2.0	-1.6	0.4
Free cash flow	-14.3	-1.0	13.2
Debt (principal + interest)	-7.9	36.7	44.6
Dividends	-57.0	-15.0	42.0
Financial investments	0.0	-112.9	-112.9
Net change in organic own cash	-79.1	-92.2	-13.1
Changes to consolidation perimeter - 321 Crédito	-	6.8	6.8
Change in own cash	-79.1	-85.4	-6.3
Δ Liabilities related to Financial Services, net ⁹	70.6	18.4	-52.2
Δ Other ¹⁰	-26.5	8.0	34.5
Net change in cash (Balance Sheet)	-35.1	-59.0	-23.9

*Specific items affecting EBITDA.

The €44.6m increase in debts is related to financing operations, including one for €35.0m aimed at carrying out the forecast investment plan. Investments in companies (-€112.9m) correspond to the value of the acquisition of 321 Crédito (€110.8m) and the capital increases made with the company Mktplace - Comércio Eletrónico, S.A. (€2.2m), better known for the Dott brand.

CONSOLIDATED BALANCE SHEET

The CTT Group consolidated balance sheet excluding Banco CTT from the full consolidation perimeter and accounting it as a financial investment measured by the equity method would be as follows:

Consolidated Balance Sheet excluding Banco CTT from the consolidation perimeter

€ million

	31.12.2018 restated	30.06.2019	Δ	Δ%
Non-current assets	486.6	580.9	94.3	19.4%
Current assets	456.9	426.3	-30.6	-6.7%
Assets	943.5	1,007.2	63.8	6.8%
Equity	135.9	129.7	-6.1	-4.5%
Liabilities	807.6	877.5	69.9	8.7%
Non-current liabilities	363.5	388.7	25.2	6.9%
Current liabilities	444.1	488.8	44.7	10.1%
Equity and Liabilities	943.5	1,007.2	63.8	6.8%

⁹ The change in Financial Services net liabilities reflects the evolution of credit balances with third parties, depositors or other banking financial liabilities, net of the amounts invested in credit or investments in securities / banking financial assets, of entities of the CTT group providing financial services, namely the financial services of CTT, Payshop, Banco CTT and 321 Crédito.

¹⁰ The change in other cash items reflects the evolution of Banco CTT's sight deposits at Bank of Portugal, outstanding cheques / clearing of Banco CTT cheques and impairment of sight and term deposits.



Consolidated Balance Sheet

	€ million			
	31.12.2018 restated	30.06.2019	Δ	Δ%
Non-current assets	1,108.1	1,576.2	468.0	42.2%
Current assets	746.3	715.8	-30.5	-4.1%
Assets	1,854.5	2,292.0	437.5	23.6%
Equity	135.9	129.7	-6.1	-4.5%
Liabilities	1,718.6	2,162.2	443.6	25.8%
Non-current liabilities	364.3	488.9	124.6	34.2%
Current liabilities	1,354.3	1,673.4	319.1	23.6%
Equity and Liabilities	1,854.5	2,292.0	437.5	23.6%

The key aspects of the comparison between the balance sheet as at 30.06.2019 and that at the end of the 2018 financial year (restated) are:

- **Non-current assets** increased €468.0m, mostly due to the increase of credit to banking clients (+€424.2m), particularly consumer credit as a result of the merger of 321 Crédito (€352.6m) and the increase in Banco CTT (+€71.6m).
- **Equity** decreased €6.1m due to the payment of dividends concerning the 2018 financial year in May 2019 for an amount of €15.0m, which represented a gross dividend per share of €0.10 and was partly offset by the generation of net profit attributable to equity holders of the CTT group in 1H19 for an amount of €9.0m.
- **Non-current liabilities** increased by €124.6m, with emphasis on (i) Other banking financial liabilities of 321 Crédito (€93.9m) associated to the liabilities represented by securities; and (ii) the increase in funding obtained (+€29.9m).
- **Current liabilities** increased by €319.1m, with emphasis on the increase of Banking clients' deposits (+€255.8m).

As at 30 June 2019, the **liabilities related to employee benefits** (post-employment and long-term benefits) decreased to €259.6m, -€2.1m than in December 2018, as specified in the table below:

Liabilities related to long-term employee benefits

	€ million			
	31.12.2018	30.06.2019	Δ	Δ%
Total liabilities	261.7	259.6	-2.1	-0.8%
Healthcare	251.8	250.5	-1.3	-0.5%
Suspension agreements	1.6	0.6	-1.0	-64.7%
Other long-term employee benefits	7.9	8.1	0.3	3.3%
Transporta pension plans	0.3	0.3	0.0	-3.2%
Other benefits	0.1	0.1	0.0	27.9%



OTHER HIGHLIGHTS

REGULATORY FRAMEWORK

Complying with the pricing criteria as defined by a decision of ANACOM of 12.07.2018¹¹ complemented by a decision of 05.11.2018, the proposal on the **prices of the universal postal service** submitted by CTT on 17.04.2019 was approved by ANACOM by a deliberation of 22.05.2019. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 04.06.2019.

With regard to the **special pricing of the postal services included in the universal postal service offer**¹² applicable to bulk mail senders are concerned, these were also updated on 04.06.2019, following a proposal submitted to the Regulator on 16.05.2019.

In terms of the access to CTT's postal network and in the framework of the commitments made with the Authority for the Competition, on 02.01.2019 an **extension of the access offer to competing postal operators** entered into force, consisting mainly of: (i) the extension of postal services covered by the access offer; (ii) the introduction of new access points to the postal network, further downstream in the postal delivery chain, namely destination production and logistics centres and about 200 destination CTT post offices, whose mail is directly forwarded to postal delivery offices for delivery by the postmen; (iii) the introduction of faster delivery times for some services, in the case of access through the destination post offices; (iv) the possibility for a competing operator to perform additional mail processing tasks; (v) lower pricing for access to the network than that applied to final customers, with differentiated prices depending on the access point, mail service and processing tasks carried out by the competing operator.

On 28 December 2018, following the results of the audit of the 2016 and 2017 annual quality of service levels of the universal postal service, ANACOM decided to stipulate **changes to the Quality of Service Indicators measurement system**, which meant an increase in the costs to be borne by CTT with the contracting of the external entity responsible for the measurement (+€1.6m compared to the same period of the previous year). Having disagreed with the grounds and scope of ANACOM's stipulations, CTT contested the decision before the administrative courts on 28.03.2019. The new procedures were implemented on 01.07.2019, as provided for in ANACOM's decision.

On 10.01.2019, ANACOM stipulated that CTT should present a proposal to complement the **density targets of the postal network and minimum service offer** in force taking into account the following reference framework: (i) that the postal establishment that must provide all the concession services in each municipality is a post office or a postal agency with equivalent characteristics; (ii) that the functioning of said postal agency complies with a number of requirements.

The initial proposal submitted by CTT on 21.02.2019 was analysed by ANACOM, and on 24.04.2019 that entity decided that it did not fully correspond to the defined reference framework. In this respect, CTT presented a new complementary proposal of density targets of the postal network and minimum service offer. The revised proposal, communicated by CTT on 14.06.2019 to the Regulator and accepted by the latter on 11.07.2019, is the subject of public consultation until 01.08.2019, after which ANACOM will issue its final decision.

¹¹ Pursuant to Article 14(3) of Law No 17/2012 of 16 April (Postal Law), as amended by Decree-Law No 160/2013 of 19 November and Law No 16/2014 of 4 April.

¹² As amended by Article 4 of Decree-Law No 160/2013 of 19 November.



UPDATE OF THE STRATEGIC PRIORITIES

For 2019, CTT estimates that EBITDA of the group, including 321 Crédito, is within the range of €100m to €105m and that total investment will amount to €45m, the latter representing a reduction of €10m compared to the initial estimate of €55m, announced in February 2019.

The company will continue to implement the Operational Transformation Plan, with the aim of exceeding the previously announced savings targets, namely through incremental savings in operating costs and a more restrictive policy of termination of employment contracts by mutual agreement, including the increased use of early retirement mechanisms. Additionally, and as long as the necessary market conditions are met, CTT will implement an optimisation plan of the non-strategic real estate assets during the 2nd half of the year.

The focus on optimising and streamlining the use of Company resources will accelerate throughout the year in order to achieve further savings outside the scope of the Operational Transformation Plan, especially regarding central support areas. It is expected that more information on the objectives and results of this initiative will be provided during the results presentation of the 3rd quarter of 2019.

The growth levers remain the strategic pillar for the development and sustainability of CTT, with several initiatives to be carried out in the short and medium term. In the Express & Parcels business unit, Tourline now counts on a new, local management team, very experienced in the sector and in turnaround situations, with a mandate to focus on organic growth, with emphasis on implementing cost efficiency measures in its own network and on maximising the value that can be mobilised through the franchise model. More details on the plan will be communicated during the 3rd quarter results presentation. Banco CTT enters a new stage of its growth with the merger of 321 Crédito and the capture of identified synergies. In conjunction with a better monetisation of the customer base, this will boost the profitability of the banking business, hence the objectives of EBITDA breakeven for the 2nd half of 2019 and Net profit breakeven for 2020 are reaffirmed.

SUBSEQUENT EVENTS

Following additional information and clarifications on fundamental data provided by CTT on 3 July 2019, on 18 July 2019, CTT was notified of the Tax Authority's decision regarding the discretionary appeal filed in the 2nd quarter of 2018 with a view to confirming the possibility of deduction of the tax loss on CTT Espresso's sale of Tourline in the 2016 financial year. This favourable decision for CTT shall result in an IRC refund of €6.8m (plus interest) that, bearing in mind the relevance to the Tax Authority's decision of the additional information and clarifications provided by CTT after 30 June 2019, was considered as a subsequent non-adjustable event, the effect of which will be recognised by CTT in the financial statements of the 2nd half of 2019.

The members of the Board of Directors of CTT waived part of their base remuneration as from 1 July 2019, in particular:

1. The remuneration of the Chairman of the Board of Directors and of the Chief Executive Officer was reduced by 25% until the end of the term of office;
2. The remuneration of the remaining members of the Board of Directors (Executive and Non-Executive) was reduced by 15% until the end of the term of office.

This initiative aims to emphasise the strong commitment that the management team and the Board of Directors have made to reducing the Company's costs structure.



FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1st half of 2019 with limited revision by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 25 July 2019

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. It 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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Forward-looking statements

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.

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, and the wider environment (specifically, market developments, investment opportunities and regulatory conditions).

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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All forward-looking statements included herein speak only as at the date of this document. 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.