

Consolidated Results

1st Half 2016



ctt



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

1ST HALF 2016 CONSOLIDATED RESULTS

**MAIL AND EXPRESS & PARCELS EBITDA GROW AS A RESULT OF OPERATING EFFICIENCY MEASURES,
THUS MITIGATING THE EFFECTS OF THE LAUNCH OF BANCO CTT AND ALLOWING FOR
A TOTAL EBITDA MARGIN OF 18%**

- Recurring revenues amounted to €349.4m (–€17.7m; –4.8%) mostly due to the declining volumes of registered mail, the extraordinary effect of the placement of Public Debt Certificates in January 2015 and, within the Express & Parcels business unit, the loss of large customers with negative contribution to profitability, particularly in Spain, which should be progressively offset by entry of new customers.
- Decline of addressed mail volumes stood at –2.3%, slowing down vis-à-vis the 1st quarter 2016 decline (–4.1%), a better-than-expected evolution.
- Operating costs ¹ decrease by 1.6%, totalling €286.9m, mainly as a result of the reduction in staff costs (–€4.2m; –2.5%) and in other operating costs.
- Recurring EBITDA ² stood at €62.5m (–17.3%) – with Mail contributing 75% ³, Financial Services 22% ³ and Express & Parcels 3% ³ – with an EBITDA margin of 17.9%. The recurring EBITDA excluding Banco CTT ⁴ was €70.5m (–8.1%).
- Net profit of €31.7m, corresponding to a 19.1% year-on-year decrease, with a 9.1% net margin on revenues. The net profit excluding Banco CTT ⁴ was €41.8m (+0.2%)
- Progress of reorganisation initiatives in Express & Parcels in Portugal with the conclusion of the distribution networks integration (over 70% of the parcels are currently delivered through the Mail distribution network), and in Spain following the reduction of staff in 2015 and the exit of some customers which were contributing negatively to the profitability of the operation; this is already noticeable in the results.
- Opening of Banco CTT to the general public on 18 March 2016 in 52 branches, the biggest opening ever occurred in Portugal on a single day. In June, 14 additional branches were opened. By the end of June, more than 20 thousand accounts were opened by circa 25 thousand clients, corresponding to a capture of more than €50m in customer deposits.
- 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.
- Balance Sheet optimisation measures continue with the rationalisation of real estate assets via the termination of the long-term lease contract of a vacant building (Conde Redondo), leading to a +€3.3m net effect on net profit.
One of such measures under implementation is the project to transfer the responsibility with post-employment healthcare to a fund in order to free up liquidity in the company's Balance Sheet.
- Strong levels of financial standing and good liquidity is maintained with an adjusted cash position at the end of the 1st half 2016 amounting to €194.9m, despite the strong growth of the investment (14.4%, €12.5m in the period), the costs with the launch of Banco CTT (€13.1m), and the dividend and employee profit participation (€77.7m) paid in the period.
- The 1st half 2016 performance, result of delays in the implementation of certain initiatives and other factors, justifies an update to the full-year guidance to low single-digit growth in recurring EBITDA excluding Banco CTT.

¹ Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.

² Before non-recurring revenues and costs.

³ The weight of the businesses is calculated excluding –€8.1m related to Banco CTT's EBITDA.

⁴ Includes Banco CTT business unit and Banco CTT project (booked in CTT S.A.).



SUMMARY OF CONSOLIDATED RESULTS

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

Interim Condensed Consolidated Results

€ Million

	Reported			Recurring ^(*)		
	1H16	1H15	Δ	1H16	1H15	Δ
Revenues	351.1	367.1	-4.4%	349.4	367.1	-4.8%
Sales and services rendered	336.2	360.2	-6.7%	336.2	360.2	-6.7%
Net interest income	0.02	-	-	0.02	-	-
Other operating income	14.9	6.9	117.1%	13.2	6.9	91.9%
Operating costs	294.1	296.7	-0.9%	286.9	291.5	-1.6%
EBITDA	57.0	70.4	-19.0%	62.5	75.5	-17.3%
EBITDA Margin	16.2%	19.2%	-3.0 p.p.	17.9%	20.6%	-2.7 p.p.
Amortisation, depreciation, provisions and impairments	9.6	10.5	-9.0%	13.0	10.9	19.5%
EBIT	47.4	59.9	-20.8%	49.5	64.6	-23.5%
Financial income, net	-2.7	-2.6	-6.5%	-2.7	-2.6	-6.5%
Gains / (losses) in associated companies	0.2	0.03	»	0.2	0.03	»
Earnings before taxes (EBT)	44.9	57.3	-21.6%	47.0	62.1	-24.4%
Income tax for the period	13.4	18.1	-26.3%	13.0	17.4	-25.6%
Losses / (gains) attributable to non-controlling interests	-0.13	0.01	<<	-0.13	0.01	<<
Net profit attributable to equity holders	31.7	39.2	-19.1%	34.1	44.6	-23.6%

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

Interim Condensed Consolidated Results excluding Banco CTT^(**)

€ Million

	Reported			Recurring ^(*)		
	1H16	1H15	Δ	1H16	1H15	Δ
Revenues	350.9	367.1	-4.4%	349.2	367.1	-4.9%
Sales and services rendered	336.2	360.2	-6.7%	336.2	360.2	-6.7%
Other operating income	14.7	6.9	114.7%	13.0	6.9	89.6%
Operating costs	281.7	293.2	-3.9%	278.7	290.4	-4.0%
EBITDA	69.2	73.8	-6.2%	70.5	76.7	-8.1%
EBITDA Margin	19.7%	20.1%	-0.4 p.p.	20.2%	20.9%	-0.7 p.p.
Amortisation, depreciation, provisions and impairments	8.9	10.5	-15.1%	12.5	10.9	14.6%
EBIT	60.3	63.3	-4.7%	58.0	65.8	-11.8%
Financial income, net	-2.7	-2.6	-6.3%	-2.7	-2.6	-6.3%
Gains / (losses) in associated companies	0.2	0.03	»	0.2	0.03	»
Earnings before taxes (EBT)	57.8	60.8	-4.8%	55.5	63.2	-12.2%
Income tax for the period	16.1	19.0	-15.3%	15.5	17.8	-12.8%
Losses / (gains) attributable to non-controlling interests	-0.13	0.01	<<	-0.13	0.01	<<
Net profit attributable to equity holders	41.8	41.7	0.2%	40.2	45.5	-11.7%

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

(**) Excluding revenues/costs of Banco CTT BU and Banco CTT project reported in CTT S.A..



REVENUES

Recurring revenues amounted to €349.4m, a year-on-year decrease of 4.8% (–€17.7m)

€ Million	Revenues					
	Reported			Recurring		
	1H16	1H15	Δ	1H16	1H15	Δ
Revenues	351.1	367.1	-4.4%	349.4	367.1	-4.8%
Business units	364.2	384.3	-5.2%	364.2	384.3	-5.2%
Mail	272.0	278.6	-2.4%	272.0	278.6	-2.4%
Express & Parcels	59.9	63.8	-6.2%	59.9	63.8	-6.2%
Financial Services	32.2	41.9	-23.2%	32.2	41.9	-23.2%
Banco CTT	0.2	-	-	0.2	-	-
Central Structure and intragroup eliminations	-13.1	-17.2	24.1%	-14.8	-17.2	14.1%

This decrease is a consequence of the contraction in the revenues of the business units: **Mail** (-2.4%; -€6.6m), **Express & Parcels** (-6.2%; -€4.0m) and **Financial Services** (-23.2%; -€9.7m).

The revenues of the **Mail** business unit stood at €272.0m, a 2.4% decrease vis-à-vis the 1st half of 2015. This decrease is associated to the decline of addressed mail volumes (-2.3%) namely due to the reduction of registered mail (-11.2%). The latter, being a pricier service, outweighed the effect of the international inbound mail growth and the price increase that entered into force on 1 February 2016.

The average change of the price of the universal postal service in the 1st half of 2016 versus the same period of the previous year was 1.9% and was mainly attributable to update of the letter mail, editorial mail and parcels basket of services effective as of 1 February 2016, to the changes in the discount policy, as well as to the volume structure of the different products and weight steps.

It is however worth noting the favourable performance of the **addressed mail volumes** change in the 2nd quarter of 2016 (-0.4%) when compared to that of the 1st quarter (-4.1%).

Million items	Mail Volumes								
	1Q16	1Q15	Δ	2Q16	2Q15	Δ	1H16	1H15	Δ
Transactional Mail	180.9	188.8	-4.2%	169.2	169.0	0.1%	350.0	357.8	-2.2%
Editorial Mail	11.6	11.3	2.2%	11.0	12.0	-7.8%	22.6	23.3	-2.9%
Advertising Mail	19.4	20.9	-7.1%	19.1	19.0	0.5%	38.5	39.9	-3.5%
Addressed Mail	211.8	221.0	-4.1%	199.3	200.0	-0.4%	411.2	421.0	-2.3%
Unaddressed Mail	108.5	110.3	-1.7%	126.2	114.8	9.9%	234.7	225.1	4.3%

Transactional mail volumes decreased by 2.2% in the 1st half of 2016. This evolution is the result of changes in the volumes of ordinary mail (-1.4%), registered mail (-11.2%), priority mail (-8.8%), "green mail" / *correio verde* (-3.5%) and international outbound mail (-1.4%). On the contrary, international inbound mail had a positive evolution (+7.0%).



The decrease in **registered mail** was due to the Government and the Public Administration's reduced consumption, particularly the Tax Authority, which has been reducing its use of this type of mail since the 3rd quarter of 2015 to levels more consistent with the past. Excluding the effect of this customer's behaviour in the 1st half of 2016, registered mail volumes would have grown by 2% when compared with the same period of the previous year as a result of a more segmented offer of value-added services.

The fall in **priority mail** volumes was particularly marked during the 1st quarter of 2016 in the occasional segment related to the sale of pre-paid items at the CTT post offices, since the significant growth that took place in the 1st quarter of 2015 as a reaction of the customers to the anticipated mail price increase did not have the same expression in 2016 due to a lower price increase. However, in the 2nd quarter of 2016 there was as recovery in this segment which decreased by only 2%.

Ordinary mail volumes grew in the 2nd quarter of 2016 (+0.8%) vis-à-vis the same period of the previous year due to the recovery of the large customers portfolio and the growth of contractual customers in the remaining portfolios. The change in the semester (-1.4%) is also influenced by the 1st quarter fall in volumes in the utilities, telecommunications and Public Administration and Government sectors.

Addressed advertising mail volumes recovered in the 2nd quarter (+0.5%) mainly due to the seasonal effects of the large customers' campaigns. Further development in advertising mail is expected in the 2nd half of this year as a consequence of the initiatives and tools being developed for the advertising medium (described below in the section "Transformation Programme ⁵") to be launched in the market until the end of the 3rd quarter.

Domestic editorial mail volumes decreased in the 2nd quarter of 2016 mostly as a result of the decrease in the activity of occasional clients.

The **Express & Parcels** business unit posted revenues of €59.9m, a €4.0m (-6.2%) decrease compared to the 1st half of 2015 resulting from the slight decrease in the revenues of this business in Portugal (-€0.8m) and Mozambique (-€0.2m) and the strong reduction in Spain (-€3.0m) as a consequence of the company's strategy.

In terms of volumes handled, the Express & Parcels overall volumes decreased by 5.2% year-on-year (-1.8% in Portugal, -8.9% in Spain and +4.9% in Mozambique). To be highlighted is the reversion of the trend in Portugal which changed from a 5% decrease in the 1st quarter to a 1% growth in the 2nd quarter of 2016, highlighting the commercial strategy to replace large customers with middle-size, higher-margin customers.

The **Financial Services** business unit recurring revenues stood at €32.2m in the 1st half of 2016, -23.2% than in the same period of the previous year, as it has not been possible so far to reach the volume of revenues of the subscription of Public Debt Certificates of January 2015.

Savings placements reached 2 billion euros, corresponding mostly to subscriptions of Public Debt Certificates corresponding to circa 95% of the total amount; to note is also the placement of Treasury Certificates Poupança Mais which continue to stand out as one of the most popular savings products in the domestic market. Over the semester, CTT continued to offer capitalisation insurance and Retirement Savings Plans (PPR) in line with the diversification strategy consistently pursued in recent years. This positive performance was counterbalanced by the Payments business which recorded a decline in revenues compared to the same period of the previous year. This was mainly due to the reduction of average prices and top-up operations, the latter due to the growing penetration of the 4P offer (all in one) which migrates from pre-paid to post-paid service packages. Nevertheless, the toll payment segment grew as did the number of tax payments within the Payshop network.

⁵ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



The **Banco CTT** business unit recorded recurring revenues of €174,900 in the 1st half of 2016. As mentioned in the strategy presented for the bank, the focus currently is on the capture of new clients through the opening of accounts. This semester was marked by the opening of Banco CTT to the general public in 51 post offices of the CTT Retail Network and at the head branch, the biggest opening ever occurred in Portugal on a single day. It is present in all district capitals and in the islands of Madeira and Azores. After the initial opening, Banco CTT has been following the defined opening schedule and in June it started operating in 14 additional branches. It is expected that by the end of the year more than 200 branches open to the public, although the individual incremental contribution of each opened branch is continuously assessed to define the timing of new openings and the network dimension.

The results obtained so far show that Banco CTT was a project that the market had been looking forward to and it is already a widely known brand to the Portuguese. By the end of June, more than 20 thousand accounts had been opened for around 25 thousand clients, corresponding to over €50 million in customer deposits.

In the 2nd half of 2016, the objective of the bank is to meet the roll-out of branches and to continue to grow in terms of clients and customer deposits, thus continuously increasing its offer to meet its customers' needs, particularly by gradually offering consumer and mortgage credit, and maximising the profitability of the customer deposits.

The heading **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, especially the internal provision of IT services (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 -€7.0m.

OPERATING COSTS¹

The evolution of the recurring operating costs in the 1st half of 2016 continued to depend mostly on the implementation of the **Transformation Programme⁵**. The reductions achieved brought about a reduction of the consolidated costs (-€4.7m; -1.6%) vis-à-vis the same period of 2015, despite the €8.2m recurring costs from Banco CTT business unit and Banco CTT project recorded in CTT,S.A.. This shows the high scalability of the distribution and retail networks and the potential for efficiency gains from a better use of the available capacity.

Recurring **external supplies & services (ES&S)** costs increased by 1.1% (€1.2m) year-on-year. Recurring ES&S costs with the Banco CTT project reached €4.4m, offset by a decline in the costs of the optimisation and rationalisation of the operations and the distribution networks integration, of which the subcontracting of the delivery of EMS to the Express & Parcels business unit to the Mail network stands out with a decrease of €1.9m in costs.

¹ Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.

⁵ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



Operating costs

€ Million

	Reported			Recurring		
	1H16	1H15	Δ	1H16	1H15	Δ
Operating costs ^(*)	294.1	296.7	-0.9%	286.9	291.5	-1.6%
External supplies & services	114.5	111.3	2.9%	109.7	108.5	1.1%
Staff costs	167.1	170.3	-1.9%	164.8	169.0	-2.5%
Other operating costs ^(**)	12.5	15.0	-17.1%	12.4	14.0	-11.7%

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

(**) Including cost of goods sold.

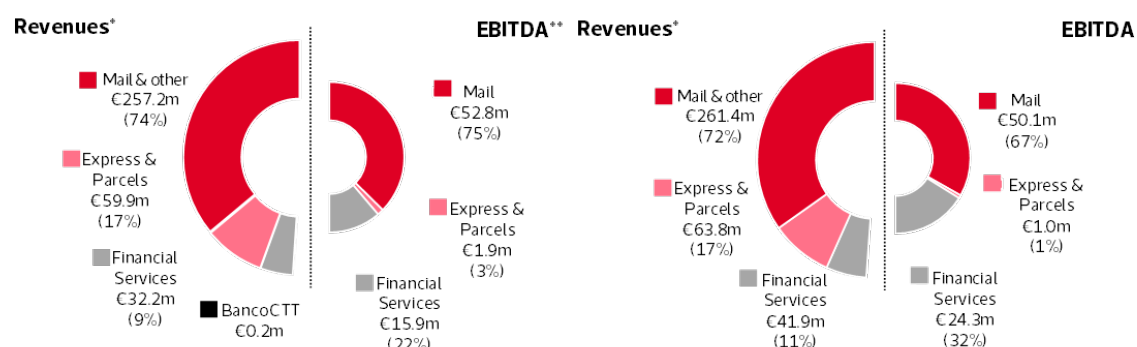
As far as **staff costs** are concerned, the €4.2m (-2.5%) decrease in recurring costs is mainly due to the following reductions: (i) -€5.4m resulting from the remuneration policy implemented that emphasises the variable component; (ii) -€1.8m from the telephone subscription fee employee benefit following an analysis of the average monthly spending of each beneficiary and the number of associated beneficiaries; and (iii) -€1.9m from Tourline's staff costs following the personnel restructuring measures undertaken in 2015 (ERE - *Expediente de Regulación de Empleo*). These favourable changes were partly absorbed by the increase of Banco CTT staff costs (€3.9m) and by the extension of the coverage of the work accidents insurance of the CGA (*Caixa Geral de Aposentações*) workers (+€0.6m).

Other costs decreased €1.6m (-11.7%) mainly due to a €1.4m decrease in SDR (Special Drawing Rights) exchange rate differences in the scope of the terminal dues bilateral agreements regarding mail exchanges between postal operators.

RECURRING EBITDA

January to June 2016

January to June 2015





of 2015, with a recurring EBITDA margin of 17.9% (-2.7 p.p. vs. the same period of 2015). It is important to mention that this recurring EBITDA is affected by €8.0m recurring revenues and costs from Banco CTT business unit and Banco CTT project, which were booked in CTT, S.A. and without which the decrease of recurring EBITDA would have been 8.1% (-€6.2m). Once more, it is worth emphasising the impact of the extraordinarily high placement of savings in January 2015 which should only be compensated for at the end of this year.

These results reflect the evolution described above: 4.8% (-€17.7m) decline in revenues combined with a lower decrease of 1.6% (-€4.7m) 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		
	1H16	1H15	Δ	1H16	1H15	Δ
EBITDA	57.0	70.4	-19.0%	62.5	75.5	-17.3%
Mail	50.6	50.6	0.0%	52.8	50.1	5.2%
Express & Parcels	1.9	- 2.3	182.2%	1.9	1.0	84.5%
Financial Services	15.9	22.0	-27.8%	15.9	24.3	-34.7%
Banco CTT	-11.4	-	-	-8.1	-	-

CTT's recurring EBITDA performance resulted from the EBITDA performance of the Financial Services business unit (-€8.4m; -34.7%) and Banco CTT business unit (-€8.1m). The EBITDA of the Mail business unit (+€2.6m; +5.2%) and Express & Parcels business unit (+€0.9m; +84.5%) grew significantly mainly as a result of the efficiency gains stemming from the distribution networks integration and the reduction of the negative contribution in Spain. The financial markets framework is not unrelated to this performance as, for example, a recovery of the commissions charged by the sector in Portugal will have a positive impact on Banco CTT's results.

RECURRING EBIT AND NET PROFIT

Recurring **EBIT** (earnings before interest, tax, and non-recurring results) posted a year-on-year negative change of -€15.2m (-23.5%) to €49.5m. The recurring EBIT margin stood at 14.2% (-3.4p.p. vs. that of last year).

Consolidated **financial results** reached -€2.5m, which represents a 1.4% (+€0.03m) improvement vis-à-vis the 1st half of 2015. Interest and other financial income decreased by 48.0% (-€0.4m) affected by the fall in the rates of return on term deposits and by the continued policy of very conservative treasury management by CTT. Financial costs incurred amounted to €3.2m, including financial costs associated with employee benefits of €3.16m and interest related to financial leasing and bank loans operations (€0.04m).

In the 1st half of 2016 CTT obtained a €31.7m consolidated **net profit** attributable to shareholders, which is 19.1% below that of the same period of 2015 and corresponds to a result of €0.21 per share and a 9.1% net profit margin on the consolidated revenues (10.7% in the 1st half of 2015).

Excluding the non-recurring effects in both financial years, the net profit would have decreased by 23.6%. Excluding the effect of Banco CTT, it would have been stable at circa €42m.

NON-RECURRING COSTS AND REVENUES

In the 1st half of 2016, CTT registered negative non-recurring results of €2.0m, which include:



- within Other operating income, €1.7m relative to the recognition of the deferred capital gain for the early termination of the Conde de Redondo building lease contract;
- within ES&S, €4.9m of costs incurred with studies and consulting on strategic projects, especially those related to (i) the Banco CTT launch and implementation project (€4.2m) and (ii) the management information improvement project, which is crucial to manage the profitability of the different businesses;
- within Staff costs, €2.3m which include: €0.5m regarding compensations paid for termination of employment contracts by mutual agreement within the Transformation Programme ⁵ and €1.7m in compensations resulting from the 2015 Company Agreement. The corresponding benefits are shown in the recurring reduction of staff costs; and
- within depreciation/amortisation, impairments and net provisions, a €3.4 net reversal: €3.8m from the reversal of provisions, of which €3.0m relate to the elimination of the provision for onerous contracts and €0.8m to net reversion of the provision for labour contingencies, and €0.4m refer to increased costs relative to net impairments resulting from the optimisation of the Express & Parcels business unit, the restructuring of Tourline network and depreciation/amortisation of Banco CTT project.

Non-recurring costs and revenues

€ Million	1H16	1H15
Total	-2.0	-4.8
affecting EBITDA	-5.4	-5.1
. Other operating income	1.7	-
. External supplies & services and other costs	-4.9	-3.8
. Staff costs	-2.3	-1.3
affecting only EBIT	3.4	0.3
. Provisions (reinforcements / reductions)	3.8	0.2
. Impairments (losses / reductions)	-0.4	0.1

INVESTMENT

Capex amounted to €12.5m, which is 14.4% above that of the same period of last year (+€1.6m). In this field are to be highlighted the investments in the implementation of Banco CTT (€9.0m), essentially in IT systems, especially the Core Banking System, and works to adapt the CTT post offices to Banco CTT's branches.

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased from €37.8m in 1st half of 2015 to €63.0m in 1st half of 2016. The adjusted operating free cash flow (excluding the change in net financial services payables) amounted to -€13.5m, due to the above-mentioned investments, the payments relative to investments made at the end of 2015 and to the increase in the dividends compared to 2015.

The net **change in cash** amounted to +€40.8m, €30.9m above that of the same period of 2015. Excluding the change in the financial services receivables / payables, the change in CTT's cash was -€84.1m.

This situation results mostly from: (i) €124.9m regarding the change in net financial services payables; (ii) €21.0m relative to payments regarding tangible fixed and intangible assets; (iii) €70.3m for the payment of dividends

⁵ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



(excluding own shares); (iv) €63.0m of cash flow from the operating activities (excluding the financial services flows); and (v) –€61.1m of Banco CTT financial assets.

Cash flow						
€ Million						
	Reported			Adjusted ^(*)		
	1H16	1H15	Δ	1H16	1H15	Δ
Cash flow from operating activities	187.9	95.8	96.1%	63.0	37.8	66.6%
Cash flow from investment activities	-76.5	-16.2	-373.3%	-76.5	-16.2	-373.3%
Operating free cash flow	111.4	79.7	39.8%	-13.5	21.6	-162.4%
Cash flow from financing activities	-70.6	-69.8	-1.2%	-70.6	-69.8	-1.2%
Net change in cash	40.8	9.9	312.0%	-84.1	-48.1	-74.7%
	30.06.2016	31.12.2015	Δ	30.06.2016	31.12.2015	Δ
Cash and equivalents at the end of the period	644.5	603.6	6.8%	194.9	279.0	-30.1%

(*) Cash flow from operating activities and investment activities excluding change in Net Financial Services payables (€124.9m 1H16 and €58.0m in 1H15).

Cash and equivalents at the end of the period excluding Net Financial Services payables a(€449.6m in June 2016 and €324.7m in December 2015).

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 30.06.2016 and that at the end of the 2015 financial year are:

Total **assets** increased €101.8m (+9.1%) vs. 31.12.2015 reflecting (i) the €1.9m increase in non-current assets, €11.4m relative to financial assets held by Banco CTT, of which 77.6% relate to sovereign debt securities and €5.4m due to the reduction in deferred tax assets (of which €3.0m relate to the early termination of the Conde de Redondo building lease contract) and (ii) the €99.9m increase in current assets resulting from the €40.8m (+6.8%) increase in cash and cash equivalents, in the €20.0m financial assets held by Banco CTT, of which 70.1% relate to short-term sovereign debt and from the deposits in credit institutions held by Banco CTT of €29.7m.

Equity decreased €40.4m (-16.1%) as a result of the distribution of dividends for the 2015 financial year (€70.5m) that took place in May 2016 and is not yet fully offset by the net profit for the period (€31.7m). To be mentioned is also the acquisition of own shares (300,265 shares) in the first half of 2016 for the total amount €2.5m. The total number of own shares held as at 30 June 2016 was 500,442.

Liabilities increased €142.3m (+16.4%) mostly due to: (i) the €124.9m (+38.5%) increase in Financial Services payables; (ii) Banco CTT customer deposits in the amount of €56.0m; (iii) the €2.8m increase in current funding obtained for Tourline via cash pooling; (iv) the €5.7m decrease in current deferrals reflecting the amount booked in the results of the 1st half of 2016 and regarding the Agreement with Altice (€5.0m); (v) the €2.8m reduction in non-current deferrals (€1.7m related to the recognition of deferred capital gains for the early termination of the Conde de Redondo building lease contract); and (vi) the €12.4m decrease in provisions of which €9.0m related to the early termination of the Conde de Redondo building lease contract.



Consolidated Interim Condensed Balance Sheet

€ Million

	30.06.2016	31.12.2015	Δ
Non-current Assets	356.8	354.9	0.5%
Current Assets	864.5	764.6	13.1%
Assets	1,221.3	1,119.5	9.1%
Equity	211.4	251.8	-16.1%
Total Liabilities	1,009.9	867.6	16.4%
Non-current Liabilities	273.3	292.7	-6.6%
Current Liabilities	736.6	575.0	28.1%
Total Equity and Liabilities	1,221.3	1,119.5	9.1%

As at 30 June 2016, the **liabilities related to employee benefits** amounted to €259.4m, 1.3% less than in December 2015.

Liabilities related to long-term employee benefits

€ Million

	30.06.2016	31.12.2015	Δ
Total responsibilities	259.4	262.8	-1.3%
Healthcare	236.4	236.8	-0.18%
Staff (suspension agreements)	6.4	8.2	-21.7%
Other benefits to Corporate Bodies	3.7	3.0	25.0%
Other long-term benefits	12.8	14.8	-13.3%

The €1.8m reduction of the liability related to the “telephone subscription fee” benefit stands out, as already mentioned in the operating costs section.

The caption 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 a Total Shareholder Return – TSR (comparison of the TSR performance of the company shares and the average weighed TSR of a peer group – PSI20 listed companies and other relevant peers of the European postal sector).

STAFF

As at 30 June 2016, the CTT headcount consisted of 12,722 employees, 165 less (-1.3%) than in the 1st half of 2015. There was a reduction of 177 permanent employees and an increase of 12 with fixed-term contracts, with special impact on the Express & Parcels business unit as a consequence of the distribution network integration process, of the integrated networks optimisation measures, and of the collective redundancy procedure at Tourline (ERE – *Expediente de Regulación de Empleo*) in the context of the ongoing restructuring process.



Headcount

	30.06.2016	30.06.2015	Δ 2016/2015	
Mail	10,260	10,290	-30	-0.3%
Express & Parcels	1,085	1,317	-232	-17.6%
Financial Services	96	102	-6	-5.9%
Banco CTT	136	22	114	»
Other	1,145	1,156	-11	-1.0%
Total, of which:	12,722	12,887	-165	-1.3%
Permanent	11,348	11,525	-177	-1.5%
Fixed-term contracts	1,374	1,362	12	0.9%
Total in Portugal	12,275	12,280	-5	0.0%

The number of employees includes 7,133 mail operations and delivery staff (including 4,699 delivery postmen) and 2,781 employees in the Retail Network.

In the 1st half of 2016, 102 employees were hired – 72 in Portugal, of which 43 for Banco CTT, and 30 abroad – while 119 left CTT. Of these, 35 employees retired, 75 terminated their contracts or are on leave without pay and 9 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 the selection process within the **2nd edition of the Trainee Programme** was launched 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 company staff**, foster a mobility culture and confirm CTT as an “employer of first choice”.

QUALITY OF SERVICE

In the 1st half of 2016, CTT have had good levels of operating performance, with the OQSI – Overall Quality of Service Indicator – registering 133.1 points, compared to a target of 100.

All the quality of the Universal Postal Service indicators performed above the minimum established targets.

In this period, the results of the quality of service measurements (OQSI of 133.1) show a positive evolution compared to those of the 1st quarter of 2016 (OQSI of 89.9). However, the comparison with the performance of previous years is impacted by the operational constraints that influenced the quality of service in the 1st quarter of the year (introduction of changes in the functioning of some operating units of the Lisbon sorting centre, due to the implementation of technological updates and to the holding of several plenaries of workers at a national level). The careful monitoring of these indicators as well as the detailed and suitable management of the work environment in the different operating units allowed the quality of service to recover to the current levels. To be noted is also the fact that in 2016 the Regulatory Authority has decided to introduce changes in the indicators of the OQSI by introducing new ones and changing the percentage weights, thus making the OQSI 2016 not comparable to those of the previous years.

CTT customers' perception of the quality of service continues to be good, as 87.1% of the customers consider the overall quality of CTT as good or very good (source: customer satisfaction questionnaires).



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 postal service submitted by CTT on 17.11.2015, and subsequently adjusted, was approved by ANACOM by a deliberation of 20.01.2016. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 01.02.2016. In terms of prices and as far as the special prices for postal services included in the universal postal service applicable to bulk mail senders were also updated on 01.02.2016, following the proposal submitted to the Regulator on 18.01.2016.

As the universal postal service provider and in order to provide a standardised, non-discriminatory service to operators wishing to use the universal service network, as of February 2016, CTT offers the postal operators holding an individual license access to its network, under competitive conditions and not jeopardising the security and efficiency of the universal service provision. In this context and with regard to the access of other postal operators to some elements of the postal infrastructure, the offer on the access to the service of delivery into P.O. boxes and to the service of return to sender of the mail found in the CTT network with postage of other operators was published and entered into force in the past month of March.

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 monitoring system is to be carried out by an independent external body. Following a pre-qualifying international tender that awarded the service to an international company, the necessary work to implement the measurement system of the quality of service indicators during the 2nd half of this year is being carried out.

TRANSFORMATION PROGRAMME ⁵

From among the wide number of projects included in this Programme in 2016 and aiming at the indispensable achievement of the short and middle-term objectives of CTT the following should be highlighted:

OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS

Special reference should be made to the progress of the integration of the Mail and Express & Parcels distribution networks, which started in 2014 and until 2015 was predominantly subcontracted.

In 2015, an in-depth integration of the Mail and Express & Parcels distribution networks took place, aiming at an increased use of the postmen & women network for the last-mile delivery of parcels and "day-definite" packages, using the installed capacity and the high capillarity of the Mail distribution network to deliver EMS 48 and EMS 19 items. This process allowed the company to replace the subcontracted delivery with resources existing in the company. Several initiatives are underway in this field aiming at a more efficient delivery operation in the Mail distribution network after the integration, thus allowing for the above mentioned benefit as well as for a reduction of the cost of the last-mile delivery of parcels.

In 2016, a new stage of the distribution networks optimisation project began, with the aim of gradually insourcing the delivery of EMS 19 Múltiplo within the Mail network in a total of 39 postal delivery offices (PDOs). In the 1st half of 2016, the initiative was implemented in 27 PDOs and the remaining are planned for the coming months. This new stage will allow for the completion of the insourcing potential of EMS within the Mail distribution network: It is to be noted that circa 70% of all EMS items were distributed by the Mail distribution network (compared to 29% in the same period of 2015).

⁵ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



Also within the synergies among the operations of CTT, a special note to the new Distribution Sequencing Printing (DSP) project started in 2016. By the end of the 1st semester it was implemented in 30 postal delivery offices/customer and delivery services.

INFORMATION SYSTEMS STRATEGIC PLAN

In the 2nd quarter of 2016, the acquisition processes leading to the implementation services of the projects under the 2016 IT Strategic Plan were carried out, specifically the new ERP system (SAP S/4) and the new contract and billing system (SAP Hybris Billing) which will be implemented together. This process will also involve the implementation of the workflow and content & integration management systems.

Within the current activity stand out the new modular product offer already underway in CTT Expresso and the beginning of the implementation of the CTT Expresso cost accounting system, which are key to maximise the company offer in the B2C segment as they hold the necessary functionalities and attributes for this market, fostering growth in the last quarter of the year. Simultaneously, the implementation of the system for the new advertising mail business also started, which is instrumental for the optimisation of mail as advertising medium on which CTT is focused.

Finally, the implementation of a company-wide management information tool is also underway, as set out in the IT Strategic Plan.

ADVERTISING MAIL

The **advertising mail** initiative is a major project for this year. The vision for the advertising mail is to position CTT as benchmark in direct and relational marketing in Portugal, based on the strategic objectives: (1) expand the advertising mail market by increasing its weight in advertising investment in Portugal; and (2) capture a share of the digital market.

CTT intends to develop its offer in terms of solutions for advertising campaigns and for this purpose it focuses on two vectors: (i) development of a platform where advertisers can build their own campaigns in a self-service way and (ii) boosting demand and leveraging partnerships with media agencies. It is intended to create an integrated online offer of Advertising Mail and Digital Marketing to SMEs by promoting an appealing and trendy concept that will position CTT as a swift and innovative company that supports solutions to promote its customers' brands and products.

Although the start of production is planned for the 2nd half of 2016, during the 1st half the team dedicated to this project, which integrates new skills following external recruitment, worked mostly in the first steps: creation of a new naming – **CTT Ads** – for CTT advertising solutions portfolio; carrying out product activation and incentive campaigns for the commercial areas; design of an integrated package of advertising solutions; definition of the new relationship model with media agencies; development of surveys; and sponsoring events ("Young Lions" and Club of Creatives of Portugal 2016 Festival).

OTHER BUSINESS OPPORTUNITIES

CTT is currently undertaking a number of initiatives to maximise the payments business in CTT outside the scope of the bank, through Payshop. A number of growth opportunities for this business have been identified and are under study and/or in implementation. They aim to position this business as a future growth segment for the Financial Services.



DIVIDENDS

In May 2016, CTT paid a dividend of €0.47 per share, corresponding to a total shareholder return (capital gain + dividend, calculated on the basis of the share price as at 31 December 2015) of -14.86% in the period. In terms of total shareholder return, the CTT share performance was close to that of the PSI 20 index, which presented a negative 13.69% total return.

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, defined a dividend policy offering a **stable and sustainable dividend growth**. As previously stated, the development of Banco CTT will have a negative impact in the company results during the first years of operation. However, given the high Balance Sheet liquidity of CTT and its capacity to create cash flow, this is not expected to have an impact on the ability to pay dividends in accordance with that policy.

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S. A. interim condensed consolidated financial statements for the 1st half of 2016, with limited revision by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 4 August 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.

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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