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“The transformation of CTT to address this reality and guarantee its future.”



1.2. Statement of the CEO & Vice-Chairman of the Board of Directors

2018 has been an important year for the consolidation of CTT's strategy.

I. Introduction

At the end of 2017 we announced the launch of the Operational Transformation Plan, reinforcing the focus of the Company on 2 pillars: transformation of the postal business and development of the growth levers (Express & Parcels and Banco CTT). In 2018 we worked intensively on both pillars.

Francisco de Lacerda
CEO & Vice-Chairman
of the Board of Directors

The balance is positive as we achieved important targets. We delivered the guidance for the recurring EBITDA, having exceeded our savings objective in recurring operating costs. We proved to be able of executing the Company's transformation, which is still underway. We managed to increase the quality of service. And both Express & Parcels and Banco CTT produced strong growth. In 2019 we will continue our mission pursuing CTT's sustainability and growth objectives in a challenging context.

II. 2018 highlights and results

In the **Mail Business Unit**, CTT increased revenues by 0.8% to €531.9m. Although mail volume decline continued to accelerate and has been higher than expected (-7.6% in 2018 vs. -5.6% in 2017), we managed to compensate this decline with a positive mix effect, selling more value-added mail products (international inbound mail, registered mail and priority mail), and through the price lever.

CTT has also been able to increase significantly the Overall Quality of Service Indicator in 2018, having obtained the best result of the last three years. Measured by external and independent entities and according to a methodology which is consistent with the one adopted in previous years, CTT achieved a global score of 150.2, plus 40.8 vs. 2017 and well above the required level of 100. CTT exceeded the minimum in nine of the eleven parameters (scoring the highest level of the last three years in five parameters), and one of the other two parameters increased significantly the score, although not yet reaching the minimum. All in all, clearly a considerable improvement in quality of service performance.

In the regulatory context, 2018 has been an unusual year. Several disruptive decisions have been made by the regulator. One of them increases the number of quality of service parameters from 11 to 24, defining extremely demanding performance targets and going against the observed practice in other European countries. Given the disproportionate and inadequate nature of the new criteria, CTT challenged the decision in court in October. Arbitration proceedings are still ongoing and the respective outcome is still unknown.

The performance of the **Express & Parcels Business Unit** has been very positive, reaching recurring revenues of €151.2m in 2018 due to a double-digit growth in both revenues and volumes (+12% vs 2017 in both indicators) and a significantly improved EBITDA.

On the one hand, in Portugal, we were able to grow the CEP (Courier, Express and Parcels) activity, invert the declining trend in the banking network delivery business (2 new relevant clients captured at the end of 2017), and develop the cargo and logistics segment. CTT grew above the market in the domestic segment, having registered a significant growth in occasional customers. One can observe that last years' efforts to improve the B2C offer and the development of added-value initiatives are contributing favourably to the Company. Additionally, in 2018 we continued to innovate and announced the launch of the Portuguese marketplace Dott, which results from a joint venture with a leading domestic retailer and is aligned with the CTT's objective of being one of the main players supporting the e-commerce development in Portugal (which is still lagging behind the European average).

“ We proved to be able of executing the Company's transformation. ”

On the other hand, in Spain, revenues growth was mostly driven by the e-commerce business. In September Tourline moved to new facilities in Madrid, increasing significantly its handling capacity and providing the Company with the necessary tools to capture growth. Profitability is still below target, but we continue to grow the business and implement the needed measures to reach that goal.

Banco CTT continued its path of development in the domestic retail banking market, growing its franchise and reaching very interesting numbers for the Portuguese market only 3 years after its launch. In 2018, it increased significantly the number of clients to more than 430 thousand and current accounts to 348 thousand. The deposits have reached €884m (+42.8% vs. 2017) and the mortgage lending book grew more than 260% to €238m. Additionally, we launched an off-balance sheet offer to complement the portfolio offered to the Portuguese families in the savings front. Overall, Banco CTT recurring revenues increased 27% to €23.6m supported mainly by the net interest income growth.

The acceptance of the population and the good service provided by our banking operation has been proved by the different awards Banco CTT has been receiving: “leading company in banking” by ECSI Portugal (an independently measured consumer satisfaction index), “right choice for current account” by DECO Proteste (consumer protection association) and a 5-star award in its mortgage loan offer, the latter received in the beginning of 2019.

2018 was also an important year in terms of expansion of the footprint of Banco CTT. As planned, we have transferred Payshop to Banco CTT with the aim of having an integrated management of the payment activity. In July we also announced the acquisition (still pending regulatory authorisation) of 321 Crédito, a high-performing specialised consumer credit institution in the used auto loans market, which will allow Banco CTT to diversify its credit portfolio and accelerate its performance.

Recurring revenues of **Financial Services** were €42.3m, a year-on-year decrease of 23.4%, mainly driven by the strong decline in savings and insurance placements after the reduction of savers' remuneration rate at the end of 2017 but also impacted by the declines in money orders & transfers and the payments business. The trend in the savings and insurance placements reverted to

positive in the last quarter, boosted by the maturity of Treasury Certificates “Poupança Mais”, issued since October 2013 and with a 5-year maturity.

Overall, topline results show the dependency on mail business was slightly lower (69% of total revenues in 2018 vs. 71% in 2017), consistent with the diversification strategy that CTT has been pursuing, but still much higher than the observed in the average of the postal sector.

The execution of the **Operational Transformation Plan** during 2018 included several efficiency measures. We adapted our retail network, increasing the total number of CTT access points and thus the capillarity and proximity to the Portuguese population, despite reducing the number of owned branches where customer demand does not justify a single purpose presence. We continued the human resources optimisation programme reducing recurring staff costs by 2.1% (vs. 2017) despite salary increases and other employee development initiatives. Overall, we have been able to reach circa €15m savings in recurring operating costs, exceeding the objective of €13.8m for the year.

Thus, aligned with guidance, a total recurring **EBITDA** of €90.4m (+0.6% vs 2017) has been delivered.

In 2018 CTT has also recorded higher than projected capital gains in the Operational Transformation Plan, €9.3m vs €5.2m objective. On the other hand, mainly due to the better than expected acceptance of the human resources optimisation programme, non-recurring operating costs were €21.6m, slightly higher than the objective of €20m. CTT reported a net profit of €19.6m (-28% vs 2017).

III. CTT strategy

CTT's strategy is based on the transformation of the postal business and development of the growth levers. Transformation is a general motto for the company, but a stronger need in the Mail Business Unit.

Mail

The acceleration in mail volumes decline is a global trend we cannot change. It is our objective though to preserve the value of our core business by capturing specific segments opportunities (e.g. international and registered mail) to counter the effect at topline

level, as well as to continue to implement efficiency measures aiming to reduce costs. One of the focus points of 2019 will be the implementation of the Modernisation and Investment Plan we announced in 2018. This plan entails an investment of circa €40m, mainly in 2019 and 2020, representing one of the major investments ever made in our core activity, namely in networks, platforms and people. We are engaged with the transformation and with this plan we will modernise and improve processes, tools, machines, production and logistics capacity, fleet, work conditions and quality of service having as ultimate objective to prepare the Company to a future with less letters and more parcels.

Express & Parcels

We intend to consolidate CTT's positioning as an Iberian CEP operator leveraging on e-commerce growth. In 2019 we aim to consolidate our market positioning in the B2C segment and improve B2B offer in Portugal. In Spain we will continue the turnaround of Tourline, focusing on volumes growth, costs control and working tools improvement. We want to grow in Iberian flows leveraging on our leadership positioning in the Portuguese market. Solidifying the Company as Iberian operator will also allow us to expand our international flows (i.e. cross-border flows beyond Iberia).

Additionally, we want to play an active role in the e-commerce ecosystem in Portugal, as one of the main driving forces of its development. We will continue to innovate in the sector and develop additional initiatives to facilitate and boost online retail. The e-fulfilment platform we are developing to support e-sellers is a good example of this strategy.

Banco CTT and Financial Services

The strategy for Banco CTT is to continue its path to breakeven, consolidating its positioning as an innovative player in the retail banking market providing a simple and transparent offer to the Portuguese population. We intend to achieve this through the build-up of the mortgage credit book and growth in off-balance sheet savings products, monetising the growing client base with these and other complementary offers. We also intend to

reinforce the digital experience across Banco CTT's services in order to keep up with the best market practices and serve the needs of our clients.

In 2019 we will also be focused on the integration of 321 Crédito, once the acquisition is authorised and concluded, which is expected to happen in the first half of the year. For the payments segment it is critical to revamp the business adapting it to the digital era and leveraging on opportunities arising from new regulation initiatives.

Complementarily to the strategy within each business unit we want to spread the transformation across the whole company, modernising transversal and support areas and making them more agile.

We will improve customer experience within CTT retail network, aiming to boost efficiency and satisfaction - digitalisation and modernisation are key drivers for this transformation. A strategy for our digital approach is also being implemented aiming to guarantee a unique experience in CTT's digital ecosystem. Digital channels such as websites, apps and other are being reorganised and digitalisation will be implemented in many fronts meeting current trends and customer needs.

As far as sustainability is concerned, we intend to continue to be a leading player in the logistics sector. We have the largest electric fleet in the country for transportation and distribution and have accomplished many important milestones such as the reduction of the environmental impact of our offers. This is a continuous concern of the Company which we will also address in the future.

Last but not least, we will continue to implement measures to improve and develop our people, such as programmes to increase training with a dynamic and innovative approach, to increase safety and control accidents at work, and to reduce absenteeism.

IV. Final remarks

Digitalisation is occurring at a fast pace impacting many businesses and driving significant change in the postal sector. The transformation of CTT

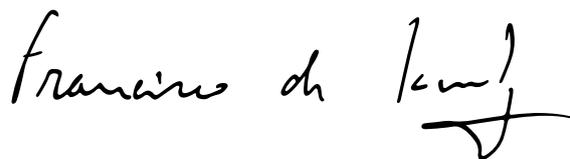
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to address this reality and guarantee its future sustainability is ongoing, the challenges are numerous and significant, and agility is needed to adapt to the continuous change. I believe that we are putting our best efforts to run successfully this process, and what we achieved in 2018 was a good building block for the future.

I trust in CTT's team capabilities to implement change and achieve success. I thank every

employee for the commitment to the Company during this demanding period, every obstacle you have been able to overcome and the demonstrated resiliency.

I also thank every stakeholder of the Company, namely CTT's shareholders and clients, who directly and indirectly drive excellency and make us want to improve every day.



Francisco de Lacerda
CEO & Vice-Chairman of the
Board of Directors