

A decorative graphic on the left side of the slide features a large, detailed image of the Earth's horizon against a dark, starry space background. To the right of the Earth, there is a vertical column of five circles: a small yellow circle at the top, a larger white circle, a medium yellow circle, a smaller yellow circle, and a small white circle at the bottom. The main title text is positioned to the right of these circles.

The postal sector in Portugal and the privatization of the designated operator

José Perdigoto

Vice-Chair of ANACOM

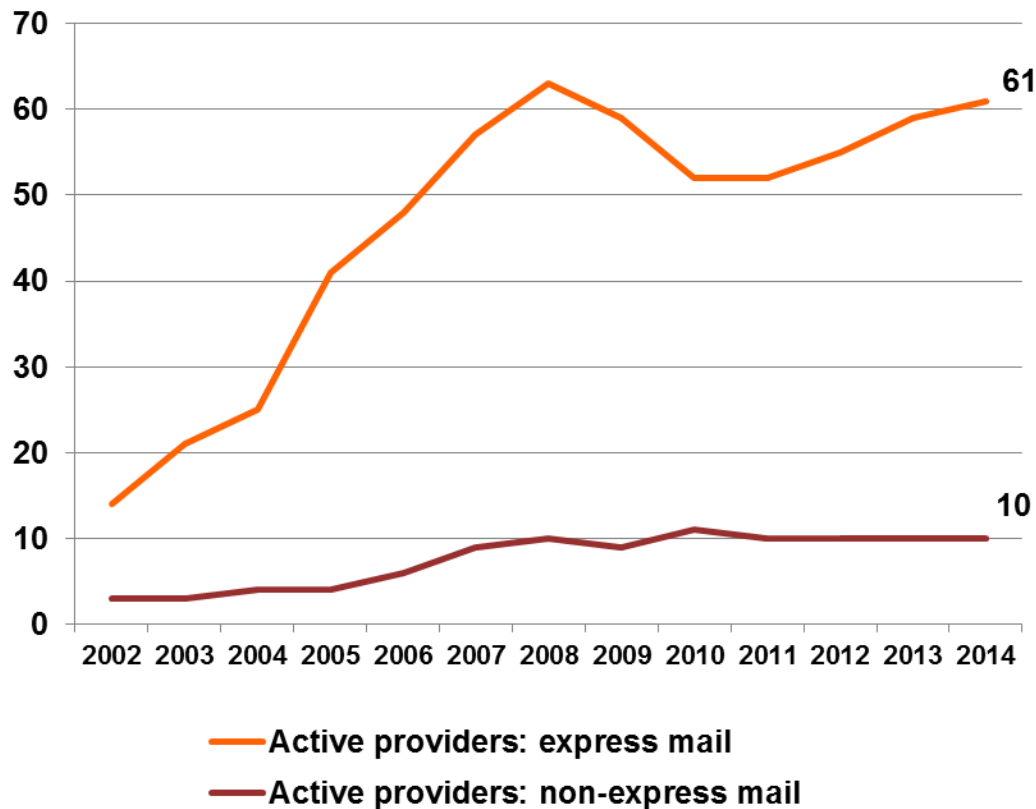
UPU, Bern, 11.Nov.2015

SUMMARY

- **The postal sector in Portugal**
- **Privatization of the designated operator**
- **The regulatory role of ANACOM**

- **The postal sector in Portugal**

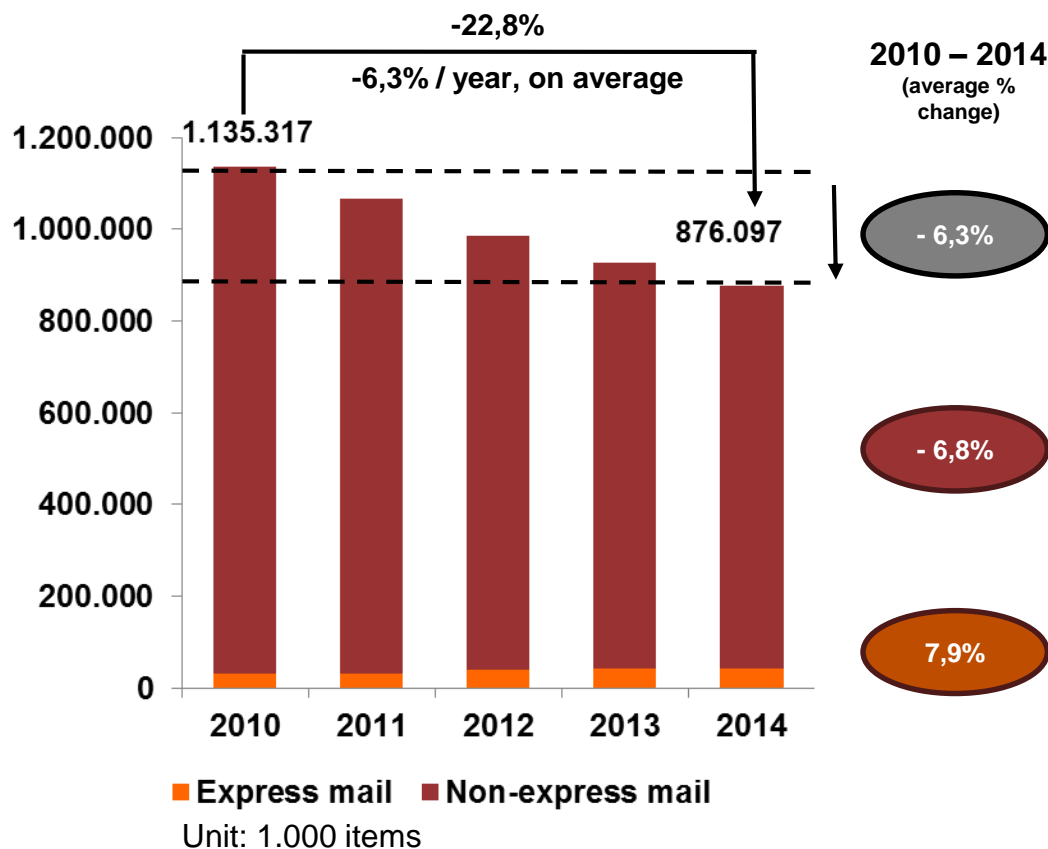
Postal service (active) providers in Portugal



Providers in 2014

- 83 authorised/licenced
 - 71 active
 - 61 express mail
 - 10 scope of US
- Some operate in the transport sector as well

Postal traffic in Portugal

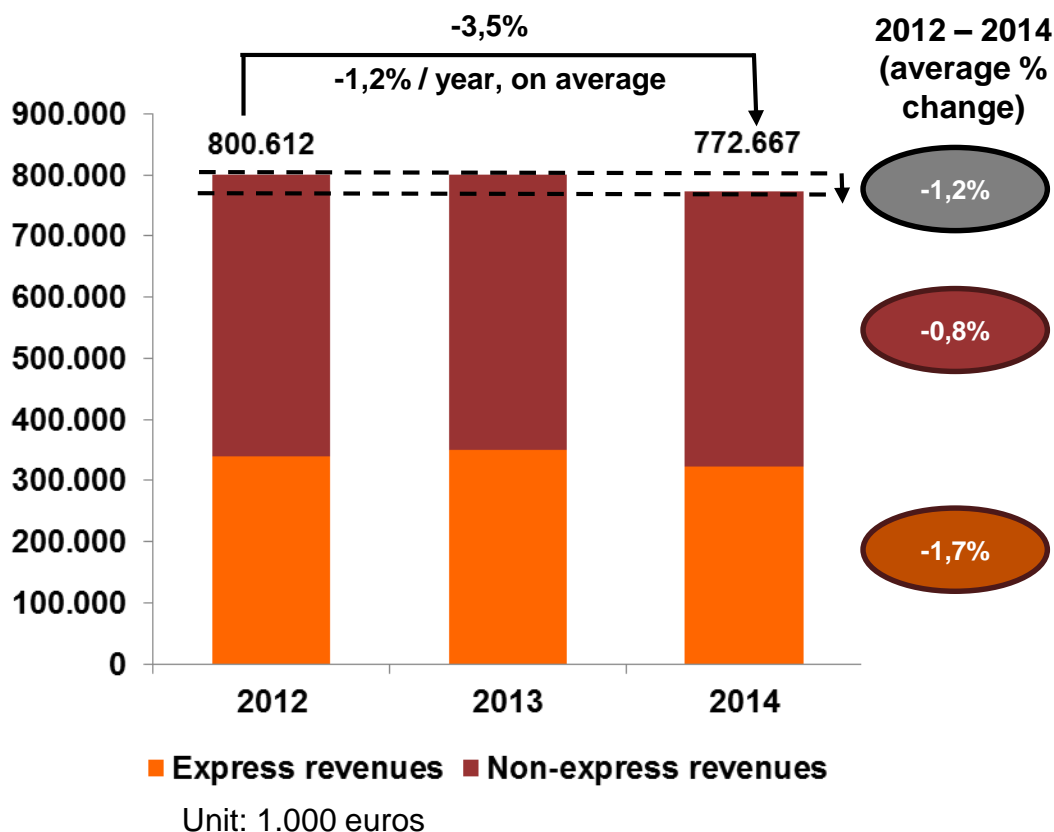


Postal traffic decreased on average 6,3%/year between 2010 and 2014 driven by non-express mail (-6,8%/year).

Express mail increased on average 7,9%/year in the same period.

Non-express mail accounted for 95,1% of the total traffic, while express mail accounted for the remaining 4,9%

Postal revenues in Portugal



Postal revenues decreased on average 1,2%/year between 2012 and 2014;

Express revenues decreased 1,7%/year while non-express revenues decreased on 0,8%/year;

Express mail revenues: 41,7% of total.

Market shares

Total postal traffic market shares	2Q15
Group CTT	94,8%
CTT	91,9%
CTT Expresso	1,7%
Postcontacto	1,2%
Chronopost	1,2%
Vasp Premium	0,7%
Notícias Direct	0,7%
Urbanos	0,3%
Iberomail	0,3%
General Logistics Systems	0,3%
Grupo Adicional	0,2%
Grupo SEUR	0,2%
S.D.I.M.	0,2%
Grupo Nacex	0,2%
Best Direct	0,2%
TNT Express	0,2%
Other providers	0,4%

Express postal traffic market shares	2Q15
CTT Expresso	34,8%
Chronopost	23,7%
Urbanos	7,0%
General Logistics Systems	5,9%
Grupo Adicional	5,1%
Grupo SEUR	4,9%
Grupo Nacex	4,2%
TNT express	3,8%
TCI	2,9%
Grupo Rangel	2,1%
UPS	2,1%
Vasp Premium	1,7%
Grupo MRW	1,1%
Other providers	0,8%

- Market players:
 - CTT Group
 - Subsidiaries of international players
 - Very small franchises and other firms
- CTT, the incumbent, is the largest operator in Portugal having a 94,8% global traffic market share and a 34,8% express mail market share.

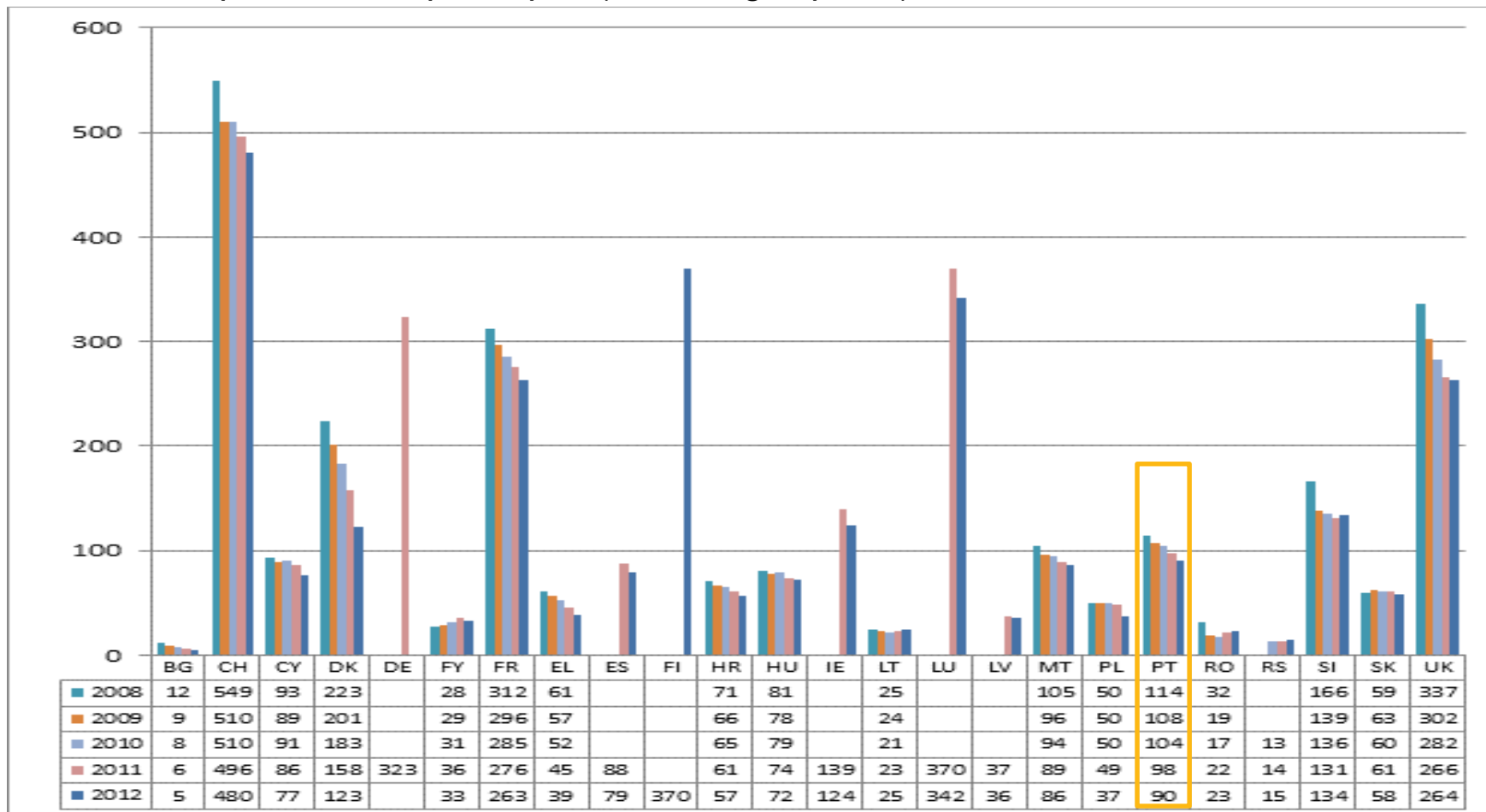
Postal network

	2010	2014	% Change 2010 – 2014
Total staff employed	16.008	13.869	-13,4%
Group CTT	13.311	11.112	-16,5%
Other providers	2.697	2.757	2,2%
Access points	18.395	13.149	-28,5%
Group CTT	18.270	12.409	-32,1%
Other providers	125	740	>100%
Distribution centres	491	404	-17,7%
Group CTT	370	277	-25,1%
Other providers	121	127	5,0%
Vehicle fleet	6.116	6.191	1,2%
Group CTT	4.038	3.782	-6,3%
Other providers	2.078	2.409	15,9%

- The number of employees, access points & distribution centres has decreased.
- These decreases are less than proportional to the decrease of postal traffic, which means that the average number of items per employee, access point, distribution centre and vehicle have decreased.

Postal items per capita in the EU

Total postal traffic per capita (excluding express)



Source: Report ERGP (13) 33 on Market Indicators, May 2014

Legal framework

- **European Union:** Directive 97/67/EC (amended by Directives 2002/39/EC and 2008/6/EC)

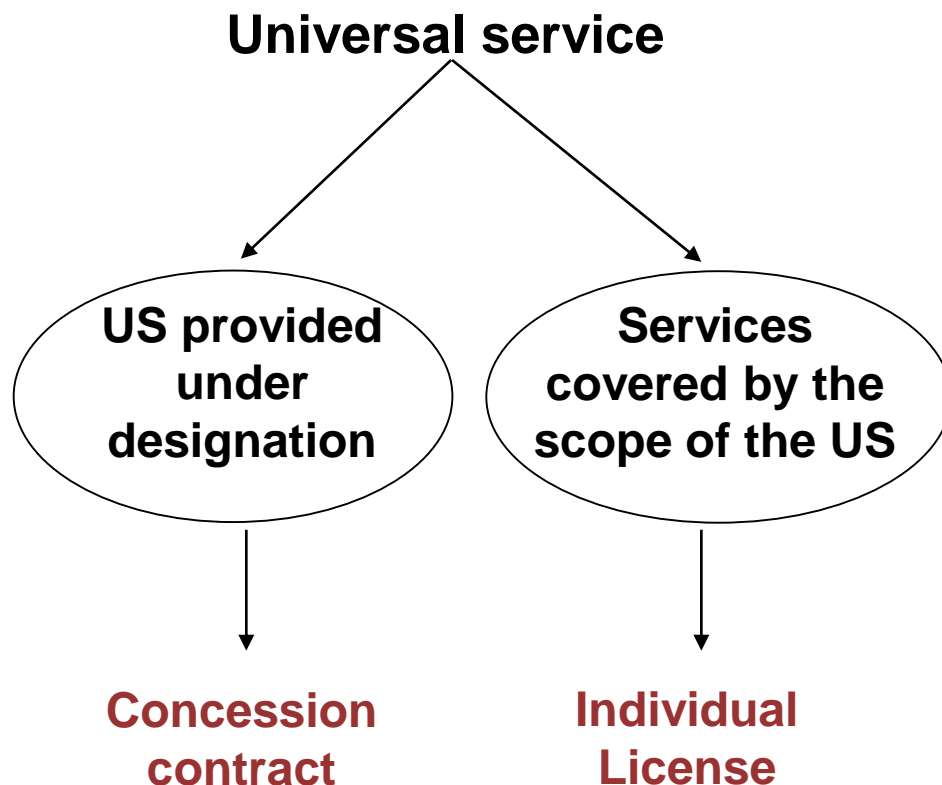
“The purpose of EU postal policy is to complete the internal market for postal services and to ensure that efficient, reliable and good-quality postal services are available throughout the EU to all its citizens at affordable prices.”

- **Portuguese legal framework:**

- **Law 17/2012** (transposed Directive 2008/6/EC). Objectives of the Law:
 - Define the conditions for provision of postal services under Full Market Opening;
 - Ensure a sustainable and efficient provision of a universal postal service;
 - Establish the rights and interests of users, especially of consumers.
- **Basis for the Universal Service Concession** (DL 448/99, amended by DL 160/2013) + Concession Contract signed under it between the Portuguese State and CTT – Correios de Portugal, S.A.

Legal framework

- Provision of postal services



Other postal services
(express mail, direct mail, parcels > 10Kg, ...)

General Authorisation

Legal framework

■ Universal Service (US)

Supply of postal services, of a specified quality and permanently available throughout the territory, at affordable prices for all users, aiming to meet the communication needs of the population and those of economic and social activities.

The Portuguese State shall take steps to ensure that the density of access points takes account of the needs of users.

■ Scope of US

- Correspondence up to 2 kg (*direct mail not included*);
 - Books, catalogues, newspapers and periodicals up to 2kg;
 - Parcels up to 10 kg (up to 20Kg when inbound parcels from EU Member States);
 - Registered and insured items.
- + 1 clearance / delivery to the home or premises, each working day (5 d/w).

Legal framework

■ Concession contract

- Signed in 01.09.2000, between the Portuguese State and CTT. Last amendment in 31.12.2013. Valid until 31.12.2020.
- **CTT is assigned:**
 - The provision of the US, including registered mail service used in the course of judicial or administrative proceedings*;
 - The provision of the following services and activities:
 - issue and sale of stamps, stamped post-cards and other stamped items bearing the word “Portugal”*;
 - issue of postal order service*;
 - siting of letter boxes on the public highway*;
 - public service of electronic mailboxes;
- ✓ The maintenance, development and operation of the postal network allocated to the concession.

* *Reserved services*

- **Privatization of CTT-Correios de Portugal, S.A.**

CTT history

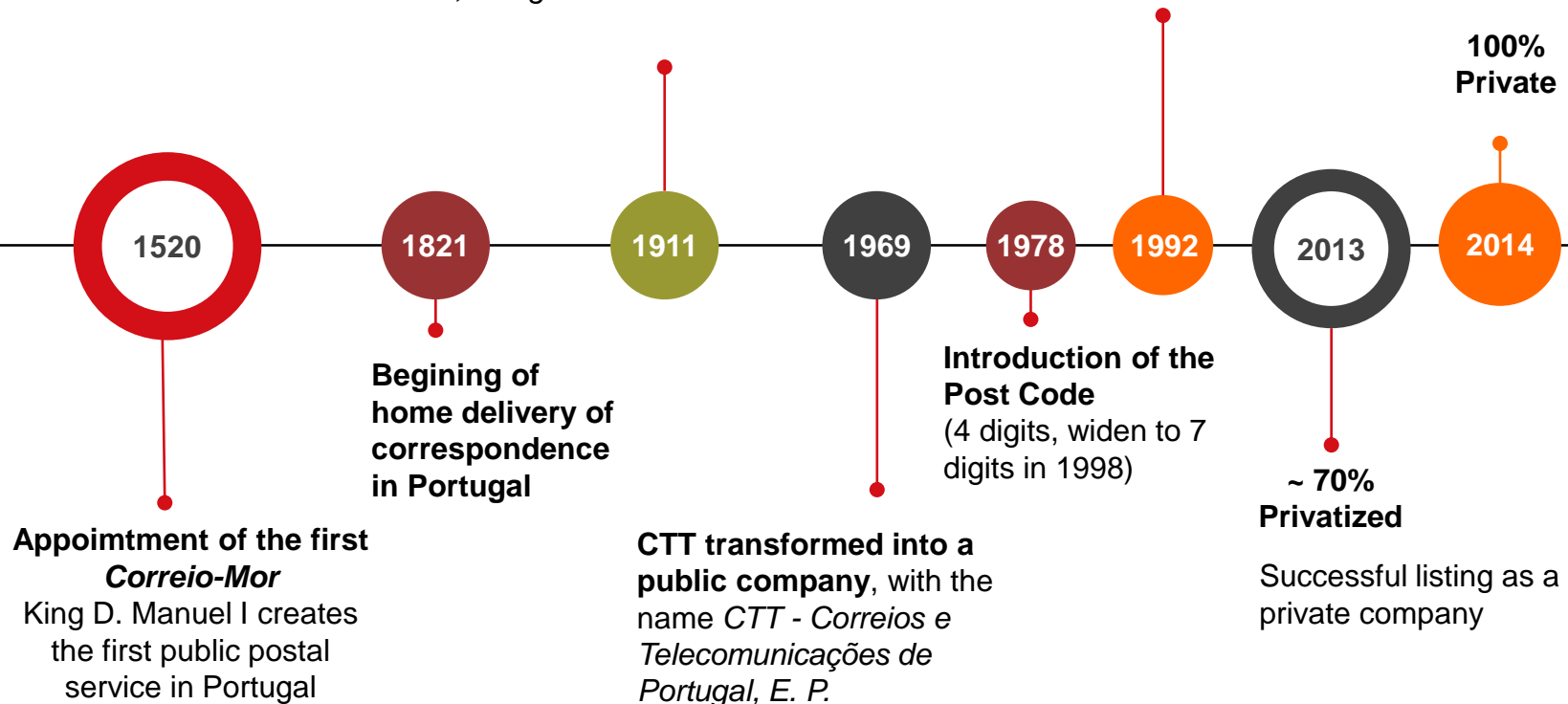
source: CTT

Renaming to CTT

The organization has administrative and financial independence, changing its name to *Administração-Geral dos Correios, Telégrafos e Telefones*

Transformed into a Limited Company

with the name *CTT - Correios de Portugal, S. A.*. Also the telecommunications part of the company is separated into an autonomous company.



The privatization process

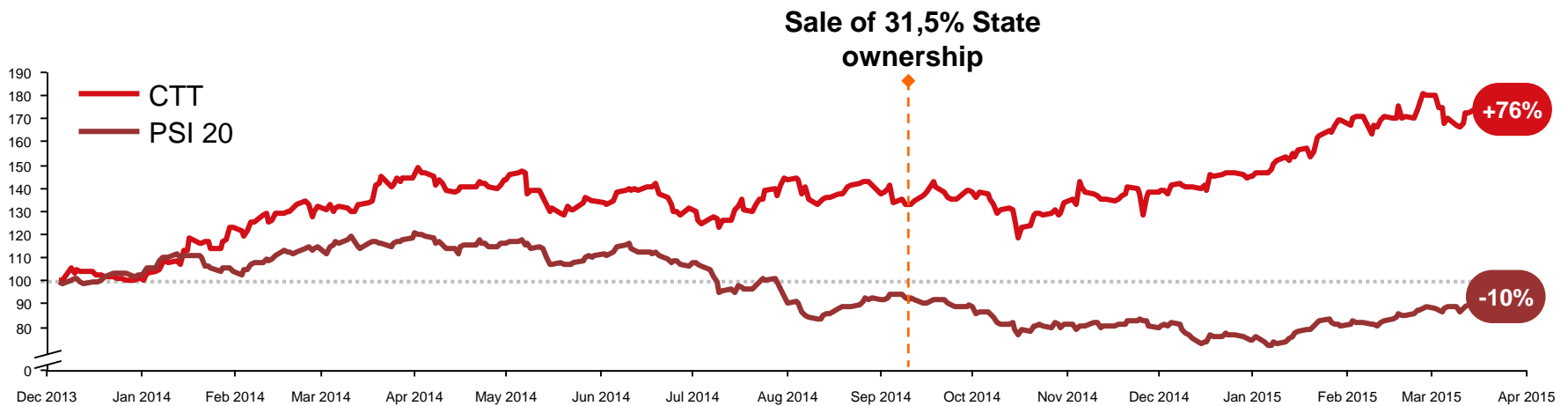
	1 st phase	2 nd phase
Date	Dec.2013	Sep.2014
Model	IPO	ABB
Capital dispersed	68,5%	31,5%
Cash inflow	569 M€	340 M€

Source: CTT

CTT share price evolution

Source: CTT

Evolution of CTT share price vs. PSI 20. Base 100%, as of 5th December 2013¹



100% FREE FLOAT (BIGGEST SHAREHOLDER WITH ~ 6,7%) > **340 M€ IN 45 MINUTES AND 7% DISCOUNT ON BIGGEST ABB EVER IN PORTUGAL² (31,5%)** > **928 M€ OF CASH INFLOW TO THE STATE³** > **632 M€⁴ + 60 M€³ OF SHAREHOLDER VALUE CREATED SINCE THE IPO**

¹ Updated: 17.mar.2015 ² Biggest ABB ever in Portugal in percentage, not in value

³ Including dividends paid in 2014 ⁴ Share appreciation on the stock exchange as of 17.mar.15 compared to IPO

Shareholder structure (updated 08.sep.2015)	Shares	Share Capital
Standard Life Investments (Holdings) Limited	10,007,653	6.67%
Artemis Investment Management LLP	7,710,709	5.14%
Allianz Global Investors GmbH	7,552,637	5.04%
Kames Capital plc	5,141,137	3.43%
Morgan Stanley	4,177,041	2.78%
BNP Paribas Investment Partners, Limited Company	3,466,545	2.31%
Norges Bank	3,143,496	2.10%
F&C Management Limited	3,124,801	2.08%
Gestmin, SGPS, S.A.	3,094,658	2.06%
Henderson Global Investors Limited	3,037,609	2.03%
DSAM Partners LLP	3,018,272	2.01%
Investec Asset Management Limited	3,006,174	2.00%
Other shareholders	93,519,268	62.35%
TOTAL:	150,000,000	100.00%

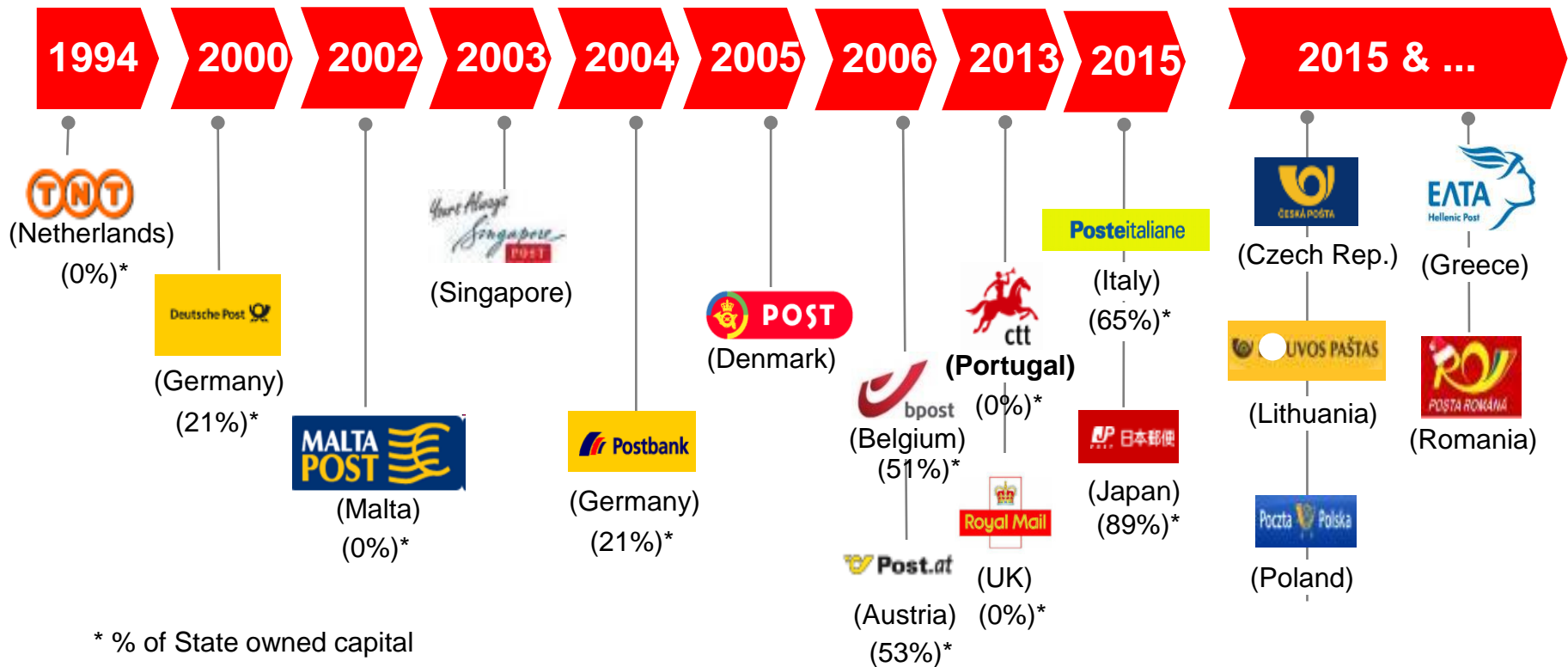
Source: www.ctt.pt

Privatizations across the world

sources: CTT, operators' sites, WIK, media

Already privatized

Planned or probable...



* % of State owned capital

- **The regulatory role of ANACOM**

Price regulation of US

- **Criteria for setting prices of US in the period 2015-2017** (ANACOM's decision of 21.11.2014, under article 14 of Postal Law)
 - Tariff principles: a) Accessibility to all users; b) Cost-orientation, giving incentives for an efficient universal service provision; c) Transparency and non-discrimination.
 - Annual maximum variation of prices:
 (Linked to fulfilment of QoS – next slide)

2015	CPI + 1,6%
2016, 2017	CPI + 1,6% + CPICF + TCF
CPICF – Correction factor of expected CPI TCF – Correction factor of expected traffic	
 - Specific rule for reserved services
 (registered mail judicial/admin. procedures)

2015	CPI + CPICF - 3,5%
2016, 2017	CPI + CPICF - 3,5% + TCF
- **Special tariffs** subject to a specific regime (article 14-A of Postal Law):
 - Tariff principles: transparency and non-discrimination, taking account of the avoided costs;
 - Ex-post verification of compliance with regulatory principles.

Quality of service regulation of US

- Quality of service standards for the period 2015-2017 (ANACOM's decisions of 30.12.2014 and 13.03.2015, under article 13 of Postal Law)
- 10 indicators in 2015 (transit time of correspondences, parcels, newspapers; loss/substantial delay of correspondences; queuing time at post offices)
- 11 indicators in 2016 and 2017 (new: transit time of registered mail)
- Failure to comply with QoS affects maximum variation of prices.

Deduction of up to 1% when QoS of year n-1 not achieved

2015	CPI + 1,6% - QoS_{n-1}
2016, 2017	CPI + 1,6% + CPICF + TCF - QoS_{n-1}

Deduction in prices benefits consumers directly.

- Results are audited

Accessibility to access points and services

- [Concession contract] USP shall communicate to ANACOM objectives for:
 - density of access points;
 - minimum services provided, including rules on minimum operating periods of post offices.
- Valid for 3 years
- Shall take account of the following factors:
 - Distribution of the population on national territory;
 - Distance between access points;
 - Urban or rural nature of areas covered;
 - Traffic and demand evolution.
- Shall meet the needs of users.
 - If yes, approved by ANACOM;
 - If not, defined by ANACOM.
- Current objectives are in place for the period 01.10.2014 – 30.09.2017.

Net cost and financing of USO

- PSU is entitled to a compensation for the net cost of the USO where it represents an unfair financial burden.
- Net cost: difference between the net cost incurred by the USP operating with the USO and the net cost of the same provider without such obligation.
- USP submits to ANACOM a request for compensation (until June/year n+1)
- ANACOM is responsible for:
 - define the net cost methodology and the concept of unfair financial burden;
 - verify the net cost and whether it is an unfair financial burden.
- The net cost shall be compensated by a compensation fund, financed by:
 - providers providing services within the scope of the US (including interchangeable services) and the USP;
 - donations, income from the compensation fund, fines and penalty payments.

Access to the postal network

- USP shall ensure access to its network, under transparent and non-discriminatory conditions, by means of agreements. Agreements sent by the USP to ANACOM, within 10 days.
- ANACOM may intervene under administrative dispute resolution, when an agreement is not reached.
 - May determine the terms and conditions for access, including prices.
- ANACOM shall intervene if necessary to ensure an effective competition or the interests of users:
 - order the USP to publish the terms and conditions, including prices;
 - define the information to be published, and the form and manner of publication;
 - define the terms and conditions for access;
 - determine amendments to terms and conditions already published, at any time and where necessary, with retroactive effect.



Thank you.

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