

2017

Management Report



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Chairman's Statement

António Gomes Mota
Chairman of the Board of Directors

In April 2017, the General Meeting of CTT elected a new Board of Directors for the 2017/2019 term of office that I am honoured to chair, and which is now reporting results relative to its first year of mandate.

First of all, I would like to thank the former members of the Board of Directors for their dedication and commitment in such an important period for CTT as the one of the first three years immediately after the privatisation.

CTT operates in a sector going through a comprehensive transformation. Mail volumes are undergoing a structural decline. More specifically, in Portugal, mail volumes have been declining since 2001 and today we deliver c. 50% of the items that were delivered at the peak. As such, there is the imperative need to transform the company in its organisation and structure, adapting it to the new reality where it operates, where there is a clear growing preference for digital communication over traditional mail.

At the end of 2017, we announced the launch of the Operational Transformation Plan, to be implemented until 2020. This plan is a direct response to the previously referred need of transformation in the mail business and implies both structural and processes adjustments in order to accommodate for lower levels of activity whilst maintaining what has always been CTT's DNA: the commitment of assuring the universal public service in close proximity to the population and quality standards aligned with the best practices in Europe.

Globally, we notice a trend for Mail business diversification to adjacent activities which allow postal operators to leverage on their unique assets and pursue growth and future sustainability. CTT is no exception and, even though Mail still represents more than 70% of the total revenues, the Company has been significantly investing in the development of its growth levers: Express & Parcels, in both Portugal and Spain, creating an integrated Iberian offer, and Banco CTT.

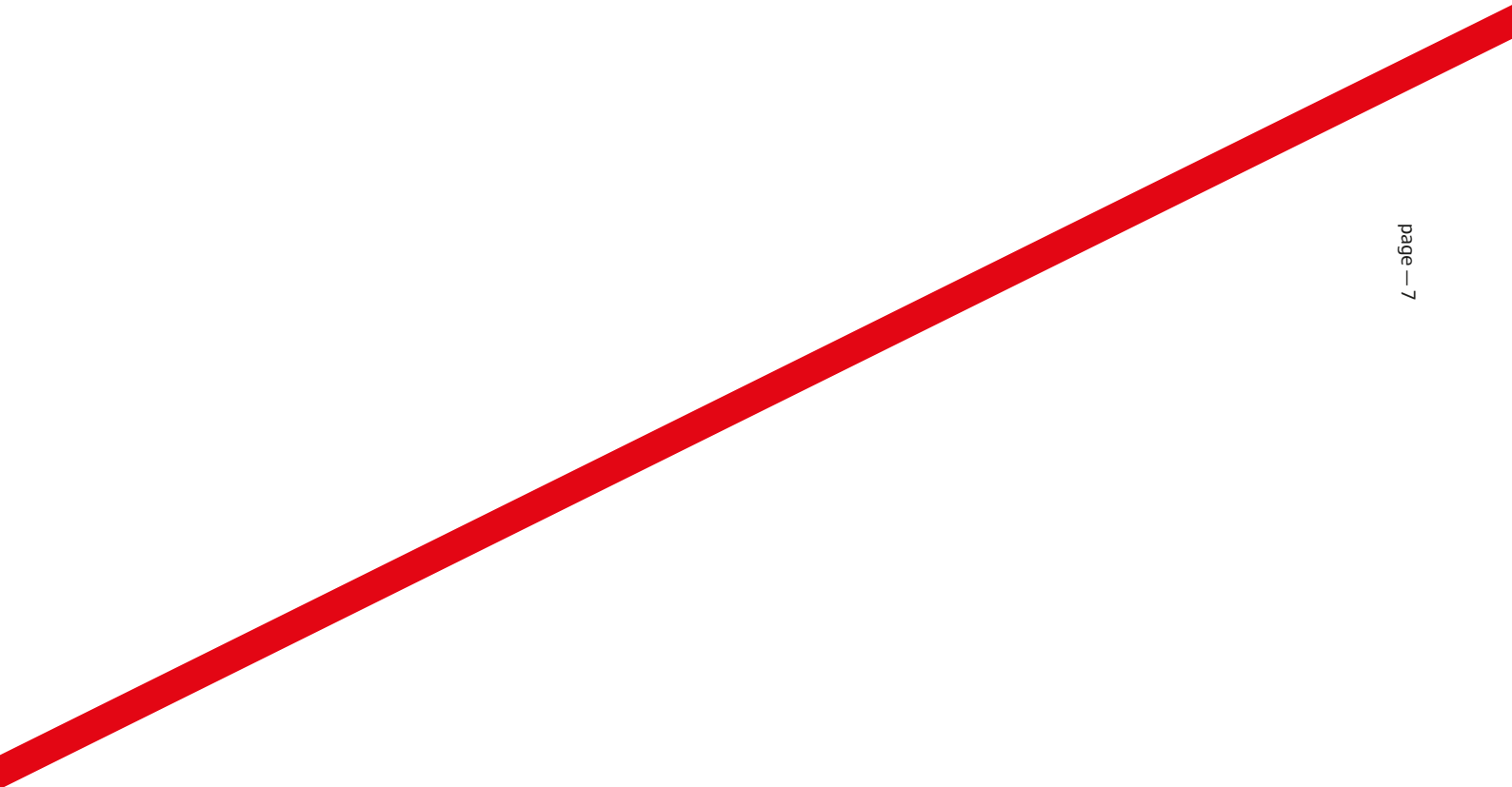
It is our drive and commitment that CTT continues to distinguish itself as it has done throughout its long history of close to 500 years. We aim to remain close to the population and maintain the confidence that the Portuguese feel towards the CTT brand. We intend to remain an employer of reference and a responsible Company concerned with environmental, social and economic sustainability.

I believe our Board of Directors and Executive Committee have the motivation, knowledge and necessary experience to successfully overcome the challenges ahead.

As a final note, I would like to assure my absolute commitment to continually develop our governance model according to the three guidelines which have been followed since the company was privatised: decision-making processes involving the active and informed participation of all members of the Board of Directors, transparency, rigour and responsibility in sharing and presenting information and a fair acknowledgment of the interests of all stakeholders.

A handwritten signature in black ink, appearing to read 'A. V. Mota', with a stylized flourish at the end.

António Gomes Mota
Chairman of the Board of Directors





CEO & Vice-Chairman of the Board of Directors' Statement

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

I. Introduction

2017 was a very challenging year. The decline of mail volumes accelerated more than expected, increasing pressure on revenues, only partially offset by mix and price effects. Financial Services revenues (apart from Banco CTT) continued the declining trend. On the other hand, Express & Parcels and Banco CTT revenues grew, still from a relatively smaller base, but the build-up of their contribution to CTT's profitability requires time. The operating costs continued under pressure, given CTT's commitment to the Universal Service Obligation (USO) and the cost increase driven by the growth of non-postal businesses, which also leverage on CTT's Retail and Distribution networks.

All these facts and their implications demand a call for action (and not only incremental adjustments), designed around the launch of a sizeable Operational Transformation Plan as a key element. The long-term sustainability of its competitive advantages is dependent on an intense short-term effort of CTT and its stakeholders. This demanding period will require the mobilisation of relevant resources and a strong state of resilience backed by the involvement and contribution of all stakeholders – shareholders, management, employees, partners, suppliers and communities.

A building block in sustaining the mid-term transformation of the company, the Transformation Plan launched in December 2017 is focused on the postal business with the objectives of (i) improving efficiency and profitability levels and (ii) reinforcing quality of service, in compliance with regulatory requirements. It is an important reinforcement of our strategy to preserve the value of the mail business in parallel with enhancing the development of the growth levers, Express & Parcels and Banco CTT. For CTT's sustainable future it is critical to innovate, modernise and continue to execute the business diversification, in order to grow revenues and absorb the reduction of its current dependence on the mail business.

In the coming years, CTT will undergo a significant and comprehensive change, in line with the postal sector globally. During this period of transformation, our goal will be to preserve and maximise the profitability of our assets and continue to gain the trust and recognition of our stakeholders.

II. Postal Sector transformation acceleration and its impacts on CTT

Digitalisation is the main driver of the structural decline of physical mail, which accelerated in Portugal in 2017. The trend is global, yet its speed was less pronounced in Portugal in the period of 2014–2016 (–3.7%) than in other European countries, namely those where the digitalisation of governmental communications is at a more advanced stage. However, the addressed mail volumes decline reached 5.6% in 2017, worse than the guidance range of –4% to –5%.

On the other hand, **e-commerce growth** has been impacting positively the last-mile delivery of parcels. Postal operators are developing their Express & Parcels offer, making it a key component of their growth strategy. The volume of parcels delivered by European operators has grown at an average of 8% per year between 2012 and 2016. In 2017, the volumes delivered by CTT in Portugal and in Spain have increased by more than 20%. We believe there is still a significant upside potential in these markets, since e-commerce parcels deliveries per capita in the markets where we operate are still much lower than those of other countries.

Globalisation presents opportunities and challenges to postal players, providing access to non-domestic markets and respective international flows but promoting an increase in competition. More specifically, in Portugal and Spain we are witnessing a phenomenon of “Iberisation”, where companies increasingly view the Iberian market as one, addressing its needs at this level (over local solutions), including those needs related with last-mile delivery of parcels.

Finally, postal operators globally have been able to reinvent themselves taking advantage of their assets to explore additional sources of value. Business **diversification** has been requiring investment in growth levers and a new mindset, resulting in the noticeable lower dependence of postal operators on the traditional business. Non-mail businesses’ “share” has been increasing significantly (62% of total revenues in 2016 vs. 51% in 2011), mainly accomplished through the growth of Parcels & Logistics and Financial Services. CTT has also been pursuing a similar diversification strategy, however, it is lagging vs. the sector due to the still limited penetration of e-commerce parcels in Portugal and Spain and the “early stage” of development of Banco CTT, which was only launched in 2016. The company re-

sults are still very dependent on the Mail business performance, which still represents more than 70% of our business.

III. 2017 Results

In 2017, CTT reported revenues of €714m, of which €16m resulted from the sale of the former head office building and €698m were recurring revenues (+0.4% growth vs. the previous year). This growth has been mainly driven by the positive evolution of Express & Parcels, Banco CTT and the acquisition of Transporta (a last-mile cargo and logistics company).

Mail recurring revenues decreased by 1.1% (–€6m), totalling €527m. Addressed mail volumes declined 5.6% (vs. a decline of 4.2% in 2016) and unaddressed mail volumes reported a decrease of 1.1% (vs. growth of 5.1% in 2016). Price increase and a change in product mix demand to more added-value products, such as registered and international mail, enabled us to partially offset the impact of the acceleration of mail volumes decline on revenues.

The Express & Parcels business in Portugal demonstrated a good performance in 2017, growing revenues by 7.7% to €82m. This increase is explained by a sustained growth of 3.3% in the CEP (Courier, Express & Parcels) business, the acquisition of Transporta (+€9m, since May 2017) and a still sharp decline of 20.7% in the banking documents transportation activity. In Spain the growth was even more pronounced, as revenues grew by 18.2% vs. 2016. The volumes growth in Portugal and Spain was 21.5% and 26.1%, respectively, mainly driven by e-commerce. It is important to note, however, that the impact of this volumes growth on revenues has been softened by the mix progressive bias to e-commerce products and increasing market competitive pressures on prices.

As far as Financial Services are concerned, revenues declined 12.7% vs. 2016 (–€9m), mainly as a result of the termination of the agreement with Altice at the end of 2016, the decrease in revenues from the payments business due to structural decline and competitive price pressures (–€2m) and lower insurance products placements (–€2m) due to the low interest rate environment. The decrease in Financial Services revenues is partially compensated by the growth in Banco CTT, which concluded its first full year of activity with revenues totaling €8m (vs. €1m in 2016).

If, on the one hand, topline results remained relatively stable, even taking into account the difficult context of acceleration of mail volumes decline in 2017 and the continued deterioration in the Financial Services business, on the other hand, we experienced an increase in operating costs in order to support the development of our growth levers which impacted the Company’s profitability.

2017 recurring operating costs amounted to €608m (+5.6% vs. 2016). Transporta (+€10m), the other Express & Parcels activities (+€7m), where variable costs increased with more activity, and Banco CTT (+€6m) explain a large part of the recurring operating costs increase. But there were also increases in staff, energy and fuel costs in the Mail business.

As a result, we witnessed the decline in the Mail recurring EBITDA margin from 18.3% in 2016 to 14.9% in 2017. Since this core business still represents more than 70% of CTT's results, the Company's consolidated EBITDA margin was heavily impacted, decreasing from 17.2% to 12.9% in the corresponding period, with 2017 recurring EBITDA amounting to €90m. CTT's growth levers are showing positive evolution in revenues, but their contribution to profitability is still small.

IV. CTT strategy: transform the postal business and continue to develop CTT's growth levers

The acceleration in mail volumes decline determines the need of an increased urgency to restructure the postal business in order to add resilience to the strategic mid-term transformation of the Company, while we continue to develop the Express & Parcels and Banking businesses, the growth levers for the future.

Postal Business Restructuring

CTT has been implementing various efficiency measures in the past years, specifically through process automation in mail and parcels sorting, insourcing of previously outsourced activities and integration of the Mail and Express & Parcels distribution networks. In parallel, our growth levers were being developed, sharing the utilisation of the two largest networks of CTT (Distribution and Retail) with the postal business, thus contributing to the Mail profitability. However, given the continuous and recent accelerated decline in mail volumes, it is mandatory to further explore optimisation measures and adjust our fixed cost structure to mid-term needs, while at the same time guaranteeing high-quality operational standards and compliance with USO requirements, maintaining the proximity with the Portuguese people and CTT's positive brand awareness and trust.

Once again, in 2017 CTT has surpassed the required Overall Quality of Service Indicator, having accomplished a result of 110.1, thus complying with its regulatory obligations which establish a minimum of 100. It is important to note that regulation for the period of 2018 – 2020 is currently being reviewed by the Regulator in what concerns quality standards and pricing policies. A final decision has not been communicated yet.

The Operational Transformation Plan was constructed in this context and is based on 4 fundamental pillars: (i) Adjustment of Human Resources (HR) policies and deepening of the External Supplies and Services (ES&S) cost reduction efforts; (ii) Reinforcement of the HR optimisation programme and rationalisation of non-core assets (real estate); (iii) Optimisation of the Retail Network maintaining proximity to the citizens; (iv) Reengineering of the Distribution Network to improve operational efficiency and quality.

With the specific measures announced, CTT aims to adapt its structure to the dynamic reality of the businesses where it operates. These measures cover a significant part of the company's costs, since they target the Mail business whose costs represent c. 75% of the total, and have impacts across all cost categories (Staff, ES&S and Central structure). The expected contribution of these measures is estimated to be up to €45m in recurring EBITDA from 2020 onwards, requiring c. €55m of one-off costs and c. €25m of additional investment in the period to 2020.

Transform and develop non-postal businesses

Continuing and enhancing the efforts to reinvent CTT is critical, being essential to maintain our investments in the growth levers (Express & Parcels and Banco CTT) and in the modernisation of the company, developing new capabilities and tools that allow efficient work in a dynamic environment, improving technological and analytical capacities. The strategic objectives are the following:

- i. *Grow above market in parcels and value-added services (mail & parcels)*

In 2017, the volumes delivered by CTT registered a double-digit increase in both Iberian markets (growth of 21.5% in Portugal and 26.1% in Spain). Regarding the Portuguese market, it is important to stress that CTT maintains its leadership position in the CEP market.

Following the recent (late 2016) launch of a new modular offer for Express & Parcels (e-segue), during 2017 we focused on customer acquisition and on further developing our leadership presence in this eco-system through (i) release of an app which allows a better interface and customer experience with a broad range of features available (track urgent parcels, change the parcel route, real time notifications at key moments of the delivery process, easy return solutions) and (ii) the launch of innovative capacities in the market (partnership with marketplaces, custom-made solutions, pilots of parcel lockers and same-day delivery based on a crowd shipping model and an omni-channel platform).

In May, the acquisition of Transporta was concluded. This transaction fits CTT's strategy to capture growth opportunities in adjacent markets with potential synergies and create a new growth platform within the last-mile logistics and cargo value chain. CTT is now providing an integrated solution for its customers' various logistics and delivery needs. The integration process has been progressing as planned, with a significant amount of operational synergies already captured in the integration of sales capacities, networks, infrastructure, fleet and support services.

We continue to work strongly on reinforcing our Iberian positioning. It is important to highlight that Tourline, CTT's Spanish Express & Parcel subsidiary, accomplished break-even at EBITDA level in the last quarter of 2017, as planned. This was achieved due to the increase of the client base, expansion of the franchisee network and decrease of the unitary distribution cost. Given the Iberisation phenomenon described above, it is essential for CTT to have a solid presence in Spain which is well integrated with its operations in Portugal.

ii. *Continue Banco CTT's path towards break-even*

2017 was another positive year for Banco CTT. Compared with 2016, the number of current accounts has tripled to 226 thousand, deposits have more than doubled to €619m, and the number of customers also more than doubled to 285 thousand. Given these results, we can clearly say that Banco CTT has been very well received by the population.

During 2017 we launched the mortgage loan product, thus completing Banco CTT offer for mass market individuals. Aligned with Banco CTT's strategy, it has been designed as a simple and value product. Our offer includes innovative features such as an app which allows to initiate and develop a large part of the process without physical presence. The first contract was signed in March and growth has been consistent since then – at the end of the year Banco CTT had granted a total amount of €66m in mortgage credit.

The encouraging performance of Banco CTT is reflected in its revenues, which increased significantly (from €1m in 2016 to €8m in 2017) and contributed positively to CTT's revenues. Banco CTT has been able to keep a tight control of its costs and investments, but has not yet, as planned, reached breakeven.

iii. *Stimulate sales and increase profitability*

During 2017, we implemented the remaining initiatives defined under the 2016 Commercial Excellence programme, such as the reorganisation of our sales force by industry sector, the revision of the account planning methodology, and the

creation and implementation of new mechanisms to identify sales opportunities and promote cross-selling. We have also reviewed pricing and profit maximisation guidelines. These components should be continuously analysed and adapted to guarantee the continued growth of CTT's topline and profitability.

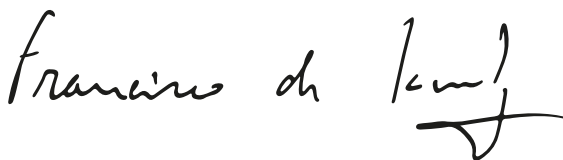
iv. *Upgrade technology and data management platform (analytics, digitalisation)*

In 2017 we proceeded with the implementation of the Information Systems Strategic Plan which sets the profound transformation of IT applications and infrastructures. Amongst the implemented initiatives, we highlight the modernisation of our production and invoicing platforms, that are enabling significant upgrades in interfaces (starting at the mailman with devices that allow for digitalisation resulting in more agile processes) and analytics capacities, fundamental to manage a competitive business in today's world and upgrade customer experience through physical, phone, internet and app interaction.

v. *Final remarks*

In these challenging times, I would like to thank the dedication and commitment of every CTT employee. I also thank the co-operation and valuable contribution of our shareholders, clients and all remaining stakeholders. We are beginning a period that will require the contribution of all to ensure CTT sustainability.

I would like to reinforce CTT's commitment to the Operational Transformation Plan, executing investments and all other initiatives while complying with high quality standards and all regulatory obligations. It is my conviction that this plan and the development of Express & Parcels and Banco CTT businesses are absolutely necessary to guarantee the sustainable future of our Company. The coming period will be demanding, but I am confident that we will successfully deliver our ambition.



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

Corporate Bodies and Management¹

Board of Directors

CHAIRMAN

António Sarmento Gomes Mota

VICE-CHAIRMAN

Francisco José Queiroz de Barros de Lacerda (CEO)

MEMBERS²

Dionizia Maria Ribeiro Farinha Ferreira

Nuno de Carvalho Fernandes Thomaz

(Member of the Audit Committee)

José Manuel Baptista Fino

Céline Dora Judith Abecassis-Moedas

António Pedro Ferreira Vaz da Silva

Francisco Maria da Costa de Sousa de Macedo Simão

João Afonso Ramalho Sopas Pereira Bento

Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia

(Chairwoman of the Audit Committee)

Maria Belén Amatriain Corbi

(Member of the Audit Committee)

Rafael Caldeira de Castel-Branco Valverde

Guy Patrick Guimarães de Goyri Pacheco (CFO)³

Board of the General Meeting

CHAIRMAN

Júlio de Lemos de Castro Caldas

VICE-CHAIRMAN

Francisco Maria Freitas de Moraes Sarmento Ramalho

Remuneration Committee

CHAIRMAN

João Luís Ramalho de Carvalho Talone

MEMBERS

Rui Manuel Meireles dos Anjos Alpalhão

Manuel Fernando Macedo Alves Monteiro

¹ As at the date of approval of this Annual Report.

² (i) Rui Miguel de Oliveira Horta e Costa tendered his resignation as member of the Board of Directors on 08/02/2017.

(ii) Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo, Manuel Cabral de Abreu Castelo-Branco, Manuel Carlos de Melo Champalimaud and Diogo José Paredes Leite de Campos ceased their functions as Members of the Board of Directors on 20/04/2017.

(iii) André Manuel Pereira Gorjão de Andrade Costa ceased his duties as Member of the Board of Directors (CFO) on 19/12/2017.

³ Co-opted by a decision of the Board of Directors of 19/12/2017 to complete the current term of office (pending ratification at the General Meeting) for the position of Member of the Board of Directors (CFO) to replace André Manuel Pereira Gorjão de Andrade Costa.

Executive Committee ⁴

CHAIRMAN

Francisco José Queiroz de Barros de Lacerda (CEO)

MEMBERS

Dionizia Maria Ribeiro Farinha Ferreira
 António Pedro Ferreira Vaz da Silva
 Francisco Maria da Costa de Sousa de Macedo Simão
 Guy Patrick Guimarães de Goyri Pacheco (CFO)

Audit Committee

CHAIRWOMAN

Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia

MEMBERS

Nuno de Carvalho Fernandes Thomaz
 Maria Belén Amatriain Corbi

Corporate Governance, Evaluation and Nominating Committee

CHAIRMAN

António Sarmento Gomes Mota

MEMBERS

José Manuel Baptista Fino
 Céline Dora Judith Abecassis-Moedas⁵
 João Afonso Ramalho Sopas Pereira Bento
 Rafael Caldeira de Castel-Branco Valverde

Statutory Auditor

STATUTORY AUDITOR (ROC)

KPMG & Associados, SROC, S.A.,
 represented by Paulo Alexandre Martins
 Quintas Paixão⁶

ALTERNATE STATUTORY AUDITOR

Vítor Manuel da Cunha Ribeirinho

⁴ Members appointed for the 2017/2019 term of office by a decision of the Board of Directors of 20/04/2017.

⁵ Appointed as Member of the Corporate Governance, Evaluation and Nominating Committee by a deliberation of the Board of Directors of 14/02/2017 to replace Rui Miguel de Oliveira Horta e Costa. Re-elected for the 2017/2019 term of office.

⁶ Representative appointed by the firm KPMG & Associados - SROC, S.A. to replace Maria Cristina Santos Ferreira, former representative, effective as of 1 May 2017.



Executive Committee

Francisco
de Lacerda
CEO

Dionizia
Ferreira

António
Pedro Silva

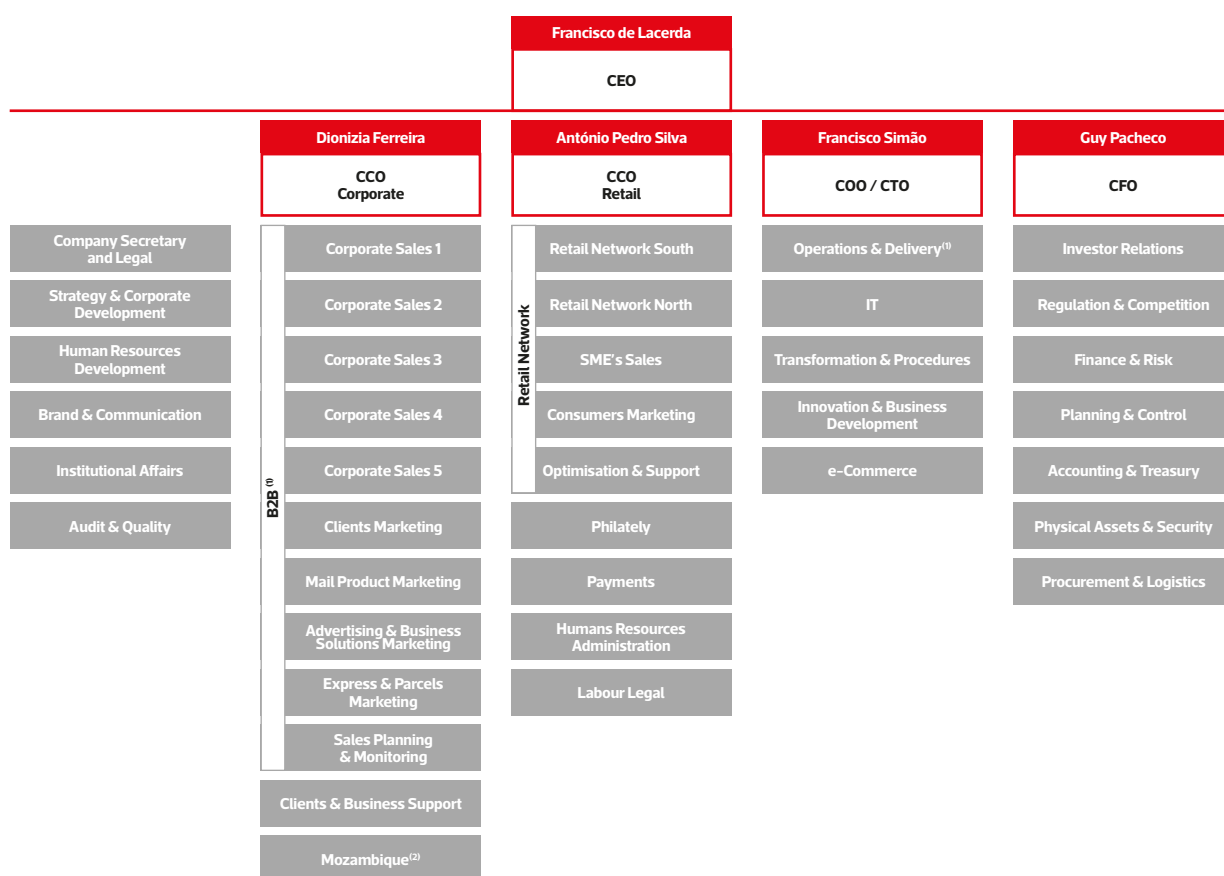
Francisco
Simão

Guy
Pacheco
CFO



Management Organisation

EXECUTIVE COMMITTEE OF CTT: EXECUTIVE MEMBERS ON THE BOARD OF DIRECTORS OF CTT AND THEIR AREAS OF RESPONSIBILITY



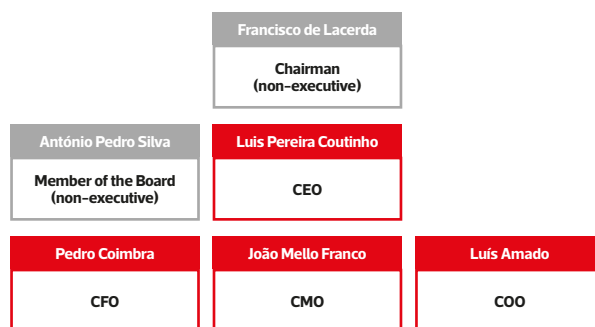
⁽¹⁾ Includes Mailtec Comunicação, CTT Contacto, CTT Expresso and Transporta; ⁽²⁾ Includes CORRE.

TOURLINE AND BANCO CTT: EXECUTIVE TOP MANAGEMENT AND RELATIONSHIP WITH THE EXECUTIVE BOARD MEMBERS OF CTT

Spain (Tourline)



Banco CTT



 executive non-executive

Key Figures

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2015	2016	2017	Δ% 17/16
Revenues ⁽¹⁾	727,180	695,060	697,932	0.4
Operating costs excluding depreciation, amortisation, impairments, provisions and non-recurring costs	583,205	575,561	608,025	5.6
Recurring EBITDA ⁽²⁾	143,975	119,499	89,906	-24.8
Recurring EBIT ⁽²⁾	119,762	94,687	60,205	-36.4
Earnings before taxes and financial results	109,932	90,883	47,093	-48.2
EBT	104,610	85,245	42,093	-50.6
Net profit for the period	72,071	61,897	27,115	-56.2
Net profit attributable to equity holders	72,065	62,160	27,263	-56.1
Earnings per share (euro) ⁽³⁾	0.48	0.42	0.18	-56.3
Recurring EBITDA margin	19.8%	17.2%	12.9%	-4.3 p.p.
Recurring EBIT margin	16.5%	13.6%	8.6%	-5.0 p.p.
Net profit margin	9.9%	8.9%	3.9%	-5.0 p.p.
Capex	32,331	42,160	28,534	-32.3
Operating free cash flow ⁽⁴⁾	68,322	2,915	38,523	1,221.5
	31.12.2015	31.12.2016	31.12.2017	Δ% 17/16
Cash and cash equivalents	603,650	618,811	626,825	1.3
Net cash	278,999	295,306	360,930	22.2
Assets	1,119,472	1,316,697	1,608,765	22.2
Liabilities	867,637	1,083,370	1,424,774	31.5
Equity	251,835	233,327	183,991	-21.1
Share Capital	75,000	75,000	75,000	-
Number of shares	150,000,000	150,000,000	150,000,000	-

⁽¹⁾ Excluding non-recurring revenues.

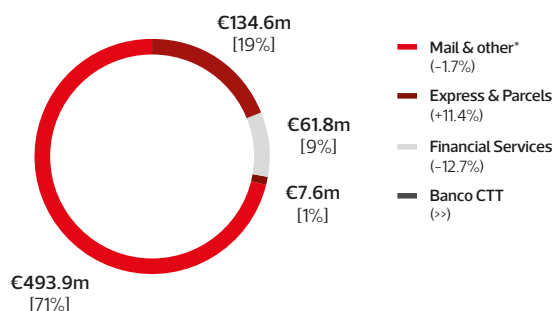
⁽²⁾ Before non-recurring revenues and costs.

⁽³⁾ It is considered the number of shares outstanding excluding 1 own share (200,177 bought in 2015, 400,354 bought in 2016 and 600,530 attributed on 31 January 2017 to the Company's executive Board Members as long-term variable remuneration for the 2014/2016 term of office).

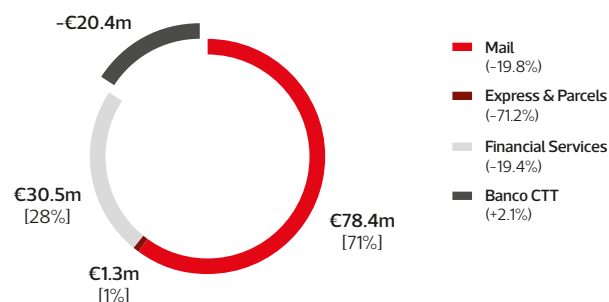
⁽⁴⁾ Cash flow excluding the change in net Financial Services payables, banking customer deposits and other loans, credit to Bank clients, third parties other receivables and payments related to Banco CTT, financial assets available for sale, investments held to maturity, deposits at the Bank of Portugal and other banking financial assets.

Recurring revenues and EBITDA per business unit

Revenues 2017
€697.9m (+0.4%)



EBITDA 2017
€89.9m (-24.8%)



() Change vs. 2016.

[] Weight in 2017.

* Includes revenues from CTT central structure and intragroup eliminations in the amount of -€33.6m in 2017 and -€31.0m in 2016.

() Change vs. 2016.

[] Weight in 2017, excluding -€20.4m related to Banco CTT's EBITDA.

Operating Indicators

	2015	2016	2017	Δ% 17/16
Mail				
Addressed mail volumes (million items)	814.7	780.2	736.6	-5.6
Transactional mail	688.3	662.8	627.2	-5.4
Editorial mail	46.2	43.3	40.8	-5.6
Advertising mail	80.2	74.2	68.5	-7.6
Unaddressed mail volumes (million items)	473.4	497.8	492.1	-1.1
Express & Parcels				
Portugal (million items)	14.4	14.6	17.7	21.5
Spain (million items)	14.0	12.3	15.5	26.1
Financial Services				
Payments (number of transactions; millions)	61.5	57.6	53.7	-6.8
Savings and insurance (subscriptions; €m)	4,252.9	3,794.0	4,020.9	6.0
Banco CTT				
Number of current accounts	-	74,135	226,001	204.9
Client deposits (€m)	-	253,945	619,230	143.8
Number of branches	-	202	208	3.0
Staff				
Staff (FTE) ⁽¹⁾	12,462	12,479	12,787	2.5
Retail, Transport and Delivery Networks				
Post offices	619	615	608	-1.1
Postal agencies (partnership branches)	1,711	1,724	1,761	2.1
Payshop agents	3,939	4,202	4,394	4.6
Postal delivery offices	254	242	235	-2.9
Postal delivery routes	4,731	4,698	4,702	0.1
Fleet (number of vehicles)	3,530	3,609	3,626	0.5

⁽¹⁾ FTE = Full-time equivalent.

CTT Sustainability indicators

	2015	2016	2017	Δ% 17/16	
Customers					
Customer satisfaction (%)	85.2	86.1	84.7	-1.4	p.p.
Total number of certified operating units (ISO standard and Retail and Delivery Networks certification)	1,183	1,167	1,254	7.5	
Retail and delivery networks certification (% coverage)	100	100	100	-	
Overall Quality of Service Indicator (in points) ⁽¹⁾	205.8	122.9	110.1	-12.8	
Staff					
Number of accidents	949	979	1,072	9.5	
Training (hours)	316,042	311,354	262,480	-15.7	
Women in management positions (1 st management level) (%)	35.3	32.4	31.6	-0.8	p.p.
Community/Environment					
Value chain - contracts with environmental criteria (%)	99.2	99.4	98.7	-0.7	p.p.
Total CO2 emissions, scope 1 and 2 (kton.) ^{(2) (3)}	16.3	16.5	16.2	-1.4	
Energy consumption (TJ) ^{(2) (3)}	381.3	384.9	386.4	0.4	
Eco-friendly vehicles	304	326	353	8.3	
Weight of Eco product range in Direct Mail line (%) ⁽⁴⁾	34.3	37.1	37.4	0.3	p.p.
Investment in the Community (€ thousand)	908	1,236	1,144	-7.5	

⁽¹⁾ The value of the 2016 OQSI published with the 2016 annual report (126.0) was recalculated according to the final ANACOM decision of November 2017 relative to the formula for calculation of the indicators IQS4 - ordinary mail not delivered within 15 work days and IQS5 - priority mail not delivered within 10 work days.

⁽²⁾ Includes acquisition of "green" energy (with zero carbon emissions).

⁽³⁾ Indicators excluding Transporta and CORRE data.

⁽⁴⁾ Volumes.

Awards and Recognitions

CTT and its senior officers received the following awards and recognitions in 2017:

POSTAL INDUSTRY OSCARS (World Post & Parcels Awards)

CTT was again distinguished in the 2017 World Post & Parcels Awards with first prize in the Human Resource Management category for NAVEINFORMA, a process which allows any department of the company to communicate through images or written information in real time with all the employees in the computerised retail network and postal agencies, at no additional cost, using the NAVE computer system. CTT was also nominated in two other categories: Social Responsibility, for the project "Solidarity Santa Claus", and Technology, for the project "CTTADS.PT", which both received honourable mention as "highly recommended".

TRUSTED BRAND

For the 14th time, CTT was again distinguished as one of Portugal's Trusted Brands, in a study carried out by Reader's Digest magazine, with first place in the "Postal and Logistics Services" category, winning 85% of the votes.

SUPERBRANDS BRAND

CTT was one of the 34 brands distinguished nationally as a Superbrands brand, in the 13th edition of this international award.

CTT'S LEGAL SERVICES AMONG THE MOST INFLUENTIAL AND INNOVATIVE

CTT's legal services, through the Corporate and New Business team, were distinguished as one of the most innovative in-house legal services teams of the Iberian Peninsula, being included in the 2017 Legal 500 ranking of the best advocacy professionals, a ranking of lawyers and legal companies which is recognised worldwide.

BEST BUY AWARD PORTUGAL 2017/2018

In a study carried out by ICERTIAS – *International Certification Association*, CTT was elected by Portuguese internet users as the company which offers the best price-quality ratio in express delivery services; the company received the *Best Buy Award* medal.

BEST CONSUMER PAYMENTS SOLUTIONS PROVIDER PORTUGAL 2017

Payshop, the company responsible for providing CTT's payments business, was distinguished in the Global Business Awards 2017, winning the award in the category Best Consumer Payments Solutions Provider – Portugal 2017.

LOGISTICS EXCELLENCE AWARD

CTT received the 2017 Logistics Excellence Award for its New Architecture for the Production and Logistics Network (NARPEL) project. This is the most important logistics industry award in Portugal and is promoted by the Portuguese Logistics Association (APLOG) and the magazine Logística Moderna.

POSTEUROP INNOVATION AWARD

The cttads.pt solution was distinguished with the *PostEurop Innovation Award* 2017.

MARKETEER AWARDS 2017

CTT was named "Brand of the Year in the Corporate category" in the 9th edition of the Marketeer Awards. These awards are given to distinguish the best work being done in Portugal in the areas of strategy, communication, marketing and advertising.

WIPA GRAND PRIX

The stamp issue commemorating the Portuguese Canning Industry was awarded the WIPA Grand Prix 2017, decided by the prestigious jury of the Vienna International Philatelic Exhibition. This was the first issue of stamps anywhere in the world issued in real cans, and it was selected as the most beautiful of 2016.

APOM AWARDS 2017

The Portuguese Association of Museology (APOM) distinguished CTT as the cultural organisation of the year for the company's continuous efforts to disseminate Portugal's museum heritage through philately.

NEXOFIL GRAND PRIX

The souvenir sheet “Marian Sanctuaries – Fátima” was considered the “Best Souvenir Sheet of 2016” in the Nexofil Grand Prix gala. The Nexofil awards are granted by “El Eco” magazine, the oldest and most renowned Spanish philatelic and numismatic magazine, which has been published without interruption for 73 years.

FUNDACOM PRIZES

CTT, with CTT TV, won the Corporate Radio and Television category of the Fundacom Prizes, awarded for the best work in the field of organisational and strategic communications in Spanish and Portuguese. CTT also earned two honourable mentions: in the External Event (up to 1,000 persons) category, for the 2016 *Employer Brand Assessment Day*, and the In-House Publications category, for the magazine “Move-nos”.

CTT'S LINES DISTINGUISHED IN THE 2017 BEST AWARDS OF THE PORTUGUESE ASSOCIATION OF CONTACT CENTRES

The CTT and CTT Expresso lines were recently awarded the silver and bronze medals respectively in the APCC Best Awards 2017, in the Transports, Distribution and Logistics category. This is the 8th award won by CTT's Contact centre, and the 5th won by CTT Expresso's Contact centre, since 2010 in the top events related with this area, showing that CTT continues in the forefront of Contact centres in Portugal.

SOLID REPUTATION BRAND

CTT received a Reputation Sustainability Award after a study carried out by the consultant OnStrategy to identify and recognise those brands which have a sustained record of excellence and solidity in Portugal over 10 years.

WORLD LEADER IN THE SUSTAINABILITY RANKING

CTT won first place ex aequo in the postal, express and logistics sector of the Carbon Disclosure Project (CDP) ranking. This is the most important energy and carbon sustainability rating in the world.

GREEN PROJECT AWARDS

For the 3rd year running, CTT was distinguished in the most important national environmental award, the Portuguese Drivers' Challenge, organised by CTT, receiving honourable mention in the “Efficient Resource Management” category.

HUMAN RESOURCES PORTUGAL DISTINGUISHES CTT WITH TWO AWARDS

CTT won the Human Resources Portugal 2016 prize in the categories of “Gender equality”, for promoting and defending gender equality, and “Seniors Management”, for having the best policy for senior employees.

EXCELLENCE IN ROAD SAFETY AWARDS

CTT was distinguished in the 2017 Excellence in Road Safety Awards promoted by the European Road Safety Charter, for the Road Safety programme that the company has been applying since 2015. These awards, handed out every year by the European Commission, recognise the most outstanding road safety projects in Europe.

COUPS DE CŒUR AWARDS

CTT's car-pooling platform, set up to reduce emissions caused by employees who commute to work, was a finalist in the environment category of the 2017 PostEurop Coups de Cœur awards.





If on the one hand
we are driven by
distance

On the other
what drives us
is proximity

1

Strategic Lines

1.1. Industry trends

The postal industry is undergoing a profound transformation. Internationally we see the adaptation of existing companies to a business environment of constant change, and a competitive environment in which their traditional business is shrinking. CTT's strategy has been defined in the light of trends in the industry, adopting best practices and success strategies, and particularly considering the specific needs of the markets in which it operates.

Industry trends may be summarised in the following points:

- i. Digitalisation** – substitution of physical processes and communications by digital technologies, with the specific consequence for the postal industry of a structural reduction in business.
- ii. Growth of e-commerce** – exponential increase in online purchases, leading to greater requirements for parcel delivery and logistics operations.
- iii. Globalisation, liberalisation and privatisation** – increased scope of activities and capacity of postal operators in an increasingly competitive environment, and driven by the need to guarantee results to the various stakeholders.
- iv. Diversification** – entry into and development of alternative business areas to mail services, increasing the profitability of postal operators' assets – particularly distribution and retail networks – and reducing their dependence on mail.
- v. Focus on efficiency** – constant operational improvement and optimisation of resources to maximise profitability, demanding flexible, agile technological architecture to allow services to be developed without prejudicing profitability levels.
- vi. Internet of Postal Things** – developing the assets of postal operators (postmen and women acting as field force, extending vehicle fleets, proliferation of points in the physical network) for data collection and provision of services under a big data concept.

1.2. Strategic lines

CTT has been adopting a diversification strategy in line with industry trends, adapting its business model to compensate for the structural decline in mail. Nevertheless, CTT is still heavily dependent on its mail business (more than 70% of its revenues versus 40% for the industry – data from IPC's Global Industry Report 2017) and is in an initial transformation phase due to the still limited penetration of e-commerce parcels in the market in Portugal, and the fact that Banco CTT only started to operate in 2016.

CTT's 2017 results came under strong pressure due to a greater decrease in mail volumes than originally foreseen, and an increase in the operating costs of this business unit resulting from CTT's commitment to the Universal Postal Obligation and its support for the company's growth levers. The growth levers, Express & Parcels and Banco CTT, demonstrate that they have potential and are in the process of growing, however they need more time before they can contribute to the Group's profitability – the contribution of Express & Parcels is still very limited, while Banco CTT is still on course to achieve break-even point.

It became therefore fundamental to review CTT's strategy to accommodate the consequences of these facts and urgently needed actions, and follow up on the strategic transformation of the company in the medium term. There is a need to give a strategic footing to the reformulation of the postal business, in order to adjust the fixed-costs structure to medium-term needs, so as to improve profitability and strengthen quality of service; at the same time, efforts must be continued and focused on transforming and developing non-postal business areas, particularly Express & Parcels and Banco CTT.

A. Reformulation of the postal business

The object of the Operational Transformation Plan is to make a strong contribution to the Company's results, helping to counteract the impact of the mail volumes decline. This plan will be implemented gradually until 2020, with an annual saving expected from that year onwards of up to €45m. The Plan's initiatives cover the principal component of CTT's operating costs, the mail business unit in different cost categories (staff, external supplies and services, and central structure). Implementation of the Plan and realisation of the estimated savings involve an additional investment of around €25m and non-recurring costs of approximately €55m. Implementation will require the continuous involvement of the Executive Committee, and the Board of Directors will also monitor it closely through the Implementation Monitoring Committee created for that purpose which will be led by the Chairman of the Board and include Non-Executive Directors (including the Non-Executive Director representing the largest shareholder).

The plan can be summarised in 4 major initiatives:

1. Adjust human resources policies and deepen the efforts to reduce external supplies and services costs:

- a. adjust the remuneration and incentives system for the Board of Directors and employees.
- b. reduce costs not related to the growth levers, such as: IT, rentals, utilities, communications and the vehicle fleet, supported by renegotiation of contracts and rationalisation of the use of services/premises.

2. Strengthen the human resources optimisation programme (continued elimination of redundancies) **and rationalise non-core assets** (sale of non-core real estate to save associated costs).

3. Optimise the retail network by converting post offices into postal agencies or closing post offices with low customer demand, **while maintaining proximity to citizens, quality of service and compliance with regulatory obligations.**

4. Reorganise the distribution network to improve operational efficiency:

- a. redesign the distribution network footprint and coverage to adapt it to changes in volumes and in the mix of postal items, and consequently streamline the transportation and fleet network, and concentrate postal delivery offices.
- b. optimise operations and mail handling through the automation of sorting and sequencing processes, and reduce absenteeism while increasing staff flexibility.

B. Transform and grow non-postal businesses

The transformation of non-postal businesses requires not only the development of services but also a structure capable of capturing market opportunities and responding to customers' needs, which change constantly and increasingly. Thus, the modernisation of CTT's business model, leveraged on its existing platforms and capacities, is based among other things on the following completed, current or planned initiatives:

1. Above-market growth in parcels and value-added services (mail & parcels):

- i. strengthening CTT's range of services in order to grow in the B2B (business to business) and B2C (business to consumer) markets in Portugal – in 2017, specific B2B services were developed for segments with greatest growth potential (e.g. shopping network); the CTT e-segure app was launched to allow centralised management of parcel deliveries (e.g. tracking the course of urgent parcels, changes during the course of a parcel, real-time notifications on the mail items/parcels); automated lockers for parcel delivery (parcel lockers) pilot was launched; partnership with OLX; preparation of the pilot for instant delivery based on a crowd-shipping model on a multi-channel platform.
- ii. consolidation of the positioning of CTT as an Iberia-wide operator, to allow integrated market coverage – in the fourth quarter of 2017 Tourline reached break-even, and in future this subsidiary shall focus on consolidating the position achieved and on ensuring that its structure and operations achieve the expected growth.
- iii. capture of international flows – focus on one-to-one partnerships with local operators for the last mile; developing the Interconnect project (a global e-commerce distribution

network based on a partnership of international postal operators including CTT); revamping the current outbound portfolio focusing on exporting SME; and optimisation of customs clearance.

iv. exploration of opportunities in market niches with potential for synergy with CTT's operations, particularly logistics and cargo – completion of the acquisition of Transporta and its integration into CTT, etc.

v. developing specialist segments and business solutions (e.g. launch of the CTT Ads platform).

2. Continue Banco CTT's path towards break-even:

- i. expansion of Banco CTT's footprint by attracting new customers and accounts and capturing deposits, maintaining a strategy of simplicity and transparency.
- ii. accelerating the origination of a loan book – entering the mortgage loans market with its own product launched in 2017, and solutions in partnership such as consumer credit and car loans.
- iii. extending the portfolio of products and cross-selling, specifically insurance and transfers – e.g. the launch in 2017 of a health insurance product in partnership with Multicare.
- iv. integration of Payshop and development of payment services – migration of Payshop to Banco CTT and continuing the implementation of the Operational Transformation Plan for of the company (e.g. launch of a new site, provision of a new physical and virtual pre-payment service in Payshop agencies for purchases on the internet such as games and contents), developing the "virtual agent" project to provide information on recurrent expenditure through a web and mobile phone app, allowing users to make payments, etc.
- v. developing digital channels, easy-to-use, convenient and secure solutions (e.g. creation of the Casa BCTT app to allow step-by-step monitoring, a messaging service with the Bank to obtain information on the mortgage credit process and upload lacking documents, etc.).

3. Stimulate sales and increase profitability:

- i. strengthening the sales organisation – reorganisation of sales teams for contract business, separating the sales forces (mail versus other businesses), redefinition of account planning methods and creation of new mechanisms to identify sales leads and increase cross-selling, review of the pricing model and margin/profitability optimisation policies and creation of a Sales Planning and Control department.
- ii. protecting the Mail value through a active regulatory management.

4. Upgrade technology and the data-management platform,

enabling the Company to develop innovative, value-added offers, guarantee the quality of service and a continuous improvement in customer experience, guarantee efficiency and resource optimisation and strengthen the decision-making process by improving management information:

- i. strategic IT project – examples of measures implemented in 2017: all postmen were provided with mobile devices allowing processes such as paperless confirmation of registered mail and parcel delivery, and new apps (e.g. CTT App and ViaCTT App), implementation of a new sales and customer support system (CRM – Customer Relationship Management), carrying out pilot projects for process automation in support areas using Robotic Process Automation (RPA) technology, integration of Transporta's IT with CTT's IT and modernisation of management information.
- ii. infrastructure renewal plan (new technological architecture, consolidation of servers, storage and back-office infrastructure, data security).





If on the one hand
we are driven by
the path

On the other
what drives us
is destiny

2

Businesses

2.1. Economic, sectoral and regulatory environment

2.1.1. Economic environment

International

The IMF's forecasts for the world economy point to an acceleration of growth in 2017 (3.7%, as compared to 3.2% in 2016). This evolution resulted from the combined effect of acceleration of growth in both advanced economies (2.3% in 2017, in comparison to 1.7% in 2016) and in emerging and developing market economies (4.7% in 2017, 4.4% in 2016).

Growth in the USA was 2.3% in 2017, mainly due to the improvement of private investment and the recovery of exports. Economic growth in the United Kingdom decelerated (1.7% in 2017, compared with 1.9% in 2016) due to the slowdown in household expenditure. Emerging market economies accelerated, having continued to benefit from accommodating financial conditions and, in the case of commodity exporting economies, from the increase in commodity prices at the end of 2016. Although China grew 6.8%, the pace of credit growth in this country raises some concerns regarding medium-term financial stability. In the Euro area, GDP accelerated to 2.4%, due to the pick up in exports, reflecting strong external demand as a result of the recovery of the world economy. Investment may have been more subdued, in spite of financing conditions having remained favourable and the continued accommodative stance of the ECB's monetary policy. Private consumption maintained moderate growth, benefiting from the improvement in labour market conditions and the progress made in terms of reducing household indebtedness. Among the larger Euro area economies, Spain posted the strongest growth in 2017, at 3.1%, followed by Germany (2.5%), France (1.8%) and Italy (1.6%).

World trade saw robust growth in 2017, 4.7% compared to 2.5% in 2016. In 2017, the external demand for Portuguese goods and services accelerated considerably, registering an estimated growth of 4.8% (2.0% in 2016). The main driver of this acceleration was the higher growth in demand from the business partners of the Euro area and the USA.

In a context of contained inflationary pressure and low capacity utilisation rates in most advanced economies, monetary policy in 2017 was expansionary, particularly in the Euro area, Japan and the United Kingdom. In the USA, on the contrary, following the start of monetary policy normalisation at the end of 2015, the Federal Reserve decided to raise the federal funds rate three times in 2017, more specifically in March, June and December. The ECB's Governing Council decided to extend until the end of the year its asset purchase programme launched in recent years and maintained its key interest rates unchanged at historically low levels.

Short-term interest rates in the Euro area continued decreasing to historically low levels during 2017, with the 3-month Euribor standing, on average, at -0.33% in 2017 (-0.26% in 2016). In 2017 there was an appreciation of the effective exchange rate of the Euro.

In annual average terms, the price of oil increased by more than 20% in 2017 relative to the previous year, interrupting the downward trend observed in the 2013-2016 period.

Looking ahead, the ECB expects the growth of world economic activity to remain generally stable. The prospects for the advanced economies point to a sustained expansion, with a slight slowdown over the next few years. In emerging economies, the prospects are becoming more buoyant, underpinned by a slow strengthening of activity in commodity exporting countries, namely Brazil and Russia, and by resilient growth in India and China, although a slower growth trend is expected in the latter country. According to forecasts, the growth of world economic activity (excluding the Euro area) will be between 3.7% and 3.9%, over the time horizon to 2020.

National

According to the Preliminary 2017 National Quarterly and Annual Accounts of INE (National Statistics Institute), GDP grew by 2.7% in 2017 (1.6% in 2016). The contribution of domestic demand to the rate of change of GDP increased by 2.9 p.p. (1.6 p.p. in 2016), mainly reflecting the 8.4% acceleration in investment (0.8% in 2016) while private consumption increased slightly from 2.1% to 2.2%. The increased investment reflects mainly the 9.0% acceleration of Gross Fixed Capital Formation (GFCF) (1.5% in 2016), as the under construction GFCF was the component that contributed mostly to the developments in total GFCF with a 9.2% increase (after a reduction of 0.3% in 2016). Net external demand went from a zero contribution in 2016 to -0.2 p.p. in 2017, as both the exports and the imports of goods and services accelerated by 7.9% (4.4% and 4.2% in 2016, respectively). In nominal terms, the External Balance of Goods and Services represented 1.0% of GDP (1.1% in 2016), and there was a slight deterioration in the terms of trade.

Inflation, measured by the Harmonised Consumer Price Index (HICPI), increased significantly in 2017 to 1.6%, following an increase of 0.6% in 2016. Both the energy and non-energy component (with emphasis on the significant increase in the prices of services in tourism-related activities) contributed to the acceleration of prices in 2017.

In 2017, the labour market situation improved, with a rise in total employment of 3.3% (1.6% in 2016), higher than the growth in GDP, and a decrease in the unemployment rate to 8.9% (11.1% in the previous year).

In June 2017, the Council of the European Union decided, by recommendation of the European Commission, on the closure of the excessive deficit procedure to which Portugal had been subject since 2009. Following this decision, the Portuguese

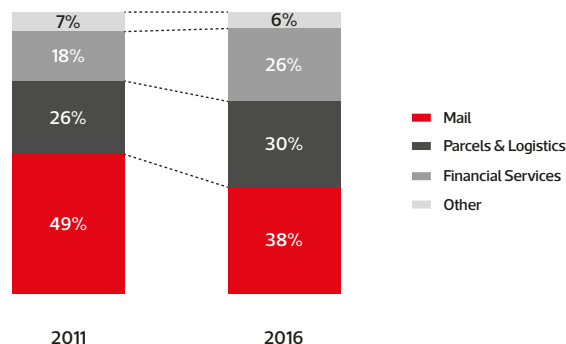
budgetary situation began to be analysed according to the rules of the preventive arm of the Stability and Growth Pact. For 2017, the general government deficit should be -1.4% of GDP, 0.1 p.p. of GDP below the target set by the 2017-2021 Stability Programme and 0.2 p.p. of GDP below the State Budget for 2017. This reduction resulted, on the one hand, from the increase in revenues, with emphasis on the increase in revenues from taxes on production and imports, in particular value added tax, and from social contributions, and on the other hand from the decrease in expenditure, namely the decrease in expenditure on social benefits (arising from the decrease in the unemployment rate) and on interest payments on the public debt.

2.1.2. Sectoral framework

2.1.2.1. Postal Sector

As in previous years, the paradigm of the transformation of the postal sector continues to be evident. Thus, the drive towards efficiency and business diversification remains the strategic focus of postal operators. The weight of the postal business is decreasing, accounting for less than 40% of the sector's revenues, while Parcels & Logistics and Financial Services are emerging as the main levers of growth in the sector.

Revenues per business unit in the postal sector

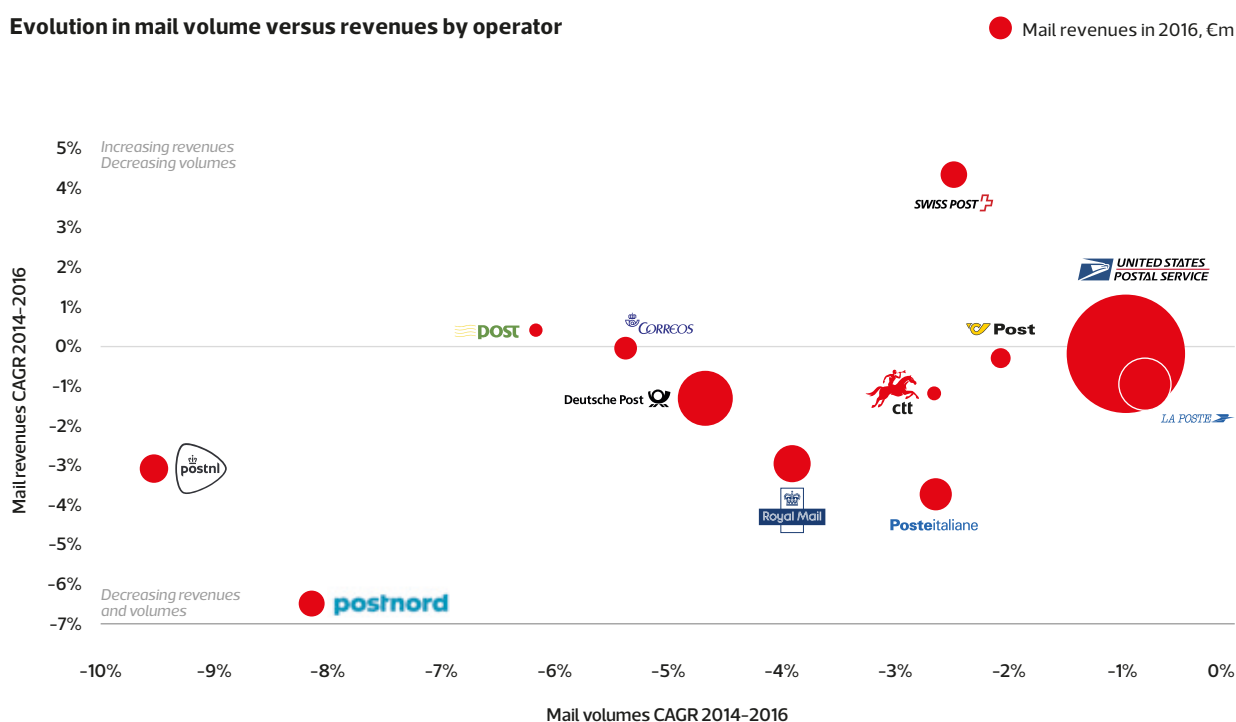


Source: IPC "Global Postal Industry Report 2017", report developed by International Post Corporation (IPC) gathering information on 48 postal operators at international level.

Mail

With regard to Mail, there is a strong pressure on volumes, a trend that is observed in most postal operators and, consequently, is reflected in the decrease in revenues associated with the mail business. The following graph shows the relationship between volumes growth and revenue growth for a number of European postal operators in a sectoral trend analysis in 2014-2016 (2017 data for all operators not yet available).

Evolution in mail volume versus revenues by operator

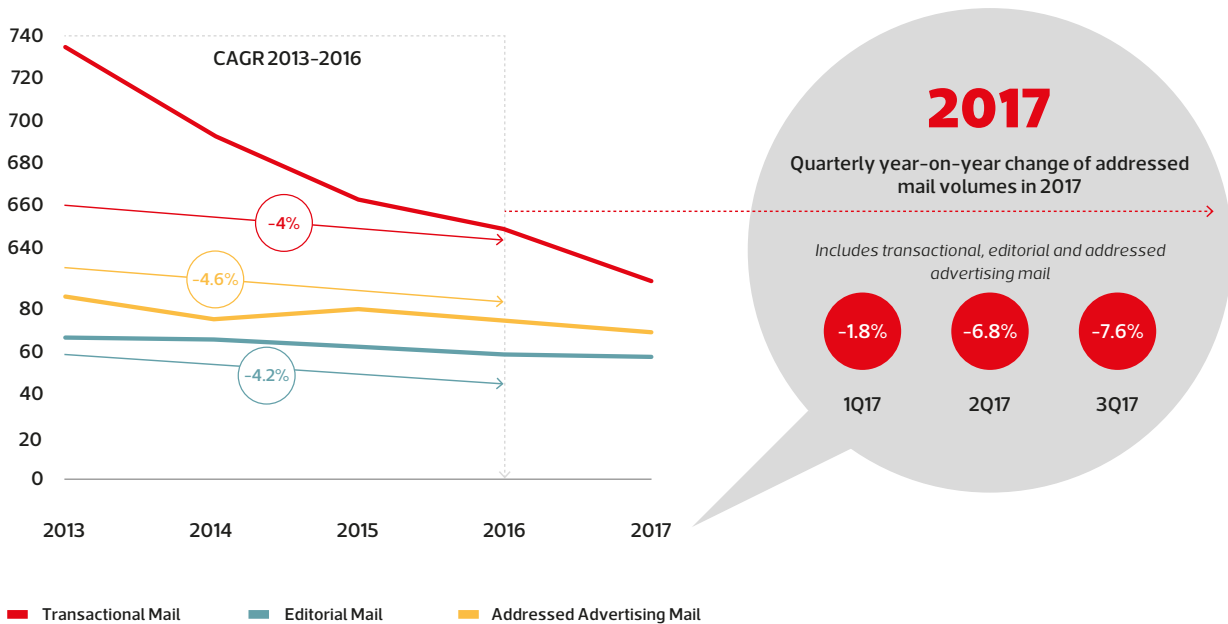


Source: IPC "Global Postal Industry Report 2017 Data Appendix", database of the report prepared by the International Post Corporation (IPC) gathering information on 48 postal operators at international level.

The reality of the domestic market is similar to that of the international markets and there is a historical downward trend in all mail segments due to the digitalisation and, consequently, the substitution of mail by other means of communication.

As can be seen in the graph below, which represents the evolution of mail volumes in Portugal, the decline was sharper in the editorial mail. In addition, in recent quarters there has been an acceleration of the decrease in addressed mail.

Evolution of Mail market volumes in Portugal (2012–2017) (million items)

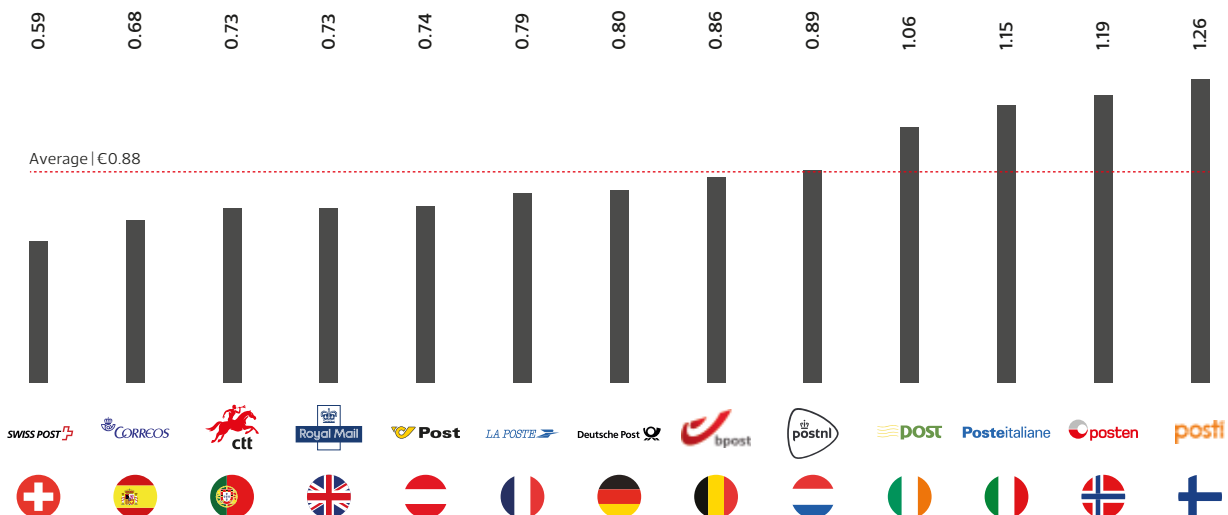


Source: ANACOM, "Postal Services – Statistical Information – 3rd quarter 2017"; 2017 included as last 12 months ending September.

In response to the abrupt decline in volumes, postal operators have been focusing, among other initiatives, on changing their pricing strategies, and in recent years mail prices have been growing by between 6 and 8%. In Portugal there has also been

an increase in prices, but CTT continues to be one of the incumbents with the lowest prices, as can be seen in the graph below, which compares the average prices per letter adjusted for purchasing power.

Mail price of the main European operators (€ per letter, adjusted for purchasing power)

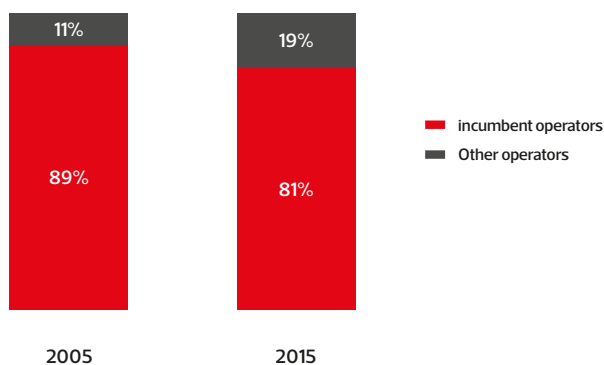


Source: IPC Consumer Rates, domestic mail price with delivery date above D+1 (proxy for CTT ordinary mail, which has a delivery standard of D+3), except for operators that only offer this service standard (AN Post, Bpost, Deutsche Post and Austrian Post).

In addition, the competitive pressure in the postal sector resulting from the liberalisation of the postal markets reinforces the challenges for incumbent operators which, once subject to the obligations of their contracts, have greater difficulties in remaining competitive and maintaining their market shares. As can be seen in the table below, presenting the market share of the incumbent operators before and after the liberalisation of the postal market.

Evolution of mail market shares

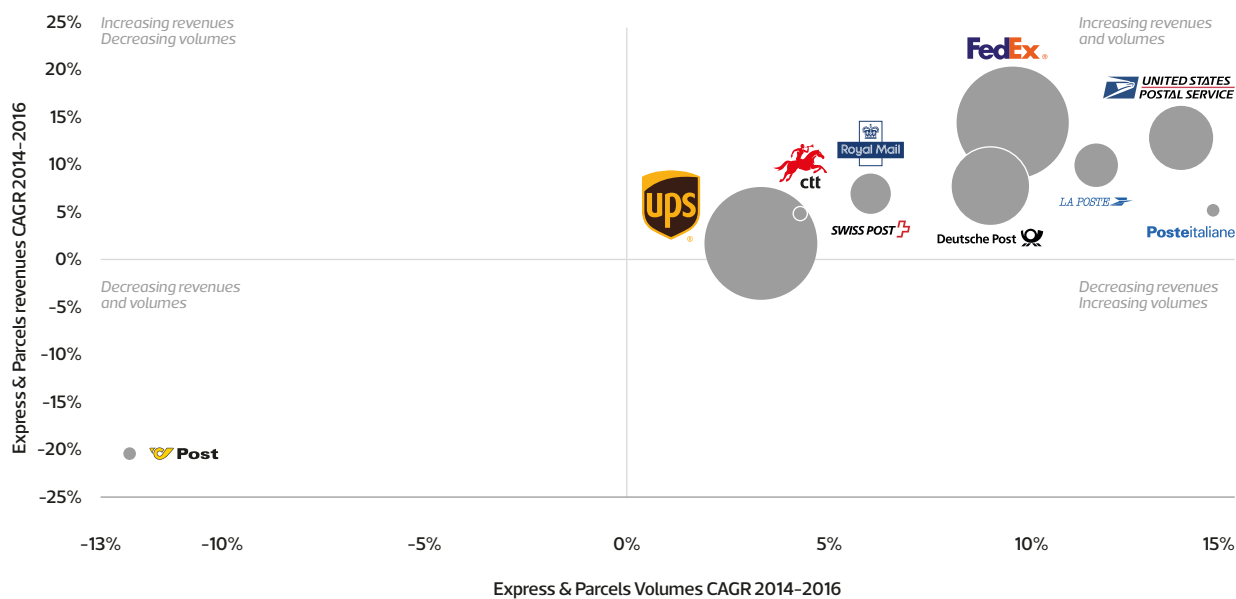
Considering letter volumes



Source: UPU (Universal Postal Union) "Research on Postal Markets".

Evolution in Express & Parcels volumes vs revenues by operator

● Express & Parcels revenues 2016, €m



Source: IPC "Global Postal Industry Report 2017 Data Appendix", database of the report prepared by the International Post Corporation (IPC) gathering information on 48 postal operators at international level, and CTT (note: considers indicators from CTT Expresso).

In 2016, Express & Parcels volumes grew about 8%, mostly driven by the volume of domestic B2C parcels. Until 2020, the growth in revenues of this market is expected to reach about 37% (with reference to the global Express & Parcels market in the “Global Postal Industry Report 2017” of IPC).

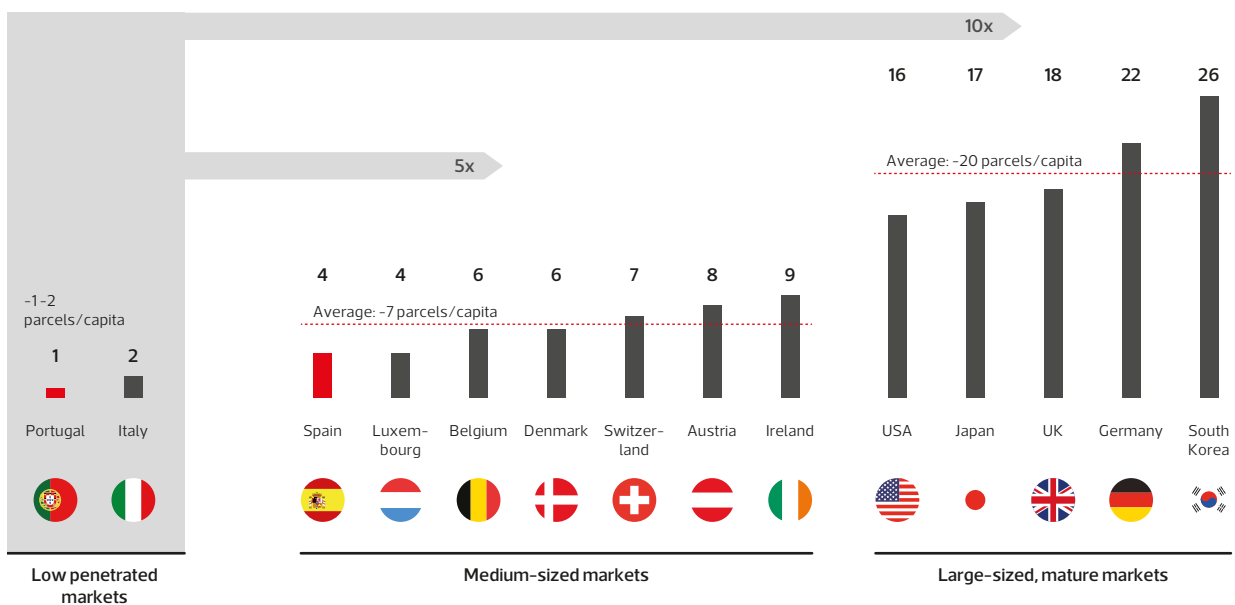
At a national level, there has also been a strong evolution in parcels volumes in the last few years. However, it is important to note that the growth of the parcels volumes when compared to international markets has been more moderate, since a large part of the market still refers to B2B parcels, little influenced by the growth of e-commerce, which in turn is the strong growth driver of this business.

In Portugal, the presence of companies on the internet is still incipient (40% have an online presence) and only 27% of these companies sell on this channel (Source: ACEPI / IDC “Annual Study of the Economy and Digital Society in Portugal”, October 2017).

Notwithstanding, the weight of B2C parcels in the domestic market has been increasing, driven mainly by e-commerce. It is believed that the future is promising in terms of the Iberian market, since the degree of penetration of e-commerce is behind that of other markets, as can be seen in the graph below.

E-commerce parcel penetration

Parcels per capita, per year¹



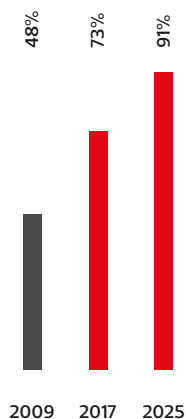
Source: CTT Analysis.

¹ E-commerce relevant is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country.

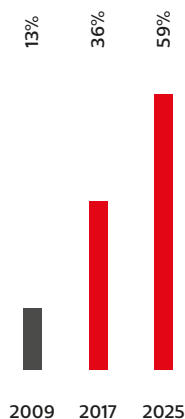
There are already signs of this evolution. Specifically in Portugal, an increasing number of Portuguese have access to the internet. This group is expected to represent more than 90% of the population in 2025. The number of Portuguese that buy online has increased significantly, with more than half of the population being expected to do so in 2025, and the volume spent on purchases increased about 170% from 2009 to 2017, being expected to double by 2025.

It is important to mention that 85% of the Portuguese that buy online have already made cross-border purchases and that 50% of the online purchases made by the Portuguese are made outside the country.

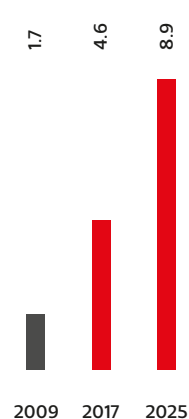
% of the Portuguese population that uses internet



% of the Portuguese population that purchases online



Volume of online purchases made by the Portuguese (B2C; € billion)



■ Historical data ■ Forecasts

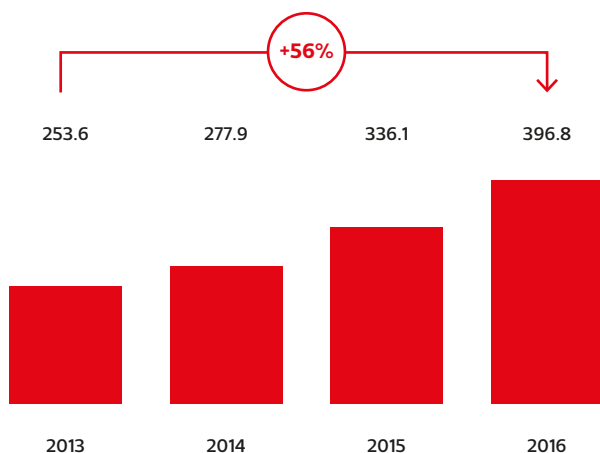
Source: ACEPI/IDC "Annual Study of the Economy and Digital Society in Portugal", October 2017.

With regards to Spain, the market has grown significantly over the past few years, with the number of items sent having increased more than 50% between 2013 and 2016 (CAGR 2013-2016 of 16%). On the other hand, and in the same period, there has been an annual increase of 5% in operators' turnover, clearly showing the strong pressure that prices have been under (Source: Comisión Nacional de los Mercados y la Competencia, "Análisis del sector postal y del sector de la mensajería y la paquetería").

Regarding e-commerce, signs of a strong evolution are also evident in Spain. The number of transactions doubled between 2013 and 2016, with an annual growth of 28% (CAGR 2013-2016). In the first half of 2017, the trend continued, with a year-on-year increase of 29%. As a result, the weight of e-commerce in retail sales has been increasing and it is expected to reach 6.5% in 2018.

CEP volume evolution in Spain (2013-2016)

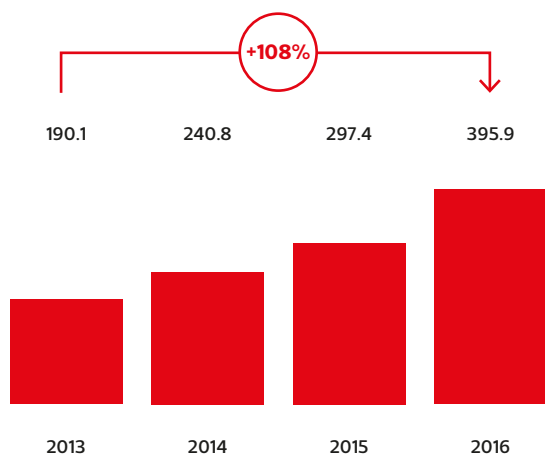
(million items)



Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier & Parcels Sector", December 2017.

Online purchases evolution in Spain (2013–2016)

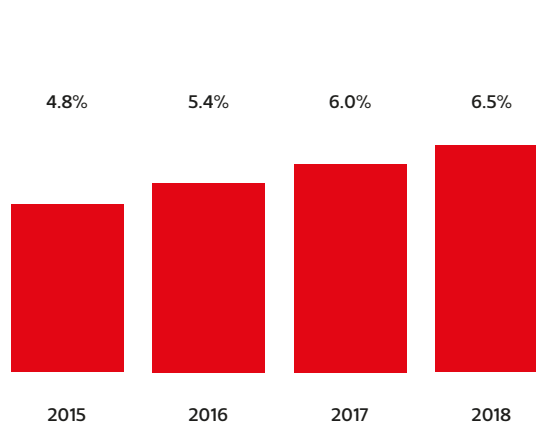
(million transactions)



Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier & Parcels Sector", December 2017.

Weight of online sales in the retail sales in Spain (2015–2018)

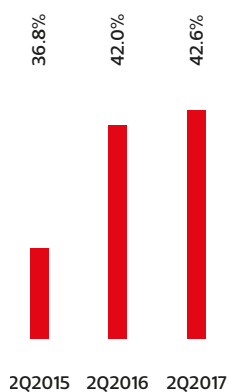
(%)



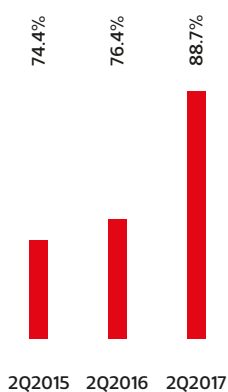
Source: Statista, "Key figures of e-commerce".

In addition, the number of people that make online purchases has also been increasing, as well as the number of online purchases resulting in parcels.

% of Spanish population that uses internet and made online purchases in the last 6 months



% of online purchases that generate parcels



Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier and Parcels Sector", December 2017.

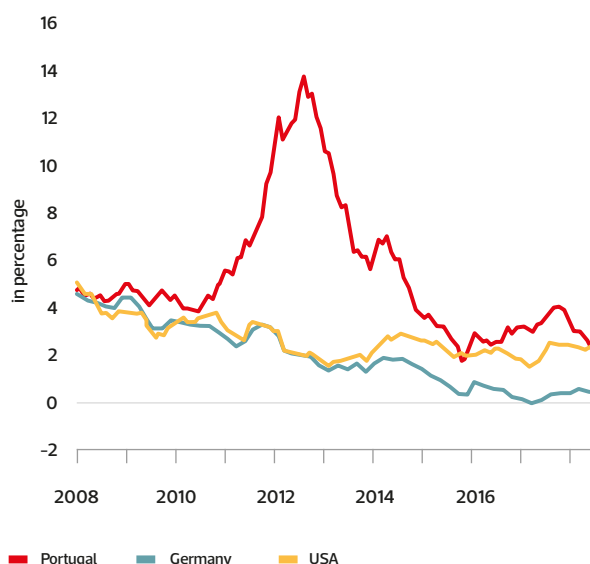
2.1.2.2. Financial sector

Financial Markets

In light of the favourable macroeconomic environment, financial market sentiment remained strong in advanced economies, with gains in stock markets and a further reduction in price volatility. The European Central Bank (ECB) estimates that

short-term interest rates, based on the 3-month EURIBOR, are expected to remain at around -0.3% in 2017 and 2018, -0.1% in 2019 and 0.1% in 2020. Market expectations regarding nominal yields on 10-year public debt bonds in the Euro area point to around 1.1% in 2017 and 2018, 1.4% in 2019 and 1.7% in 2020.

Yield on treasury bonds (10 years) - monthly average



Source: Bank of Portugal, Statistical Bulletin - January 2018

Currently, the reference interbank interest rate levels continue to reflect the stable nature of monetary policy, namely with respect to the ECB's asset purchase programme. Interest rates have remained unchanged since March 2016, with the interest rate in the deposit facility at -0.40%⁷, the rate for the main refinancing operations at 0.00%⁷ and the marginal lending rate at 0.25%⁷.

⁷ Bank of Portugal, Portuguese Banking System. Recent Developments – 3rd quarter 2017.

In 2018, financial market confidence sentiment is expected to remain anchored by prudent and conservative economic and monetary policies on both sides of the Atlantic. Two major risks will, however, remain: on the positive side, the advancement of the fiscal stimulus plan in the USA and, on the negative side, the advancement and consequences of the Brexit process.

Banking System

In a favourable context, both in terms of the macroeconomic conditions in Portugal, and the conditions in international financial markets, 2017 was a positive year for the Portuguese banking system, to the extent that it managed to reinforce its capability to perform its financial intermediation function on a regular basis. There was a significant reduction in non-performing loans (NPL), in nominal value and in percentage of loans, and a recovery of profitability, in spite of being affected in the short-term by operational adjustment processes of some institutions, with respect to staff costs. It is also important to mention the capacity for reinforcement of the prudential capital ratios.

Following processes involving the reduction of international activity and the capitalisation of some institutions, the asset reduction trend was maintained. In comparison with the first half of 2010, when they reached their maximum value, assets fell about 27.3%⁸ in the first half of 2017. In general, there was a reduction of the customer loan book (-1.4%⁹ in the first half) and an increase in the debt security portfolio (+1.5%⁹ in the first half), mainly of securities from sovereign debt issuers, with emphasis on Portuguese public debt securities. However, there was recently a trend towards an increase of the weight of Spanish and Italian public debt securities in the portfolio.

There was an increase in the importance of customers' deposits and a decrease in the weight of liabilities represented by securities in the financing of assets. The evolution of household deposits must be associated to the low interest rate context in new deposit operations, encouraging the channelling of resources to alternative, real and financial investments. The savings products issued by the State, offering higher rates of return than those of deposits, are noteworthy. The transformation ratio, defined by the quotient between loans (net of impairments) and customer deposits, fell 1.9 p.p.⁸ in the first half of 2017 relative to the end of 2016, to stand at 93.6%⁸. Relative to June 2010, the ratio fell about 65 p.p.⁸. Financing from central banks increased 3%⁸ in the first half of 2017, being mainly associated to long-term re-financing operations (LTRO). The financing from the interbank market (net of investments and claims on other credit institutions), on the other hand, fell 3.7%⁸ in the first half of 2017.

In terms of liquidity, levels remain comfortable and exceed regulatory requirements. At the end of the first half of 2017, the liquidity cover ratio (LCR) of the banking system stood at 185%, which translates into an increase of 31 p.p.⁸ relative to the end of 2016. This essentially reflects the increase of the liquidity buffer and the slight decrease in net outflows. The liquidity buffer is mostly composed of public debt securities, claims on cen-

tral banks and cash. The ratio observed for the banking system exceeds the minimum requirement of 100% applicable from 1 January 2018.

With regards to the profitability of the Portuguese banking system, results were once again positive in the first half of 2017, essentially due to a reduction of costs with impairments and provisions, particularly credit impairments, and to a stabilisation of the net interest income, which along with an asset reduction improvement trend contributed to the improvement of the return on assets (ROA). In a context of stabilisation of staff costs and amortisation, operating costs maintained a downward trend, with a decrease in general administrative costs (represents about 35%⁸ of total operating costs) and a stabilisation of staff costs (represents about 58%⁸ of total operating costs) influenced by non-recurring costs associated to restructuring processes in some institutions. In the first half of 2017, the level of operating efficiency of the Portuguese banking system improved relative to the same period of the previous year, which translated into a decrease of 1.4⁸ p.p. of the cost-to-income ratio, to 60.5%⁸.

The reduction of the loan book affected the generation of interest in operations with customers. In addition, there was a decline in the interest rate implicit in loans. On the other hand, there was a reduction in interest costs, resulting from the lower cost incurred with customer deposits, of the retail customer segment in particular, as well as a decrease in the payment of interest associated with securities issued by institutions. The spread in operations with customers, in domestic activity, increased slightly, resulting from a reduction in the average cost of deposits larger than the decrease in the interest rate implicit in the resident non-financial private sector's loan outstanding amounts.

Solvency levels maintained their reinforcement trend in the first half of 2017, with the own funds Common Equity Tier 1 (CET 1) ratio of the Portuguese banking sector standing at 13.2%, considering the transitional provisions laid down in Regulation No. 575/2013 of the European Union (Capital Requirement Regulation – CRR). The expected entry into force of a minimum requirement of 3% expect to occur during 2018, under Basel III, is likely to be met by Portuguese institutions, since the leverage ratio is well above this minimum value, even considering a more demanding capital Tier 1 definition (fully phased-in).

2.1.3. Regulatory Framework

2.1.3.1. Postal Sector

At the level of the European Union

The European Commission (EC) supported that the cross-border parcel delivery services are an essential element to enhance e-commerce across the entire EU. Within the scope of a package of measures to be developed to improve consumer and corporate access to digital goods and services, presented in 2016 by the EC on 20 December 2017, the European Council approved an

⁸ Bank of Portugal – Financial Stability Report – December 2017.

agreement on the new rules relative to the cross-border parcel delivery services, aimed at increasing the transparency of prices and the regulatory supervision of these services. The agreement entails the publication by the European Commission, on a specific website for the purpose, of the public tariffs of the cross-border delivery service providers and grants the regulator more powers to monitor the parcel delivery market. The agreed text shall be formally approved by the European Parliament and then by the European Council and shall enter into force 20 days after its publication in the Official Journal of the EU.

In this context, European postal operators jointly implemented the Interconnect project, which essentially entails 5 commitments: flexible delivery options, return solutions, expansion of the track and trace system, better quality of service for the customer, and harmonised labels. The goal of this project is to thereby remove obstacles that dissuade consumers from making online purchases outside their country by equipping vendors with more flexible efficient delivery solutions with a single standard for customers and, as such, maximise growth potential in cross-border electronic commerce for postal operators and contribute to the development of the Single Digital Market.

At a national level

Pursuant to the Base XV of the Concession of the Universal Postal Service, on 15 September 2017, ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply for the three-year period 2018-2020. The defined density objectives with respect to postal establishments and other points of access to the postal network, such as letter boxes, did not alter the objectives in force in the previous regulatory period, maintaining the assurance of the existence of availability and accessibility of the Universal Service provision entrusted to CTT.

In compliance with the pricing criteria for the 2015-2017 period, as established by an ANACOM resolution of 21 November 2014, ANACOM approved the Universal Service price proposal presented by CTT on 31 January 2017, as later adjusted, by a resolution of 28 March 2017. The prices inherent to this proposal, which complied with the established price formation principles and criteria, became effective on 4 April 2017.

This update corresponded to an average annual variation of 2.4% in the price of the basket of letter mail, editorial mail and parcel services, not including the universal service offer to bulk mail senders, to which special prices apply.

As regards special prices for postal services included in the Universal Service that apply to bulk mail senders, these were also updated on 4 April 2017, following the proposal submitted to the Regulator on 24 March 2017.

Under the company's tariff policy for 2017, the mentioned updates correspond to an average annual variation of 1.9% in prices, also reflecting the effect of the updating of prices for re-

served services (service of legal summons and notifications by post) and for special prices for bulk mail.

As the Universal Postal Service provider and in order to provide a standardised and non-discriminatory service to operators that wish to use the Universal Service network, as of February 2016, CTT made available to postal operators with an individual license an offer to access its network that is deemed competitive and that safeguards the network's security and the Universal Service provision efficiency. This offer consists of a basic service of collection, transport, sorting and delivery of non-priority letter mail with a maximum weight of 2kg that allows items to be sent nationally or internationally using the Business Mail counters of Lisbon, Taveiro (Coimbra) and Maia (Porto) as access points.

Further regarding access to elements of the postal infrastructure by other postal operators, access is available as of March 2016 to deliveries to P.O. Boxes through which postal operators can directly drop-off mail addressed to P.O. Boxes located in CTT post offices, and the return service of mail found in the CTT network with postage from other operators.

In terms of the quality of the Universal Postal Service, following the new Postal Law, the measurement of quality indicators through a measurement system carried out by an independent external entity was initiated as of the 4th quarter of 2016, which is operated by an international company. Following some weaknesses detected in the measurement process, this entity is implementing a number of measures to improve the operation and stability of the new quality of service measurement system.

According to the legal framework, the quality of service parameters and the performance objectives associated to the universal service provision, as well as the criteria to which the price formation must comply are set by the regulatory entity. On 11 January 2018, ANACOM approved a draft decision on the quality of service parameters applicable as of 1 July 2018 until the end of 2020. This draft decision provides for a reformulation of the quality of service indicators that CTT will have to comply with, defining, namely, a set of 24 indicators that compare with the 11 previous indicators, as well as the setting of more demanding objectives for some indicators. On the same date, ANACOM also approved a draft decision on the criteria for universal postal service price formation, for the 2018-2020 three-year period. The new rules will be applied to the prices in force in 2019 and 2020, which must be updated according to the inflation value less 1.28 percentage points, also taking into consideration correction factors for inflation and volumes. The rules currently in force will be applied in 2018, which were defined by ANACOM in 2014. Within the scope of the public consultation which these draft decisions were submitted to, CTT is analysing their impact, taking into account the evolution of the decline in mail volumes and the changing needs of consumers, due to the new reality brought about by new information and communication technologies, and the future sustainability of the Universal Postal Service.

2.1.3.2. Financial Sector

New requirements and demands, with implications at various levels, namely on the business model, have been shaping the banking reality of the last few years.

The Basel Committee for the Banking Supervision (BCBS) published new Basel III reforms (also known informally as Basel IV) which include new rules for the calculation of risk weighted assets (RWA), more risk-sensitive standardised methods and greater limitations to the use of internal models. Regarding the changes to the calculation of RWA, these shall not be permitted, when based on internal models, to stay below the minimum capital floor limit of 72.5%. In all of the types of risk included in the designated Pillar I, the calculation of the capital requirements of all banks, regardless of their business line, size or calculation model, shall be affected. In addition, this agreement also introduced new changes to the leverage ratio, through the inclusion of an additional buffer of own funds for the designated Globally Systematically Important Banks (G-SIBS). These changes increase banks' capital requirements, in order to improve the quality and capacity to absorb losses and resist contexts of liquidity shortage. As a result, these directives will have consequences for some European banks, due to the significant increase of their RWA, placing pressure on their capital ratios.

The implementation of the new accounting standard, known as International Financial Reporting Standard 9 - IFRS 9, as of January 2018, is a new challenge for the financial sector, mainly due to the new policy of constitution of impairments, which obliges financial institutions to report loan losses earlier. Banks shall thus have to define risk segments, plan the future performance of various contracts, project cash flows and, consequently, determine the different risk parameters that, for each time frame, depend on macroeconomic scenarios and models.

In addition to these new directives, there are two more that enter into force in 2018 and that may affect the performance of financial institutions, namely of payments (PSD2) and capital

markets (MiFID II). PSD 2 (Payment Services Directive 2) is a European directive of payment services, whose objective is to allow for greater transparency and innovation in payment institutions. This new regulation will have a profound impact on the banking sector at a worldwide level, permitting any entity to have access to a payment account or current account (duly authorised by its account holder), with no bank intermediation required. In relation to MiFID II (Markets in Financial Instruments Directive), its objective is to strengthen the protection of the investor and enhance the transparency and quality of the operation of financial markets and services rendered, covering all the entities that are part of the financial instruments markets. This directive reinforces the duties of the financial institutions, namely with regard to the collection of client information, marketing and monitoring of financial instruments and, in addition, the duties of recording and registering communications between the financial institutions and their clients.

2.2. Mail

2.2.1. Business

The recurring revenues⁹ of the Mail business unit reached €527.5m in 2017, corresponding to a 1.1% decrease relative to 2016.

The retail network is also included in this business unit that in addition to postal, retail and convenience services renders services to the other business units as a sales channel. This business unit also includes the Mail upstream and downstream corporate solutions, namely printing & finishing, mailmanager, video encoding, hybrid mail and other solutions complementary to the Mail business. The services mentioned above are provided by CTT, S.A. (parent company), CTT Contacto and Mailtec Comunicação.

Mail Volumes

	9M			4Q			Million items		
	2017	2016	Δ	2017	2016	Δ	2017	2016	Δ
Transactional Mail	476.2	504.9	-5.7%	151.0	157.9	-4.3%	627.2	662.8	-5.4%
Editorial Mail	30.7	31.9	-3.8%	10.1	11.3	-10.9%	40.8	43.3	-5.6%
Advertising Mail	49.4	54.6	-9.5%	19.2	19.6	-2.2%	68.5	74.2	-7.6%
Addressed Mail	556.3	591.4	-5.9%	180.3	188.8	-4.5%	736.6	780.2	-5.6%
Unaddressed Mail	371.9	361.4	2.9%	120.2	136.3	-11.8%	492.1	497.8	-1.1%

⁹ Including internal services and intra-group transactions which are eliminated for consolidation purposes.

The decline in revenues mainly reflects the evolution of addressed mail volumes which fell 5.6% in 2017, with a slowdown in decline in the 4th quarter (-4.5%) relative to the first nine months of the year (-5.9%).

The decrease in addressed mail volumes was mainly impacted by the decline in transactional mail volumes (-5.4%), whose downward trend moderated in the 4th quarter (-4.3%). The year-on-year decline in the last quarter was lower than the declines in the 2nd quarter (-7.6%) and in the 3rd quarter (-6.9%).

The annual evolution in transactional mail volumes (-5.4%) was due, in large part, to the decline in ordinary mail (-7.2%), whose impact is relevant since it represents 78% of the transactional mail volumes. The decline in the volume of this service deepened in the banking and insurance (-10.7%) and telecommunications and utilities (-8.5%) sectors, in line with the trend observed over the last few years in the behaviour of the large customers that replace physical mail with digital communication.

Registered mail volumes contributed with an increase of 0.5% to the evolution of transactional mail volumes after having decreased 8.8% in 2016 relative to 2015. In 2017 there was an increase in registered mail volumes with origin in some contractual customers of the industry and services sectors which counterbalanced the slight decline in consumption of the State and central and local Public Administration customers.

The evolution of editorial mail volumes in 2017 (-5.6%) was mainly conditioned by the marked decline in volumes in the last quarter of the year (-10.9%) with origin (i) in a significant reduction of the number of items of publications that benefit from the reading incentive scheme that cover the regional and local press and (ii) in a reduction of the items from customers of an associative nature (orders, unions and other associations).

The updating of the prices of the basket of letter mail, editorial mail and parcel services occurred as of 4 April. The average annual price change for the Universal Service in 2017 was 1.9%, contributing to mitigate in part the effect of the volume decline on revenues.

Addressed advertising mail volumes decreased by 7.6% in 2017, registering a slight recovery in the 4th quarter (-2.2%) mainly caused by the growth in this period of the volume of items in campaigns conducted by a large customer.

The less favourable performance of unaddressed advertising mail volumes in the 4th quarter of 2017 relative to the same quarter of 2016 (-11.8%) brought about a slight decline in the volume for the year (-1.1%). The focus on the diversification of the portfolio of customers, namely on small, occasional customers that grew 25% relative to the previous year, did not enable counterbalancing the decline in the volumes from large customers, namely of the large-scale distribution and retail sectors. In the 4th quarter, some large customers did not conduct final year campaigns (anticipated or postponed until 2018), others reduced the coverage of the campaigns

(resulting in lower volumes), others developed “2 in 1” campaigns thus decreasing their frequency and others opted to replace physical campaigns with digital campaigns.

The CTT Ads solution, launched in the 1st quarter, did not have any visible effects in 2017 on advertising mail volumes or revenues. In the 4th quarter, there was a strong campaign to attract new customers and the launch of a new offer in the portfolio – promotional gifts – which obtained a positive acceptance from the market.

Business Solutions

CTT offers a portfolio of corporate solutions that collectively generated an income of €8.8m in 2017, developing offers that combine physical and digital communication, such as: dematerialisation, proximity and business intelligence solutions, document production (through Mailtec Comunicação, the market leader in printing and enveloping), mail and document digitalisation, geographic and georeferencing solutions, the Online Receipts solution, as well as ViaCTT, a secure e-mail with controlled access.

In 2017, within the scope of the dematerialisation, proximity and business intelligence solutions, the CTT solution for this sector was presented at the National Meeting of Water and Sanitation Management Entities (ENEG), which aims to unify and simplify in a single service all the necessary competencies surrounding the billing process (meter readings, printing & finishing of invoicing and power cut notices, collection of invoices and sorting of returned mail).

In the document production area, the trend of shifting from black to colour printing continues, with considerable growth (+30%) in both continuous printing and cut-sheet printing. In this regard, a decision was made to rent a colour-printer, with cut-sheet inkjet technology that enters into operation in the 1st quarter of 2018 and that will meet the needs of the printing & finishing market, with a specific focus on price and colour production.

In 2017, the Recibos Online (Online Invoices) – a retail electronic invoice solution – exceeded three million processed invoices with the number of users registered on the recibosonline.pt portal having doubled relative to 2016. The fact that this solution has been available since July 2017 in more than 1,900 post offices and postal agencies contributed to this growth.

In 2017, CTT was selected by one of the largest Large-scale Distribution chains operating in Portugal to implement the Recibos Online solution in its stores, with availability to the public in general planned for the start of 2018. The partnership programme continued in 2017, with a Portuguese software development company specialised in retail invoicing joining the partnership, with the objective of integrating CTT’s innovative solution in the software developed, simplifying and accelerating its distribution. Finally, in the 2nd half of 2017, the project involving the renewal of the web portal of Recibos Online and the development of the mobile application for Android and iOS was initiated.

Philately

In 2017, Philately generated €8.4m in revenues, which corresponded to an increase of 11.6% relative to the previous year due to various major national and international events having been translated into philatelic products with a significant commercial appeal. This evolution is the result of: the commemoration of the “Centenary of Fátima” event with a set of two dedicated issues and the publication of a thematic book, the launch of SLB (Sport Lisboa e Benfica) products in association with the football club, and a range of products designed to celebrate the 40 years of the “Star Wars” saga.

To finish the year on a high note, CTT won three quality awards: (i) Grand Prize of the 2017 WIPA World Exhibition, for the “Canning Industry” philatelic issue, ii) 2017 APOM (Portuguese Association of Museology) Prize attributed to CTT as “Cultural Institution of the year” – “For the relentless dissemination of the national museological heritage through Philately” and iii) Nexofil Grand Prize attributed to the philatelic souvenir sheet “Marian Sanctuaries – Fátima”, considered the “Best Philatelic Souvenir Sheet of 2016”.

The themes covered by the commemorative issues encompass various areas of human knowledge, as shown in the list below:

Issues and Editions 2017

Issues

- Figures from History and Culture
- António Guterres – Secretary-General of the UN
- 800 years of the Foundation of the Dominican Order
- Centenary of the Fátima Apparitions
- Remembering Mário Soares
- Lions Club International – 100 Years
- Portugal in WW 1914-18
- Universidade Católica Portuguesa – 50 Years
- 150 Years of the Abolition of the Death Penalty in Portugal
- The Public Security Police – 150 Years
- Mafra National Palace – Tricentennial
- Biblioteca Joanina, the Library of University of Coimbra – 300 Years
- Postal Service in Portugal – 500 Years
- Visit of His Holiness Pope Francis
- Fruits of Portugal
- Historic Cafés (2nd Group)
- Traditional Desserts of Portugal (1st Group)
- Traditional Desserts of Portugal (1st Group) – Self-Adhesive
- Our Cities – Porto (2nd Group)
- Rally de Portugal – 50 Years
- The Portuguese Textile Industry
- Start Wars – 40 Years
- Start Wars Saga (Self-Adhesive)
- Archbishops of Braga (1st Group)
- Cascais-European Youth Capital 2018
- Portugal/North – Self-Adhesive
- Madeira – Self-Adhesive
- Idanha and Óbidos – UNESCO Creative Cities
- Portugal-India Joint Issue
- Portugal-Israel Joint Issue

Historical and Cultural Figures

Themes

International Projection

Issues

- Lisboa – Iberian-American Capital of Culture
- UNESCO – 2017 International Year of Sustainable Tourism
- Azores – Geopark
- Madeira – Madeira's Peaks
- Trees of the Mediterranean
- EUROPA – Castles and Fortifications

Environment and Sustainability

Editions

- Fátima – 100 Years
- The Portuguese Textile Industry
- Historic Cafés of Portugal
- Railway, Peoples and Memoirs
- My 2017 Stamp Album
- Portugal in Stamps 2017

2.2.2. Retail Network

The Retail Network is the key sales channel of CTT's products and services. In an increasingly digital economy, convenience and proximity will continue to play a relevant role in consumers' choices regarding interaction channels.

Management of business in the Retail Network is based on the following fundamental vectors: (i) development of the Mail business, namely added-value mail, (ii) channel of proximity for the marketing of financial services as a pillar for developing Banco CTT in particular and for the ongoing placement of public debt with the retail market through its network and (iii) provision of convenience services to the population, services of general interest, by taking on the role of local multi-service assistance, services to citizens, pension payments and other welfare services by postal money order and parcel pick-up and drop-off in the solutions offered for e-commerce.

In 2017, the strategy of rationalisation of the offer of third-party products, the reinforcement of partnerships in strategic segments and the strengthening of CTT's positioning as the single entity for the provision of proximity services was continued. Among the various initiatives carried out, the following are noteworthy:

- Payment of the Mobility Social Subsidy in the Autonomous Regions of the Azores and Madeira. In 2017, CTT carried out more than 276,000 reimbursement operations (+8% than the previous year);
- Agreement with Casa Campiã for the sale of the classical lottery in all post offices which generated annual revenues of about €5m;
- New partnership with PhoneHouse for the marketing of mobile phones and accessories in 207 post offices;

- Launch of the Electronic Notice of PO Boxes which offers greater convenience to customers who now receive an alert by SMS and/or email whenever they receive correspondence in their PO Box, thus avoiding unnecessary travel;
- Development of actions to lease out space as a means of generating a profit from the pre-existing infrastructures and live up post offices space, allowing partners to test new markets, promote products and/or attract new customers, taking advantage of the 'normal' attendance of the post offices;
- Ongoing commitment to the marketing of books, as the main anchor of the retail offer in post offices, and of the meuselo and meupostal personalised products.

In 2017, the implementation of the Kaizen methodology (culture of continuous improvement and elimination of waste in the creation of value) in the Retail Network was initiated. In this context, the Kaizen Daily – daily team management method – and the Kaizen project – method of reviewing post offices procedures aimed at simplifying and eliminating waste – are being developed. Involves review of processes dealing with notified objects, cash management, inventory management and customer service.

With regards to postal agencies, optimisation measures were put into practice with a view to offering customers greater convenience and the new management model that allows advancing saleable material without prior purchase to providers whose activity is classified as Local Government (usually Parish Councils) or Support for Public Administration (RIAC) was extended to another 31 postal agencies, bringing the total to 35.

At the end of 2017, the Retail Network was made up of 2,369 contact points, with 608 own post offices, 1,761 postal agencies and 1,899 stamp sales points. The offer of services, under self-service and in some cases available 24 hours a day, is com-

plemented by 175 automatic stamp vending machines and 14 automatic postal product vending machines.

2.2.3. Operations

In 2017 the management of operations remained focused on the reorganisation of the operational cycle, greater synergies between (mail, express & parcels) networks and improvement of operational efficiency.

Sorting

The sorting network is composed of 3 production and logistics centres, 7 logistics and delivery centres and 1 business mail centre. The activities of the production and logistics centres are carried out by 42 automated mail sorting machines (of which 24 are Mail sequencing machines, 2 Flats sorting machines and one "Rest Mail" machine) and 54 video encoding posts.

In 2017, a daily average of 1.9 million items (ordinary letter mail) were automatically sorted by delivery routes, of which about 1.8 million (80.6% of total volumes) were automatically sequenced (door to door).

Automation of the postal service continues to register high levels of address recognition, with flat letter mail achieving correct assignment rates of 95% for 7-digit postcodes and 69% for 10-digit postcodes.

The "Rest Mail" machine sorted more than 21 million items during 2017, which represented an increase of 48% relative to the previous year.

The Mailmanager solution continues to register sustained growth, with 17 million scanned images and 9.1 million full documents, which corresponds to an increase of 70% in the number of images produced relative to the previous year.

It is important to note the implementation of the NARPEL (New Architecture for the Production and Logistics Network) project, which involved operational changes: (i) in the mail and EMS routing model, (ii) in the operational video encoding model, in the reinforcement of the activity of the North and the South sorting centres (through the transfer of 4 equipment which were installed in Pinheiro de Fora), (iii) a new sorting model, (iv) new layouts in the sorting centres and the creation of a new sorting and delivery office in Mirandela (which was added to the other 5 on the Mainland and Islands).

Regarding the GEO10 project, it is important to mention the addressing information, either by introducing the toponymy approved by the local government, or by integration of the data collected by CTT, totalling 4,785 million doors with identification and enabling a coverage of 98% of the Portuguese population and of 98% of the entire territory.

In terms of customs-related activities, which registered a significant growth as the Presentation-to-Customs Fee generat-

ed revenues of €2.2m, it is important to note the cooperation with the Brazilian postal operator in the exchange of electronic messages at customs clearance and the start of the dematerialisation of customs clearance notices sent electronically. Arising from the new rules imposed by the legal system of the Customs Code, on 19 June CTT became responsible for the process of preparing the Customs Declarations of Postal Consignment (DARP), with an impact on the operation of the Air-mail Unit (EPA) and on the International Production Line (LPI) with the adequacy of the physical and human means allocated to this activity.

Transport

The transport network operates with 244 vehicles, which travel approximately 45.5 thousand km/day. In 2017, the national transport network covered a total of nearly 11 million km, thanks to ever more efficient vehicles acquired under the fleet renovation that has been carried out over the last few years.

Within the scope of the NARPEL project previously mentioned, operational efficiency gains were obtained from the logistics network with important contributions to the reduction of the kilometres covered and to the cost reduction in this transport activity. It is important to mention that this project won the 2017 logistics excellence award in Portugal attributed by the Portuguese Association of Logistics.

Regarding air and sea transport, the plane/cargo ship operation of the MAIS (Madeira Air Integrated Solutions) Group was begun, as an alternative solution to air freight by TAP, with gains in the optimisation and management of the operation and in the quality of service for the destination Madeira, increase in transport capacity and gains.

The Road Safety Programme was developed with regular monitoring of road accidents, the holding of practical training actions involving defensive training and the module on sustainability and energy efficiency. It is important to mention the attribution by the European Union of the "Excellence in Road Safety Award" to CTT for the current Road Safety Programme.

Delivery

The delivery network is made-up of 235 postal delivery offices (PDOs), including 60 delivery support offices (DSO) and 2 delivery support services (one in Lisbon and another in Coimbra), organised into 4,702 delivery routes, which cover around 244 thousand km/day.

In this area, it is important to mention the continuous reorganisation and optimisation of PDOs with the implementation of new and more efficient organisations. During 2017, 114 interventions took place in PDOs representing 37.3% of total volumes. Besides, 13 operating premises (DSO/PDO) were centralised, thereby contributing to a greater streamlining of production infrastructures in the distribution network.

The implementation of the MOGU (Motorisation of Urban Delivery Routes on Foot) project will contribute to the reduction of down time during delivery, where there are increasingly fewer items per point and also to better address the rise in volumes in the mail distribution network. It was implemented, in a first phase, in 4 PDOs in Lisbon and Oporto, and will be extended to other PDOs during 2018.

The project involving the dematerialisation of the delivery lists of items with track & trace (EMS and registered letters), by tracking their delivery through the use of PDAs (Personal Digital Assistants) was completed in November. These are now available on all delivery routes.

The availability of point-of-sale terminals in PDOs was also extended, reaching a total of 144 PDOs that use them, which provides customers with greater convenience for making payments.

As a result of the initiatives undertaken over the last few years aimed at maximising the capacity of the mail distribution network for the delivery of EMS, it is important to mention that in 2017 about 74% of all EMS volumes was delivered by the mail distribution network, as in 2016.

The Electric Vehicle for Urban Delivery (VEDUR) project was launched in July, representing a commitment to vehicles adapted to the new challenges of postal delivery. A pilot with an innovative electric tricycle was conducted in partnership with the Portuguese start-up UOU mobility, to replace postmen's delivery routes currently performed on scooters or on foot. The pilot, undertaken in PDO Aveiro, will allow the extension of this initiative and offer new equipment for use on an additional number of delivery routes. The advantages are indisputable, such as the ability for customisation with a local partner, the improved load capacity needed to cope with the growth of e-commerce and the enhancement of sustainable mobility with electric vehicles.

2.3. Express & Parcels

The recurring revenues¹⁰ of this business unit reached €134.6m in 2017, an increase of 11.4% relative to the previous year. This business unit encompasses the activities of CTT Expresso and Transporta in Portugal, Tourline Express in Spain and CORRE in Mozambique.

Portugal

The revenues of this business in Portugal¹¹ grew 7.7% to stand at €81.8m, which includes €8.9m from Transporta (€7.8m of cargo, €1.0m of logistics and €0.1m in other income). The revenues in Portugal excluding Transporta and Altice remained practically unchanged relative to the previous year (+0.1%). This evolution resulted, on the one hand, from an increase of 3.3% in the CEP

(Courier, Express & Parcels) business and, on the other hand, from a sharp decline in the banking business (20.7%) which currently has a small weight (about 6.3%) in the global revenues of this business unit in Portugal. It should be mentioned, however, that in the 4th quarter of 2017, the decline in the banking business abated due to the recovery of two of the largest customers which will allow in the near future to offset the effect of the reduction of the number of branches of the main banks on the revenues of this business.

The contribution of small businesses, mainly through the use of the remote sales channel (telemarketing, digital), was relevant for the evolution of revenues in 2017. Small businesses already represent about 10% of the revenues of the CEP business, and grew 17% relative to the previous year. The Retail Network and the postal agencies also made a significant contribution towards this performance, with an annual growth of 4% due to the increased efficiency in cross-selling and up-selling for the range of Express products. It is also important to note that in 2017 multi-annual contracts were renewed for periods between 2 and 3 years, representing approximately 10% of invoicing.

Volumes in Portugal reached a total of 17.7 million items in 2017, having grown 21.5% relative to 2016 (7.4%, excluding about 2.0 million items of Transporta). The performance of CTT Expresso resulted from the B2C segment due to the growth of activity of the main e-commerce customers, with emphasis on fashion and accessories, and from the B2B segment due to the acquisition of new customers in the retail sector and in the sector of logistics operators.

The CTT e-segue offer, launched in November 2016, gave the market convenience, flexibility and predictability based on fast information suited to the participants therein (mainly the recipient) and the possibility of interacting by changing delivery conditions (address, date and time slot). This offer, geared towards the e-commerce segment, by increasing the value proposal and the range of services directed at the e-buyer and by also focusing on the SME segment that is growing due to the positive evolution of the economy, will limit the effect of the average price reduction per item (growth of the number of small-sized items and competitive pressure in the key accounts segment).

The functionalities of the CTT e-segue were reinforced with the launch in October 2017 of the CTT e-segue App (available for Android and iOS), together with the introduction of new features (Live Tracking and multi-item dispatches).

It is important to highlight that in a survey of B2C customers (Source: Study on the CEP market in Portugal conducted by the Institute of Marketing Research (IMR), September 2017), 80 to 90% of the respondents, when questioned about which functionalities they considered "very relevant", replied that they were: delivery attempts, time windows of collection and delivery, notifications, changes of the delivery data and returns – which coincide with the main functionalities of the CTT e-segue service.

¹⁰ Including internal services and intra-group transactions which are eliminated for consolidation purposes.

¹¹ Including revenues from intra-group transactions with companies of other business units and other operating income of Portugal, Spain and Mozambique.

E-commerce is a fundamental driver for the growth of the parcels business. Its activity in CTT, in terms of delivered volumes (last mile) in Portugal, increased more than 30% in 2017.

The following initiatives are noteworthy:

- continuation of contacts with potential international partners in order to develop the e-commerce business in the cross-border component, with emphasis on the partnerships with SingPost E-Commerce (SPEC), One World Express (OWE), E-Total / OTEL and Correios do Brasil;
- launch in December and in partnership with the OLX Portal of a new solution that includes the dispatch, via Click & Ship, of the CTT e-segue offer, with other payment/collection, return and verification services;
- establishment of a partnership with Phone House, allowing the extension of the network of CTT delivery points to an additional 100 post offices, providing greater accessibility and convenience to online buyers to collect their parcels;
- establishment of commercial partnerships with two national e-commerce platforms, aimed at offering their customers with online stores on these platforms automatic integration with CTT's shipping and delivery systems of their parcels;
- launch in November of a pilot of automated lockers for parcel delivery – Parcel Lockers, in the city of Lisbon, available in 5 locations of major circulation of people, constituting an improvement in the convenience of the CTT e-segue offer;
- launch in December of a pilot, still in a “controlled environment”, regarding a dynamic delivery solution based on a mobile application and in an urban context, in Lisbon, aimed at meeting the quick delivery needs of e-commerce – Same Day & Instant Delivery. The actual pilot in the market will take place at the start of 2018;
- holding of the 2nd “e-Commerce Day” of CTT in November, based on a conference on e-commerce development opportunities and prospects in Portugal, bringing together relevant partners and customers of CTT. It also involved the public launch of various innovative initiatives and solutions of CTT and the publication of the “CTT e-Commerce Report” on the e-commerce market in Portugal;
- development and implementation of the various scheduled activities within the scope of the Interconnect programme, namely the holding of pilot tests with Standard Packets and Premium items (in outbound and inbound flows) and the entry into production of Premium items (inbound), aimed at the creation of a postal network involving more than 30 postal operators with an integrated offer of cross-border e-commerce services.

On 4 May 2017, CTT's acquisition of the total share capital of “Transporta – Transportes Porta a Porta S.A.” was completed.

This acquisition falls under the expansion and diversification strategy, aimed at capturing growth opportunities in adjacent markets with business synergies with the CEP market. On the one hand, the fact that Transporta offers integrated logistics solutions and operates in the goods distribution and transport market in Portugal, allows CTT to expand and reinforce its presence in these markets. On the other hand, by focusing its operations on the >30kg cargo distribution and transport market, it allows CTT to widen its range of services provided and offer even more integrated solutions to its customers.

The process of integration of Transporta into CTT has been ongoing since May, aimed at recovering the sustainability of the company and improving its productive and operational efficiency. The aim is to capture synergies of various kinds: synergies in the migration of items between networks (moving items from the Transporta network to the CTT network and vice-versa according to the degree of competitiveness of each network in the various types of volumes), infrastructure and fleet synergies, as well as optimisations in network costs, human resources and other costs.

Spain

In Spain, the revenues of the business stood at €51.2m, +18.2% than in the previous year, which corresponds to an average price decrease of 5.8%. This decrease results from both the growth of the number of customers with lower prices (of a major customer in particular) and the change of the profile of items with the growth of e-commerce. Volumes increased 26.1%, resulting in 2017 becoming the year with the highest number of items in the history of Tourline.

The strategy outlined for the recovery of Tourline is based on two key principles: (i) growth of volumes, enabling the dilution of the fixed cost structure, and (ii) growth of the number of franchised post offices which allows, on the one hand, greater independence relative to large customers (usually with aggressive prices) and, on the other hand, reduce delivery costs when transferring own delivery to delivery by franchisees.

To this end, operational changes were made (profile of items, cut-off times and use of logistic platforms) providing capacity for greater growth in volumes, using current installed capacity.

For Tourline, the year of 2017 was marked by a strong and progressively higher growth of items at controlled costs, which allowed benefiting from economies of scale to reach the fourth quarter with a positive EBITDA, for the first time since the second quarter of 2013.

Mozambique

The year of 2017 was characterised by the political difficulties in the country and by the situation of armed conflict in the north central region which, although the situation is calmer, has not yet reached lasting peace. It is also important to note the slowdown in the inflation rate and the appreciation of the local cur-

rency versus the Euro/US Dollar which resulted in the closure of many companies operating in the Mozambican market.

CORRE increased its revenues and consolidated its position as the largest Mozambican logistics operator operating in the services sector. In order to address the lack of budget allocation for the various State sectors, CORRE intensified its collection model and restricted the application of credit concession policies.

The growth of revenues of the business in local currency (Metical) relative to 2016 reached 7.0%, +7.3 million Meticals due to the evolution of the banking business (+5.1 million Meticals; +8.8%). Revenues (excluding internal customers of the Group) in Euros reached €1.6m and grew 4.4% year-on-year, due to the unfavourable impact of the exchange rate.

2.4. Financial Services

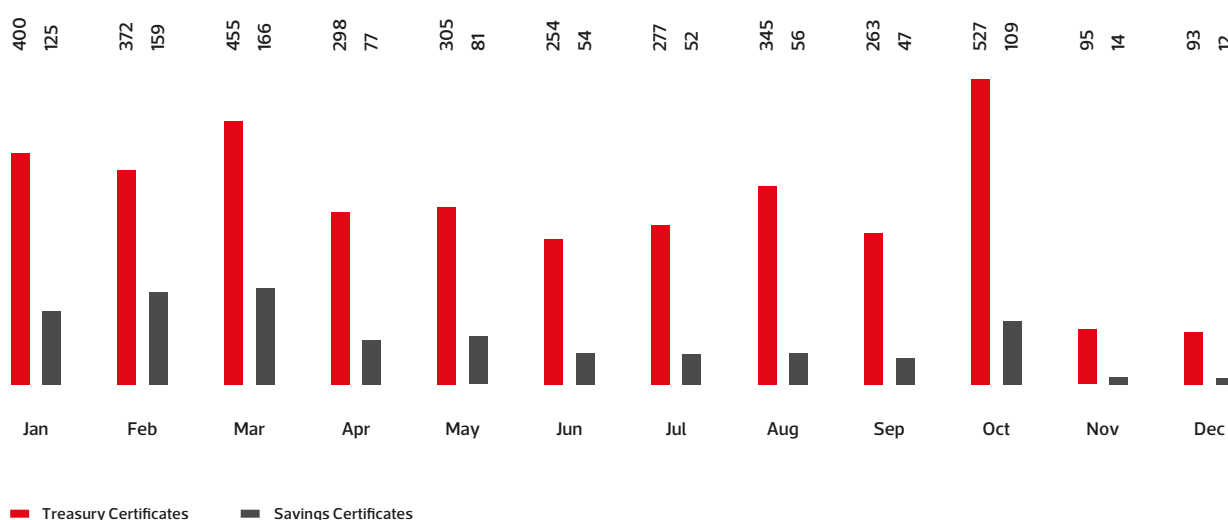
In 2017, this business unit included all CTT, S.A.'s financial services that are focused on retail, as well as payment activities, directed at the business segment. They are provided through the Retail Network and the Payshop business with its vast network

of agents. Revenues¹² of this business unit reached €61.8m in 2017, -12.7% than in 2016. The decrease of €9.0m is mainly due to the recognition of €3.2m in 2016 relative to the memorandum of understanding concluded with Altice in 2015 and to the decrease in revenues from payment services, and insurance services and PPRs (Retirement Savings Plan) of €2.4m and €1.5m, respectively.

The last quarter of 2017 was marked at the end of October by the change in the savings area, of the Public Debt products of the responsibility of the Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E. (Portuguese Treasury and Debt Management Agency), with the Treasury Certificates Poupança Mais (CTPM) having been substituted by the new Treasury Certificates Poupança Crescimento (CTPC), reflecting the improvement of the Portuguese Public Debt rating. The placement of the new CTPC remained at levels below the previous CTPM, although the aggregate volume placed in the year could grow, increasing by €483m relative to the previous year, since the public debt products marketed by CTT maintained the interest rate advantage relative to most bank deposits whose average return stood at historically low levels, below 0.3%.

Therefore, in 2017, revenues for the savings segment essentially originated from the placement of Public Debt Certificates.

Public Debt Placement – 2017 (€ million)



¹² Including internal services and intra-group transactions which are eliminated for consolidation purposes.

Postal money orders and transfers of funds, which represent about 15% of the total revenues of this business unit, registered a decrease of 6.3% in revenues mainly due to the decrease in national money orders (-7.4%), namely those destined for payment of social benefits that have gradually been replaced by other forms of payment.

In the management of the payments business, the following is noteworthy in 2017:

- The “virtual agent” project which, after signing the contract with the Portuguese startup OneBiller in the first half of the year, is under development. This project will materialise into an innovative application, with the ambition to bring the Portuguese ever closer to CTT’s unique payment brand. It will be a web and mobile application that aims to consolidate and provide information on recurrent expenditure, helping users to manage all the costs and make all the payments at the distance of a click;
- The launch of a new service of physical and virtual pre-payments for Internet purchases, an easy, quick and safe alternative to acquire games and other contents of internationally renowned brands, such as Sony PlayStation, Sony Plus, Nintendo and X-box. In the last quarter, PayShop sponsored the largest national gaming event, “Lisboa Games Week”, with the objective of intensifying the association of these high notoriety brands to Payshop agents;
- The extension of the PuDO – Pick-up & Drop Off service, within the scope of the partnership between Payshop and Expresso of delivery and collection of express parcels at Payshop agents. This service is implemented at a total of 100 agents and during the year a total of 1,784 pick-ups were conducted;
- The new mobility solutions whose objective is to increase the number of customers using the Public Transport ticketing system and provide solutions associated to parking, to companies whose activity consists of the management and operation of concessions related to parking spaces on the road and in underground and surface parking lots. In 2017, there were two companies subscribing to the parking solutions, ESSE and EPORTO, and Transportes Intermodais do Porto (TIP) confirmed the reinforcement of the ticketing solutions of Payshop;
- The launch of the new Payshop website, more dynamic, effective and useful for stakeholders, whether they are final customers, Payshop agents or current or potential customers/suppliers.

In 2017, 54 million transactions relative to payment services were carried out, corresponding to revenues of €21.1m. It is important to mention the increase in the number of transactions, relative to 2016, of the following products: +29% in integrated solutions (on-site payments integrated with MB or direct debit) and +6% in Internet Related services (online Payshop references and pre-paid cards).

At the end of the year, the 50 best agents of the Payshop network were distinguished. The number of agents reached 4,394 in 2017.

2.5. Banco CTT

The revenues¹³ of this business unit reached €7.6m in 2017 (about €1.0m in 2016). At the end of 2017, Banco CTT reached a new historical mark, its first complete year of activity, totalling more than 20 months since its opening to the public in March 2016. It is present all over the country in 208 post offices and has the trust of about 285 thousand customers, through the opening of more than 226 thousand current accounts.

The focus on simplifying the everyday life of the Portuguese and the diversification of the offer in 2017, namely with the launch of Mortgage Loans, has allowed Banco CTT to reinforce the relationship of trust and proximity with its customers. This is confirmed by the continuous growth of banking activity, with emphasis on the capture of deposits worth more than €619m, of which about €409m correspond to current accounts, the success of the offer of Banco CTT Credit Cards, with more than 49 thousand cards issued, and the intermediation of Consumer Credit and Car Loans in partnership with Cetelem, available both at post offices and on the Bank’s website, whose amount of loans granted exceeded €36m in 2017.

In the 4th quarter of 2017, Banco CTT continued to reinforce its commitment to Mortgage Loans, having launched a new advertising campaign which ended on 26 November, and was present on various media, namely television, radio, outdoor, online and in-store communication, with the motto “Mortgage Loans as simple as it gets”. The campaign emphasised the low spread, the simplicity of the conditions of access and the transparency of costs without needing to subscribe additional products. At the end of 2017, the amount of credit granted to customers came to about €79m, of which €66.1m refer to mortgage loans.

Banco CTT intends to provide its customers with accessible, convenient, reliable and innovative services. The objective for 2018 is to thus continue the strategy of simplicity, transparency and competitiveness for all its offer, in order to grow in terms of customers, resources and credit granted, solidifying its presence and enhancing its growth in the Portuguese banking sector.

On 4 January 2018, Banco CTT’s share capital was increased from €125.0m to €131.4m, fully paid-up by means of the transfer of all the shares representing the share capital of Payshop in the amount of €6.4m from CTT to Banco CTT.

¹³ Including internal services and intra-group transactions which are eliminated for consolidation purposes.



If on the one hand
we are driven by
individuality

On the other
what drives us
is cooperation

3

Economic and Financial Review and CTT Share Performance

3.1. Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 31 December 2017. It should be read in conjunction with the consolidated financial statements and the accompanying notes, which have more detailed information. The present review includes the consolidation of the activities of the parent company and its subsidiaries as included in note 8 of the consolidated financial statements. In addition, a review is carried out by CTT without consolidating Banco CTT, which is treated as a financial investment to facilitate the analysis of the impact of Banco CTT on the CTT accounts. This also allows CTT to have an overview of the Balance Sheet excluding financial assets, which besides being specific are autonomous and segregated assets.

It is important to highlight the following relevant facts occurred during 2017 for a better understanding of the company accounts:

- Banco CTT opened up to the public on 18 March 2016, currently having 208 branches in CTT post offices. Since the opening over 226 thousand current accounts were opened, with approximately 285 thousand clients, having been captured over €619.2m in deposits. Credit to bank clients amounted to a total of €79.3m as at 31 December 2017. The share capital is €125m.
- In May 2017 CTT acquired the total share capital of “Transporta – Transportes Porta a Porta, S.A.” for the amount of €1.7m. This company offers integrated logistics solutions for the transport and delivery of goods in Portugal. This acquisition falls within the scope of CTT’s expansion and diversification strategy, both through a new offer of delivery of items above 30 Kg and through the creation of a new growth platform for the company, within the cargo and last-mile logistics chain.
- Staff costs include €1.1m relative to the human resources optimisation programme of Transporta aiming at the company’s sustainability as well as at its productive efficiency and gradual operational integration within CTT group.
- On 19 December 2017, CTT approved the operational transformation plan, the objectives of which are: optimising the retail network; reengineering the distribution network to improve operational efficiency; optimising operations and mail handling; and reinforcing the HR optimisation programme and the rationalisation of non-core assets. In 2017, provisions were made for:
 - Staff costs of €11.9m for the HR optimisation programme.
 - An amount of €1.7m to optimise the retail network.

- The sale of real estate in Rua de S. José, in Lisbon, for €25m, that resulted in a pre-tax accounting gain of €16.2m, with a tax impact of €2.1m.

In the full year 2016, there were also other relevant facts that positively impacted the results of that year:

- €9.6m were recognised, related to the memorandum of understanding entered into with Altice in June 2015.
- The provision for onerous contracts was reversed (€6.5m), relating to Conde Redondo (due to the termination of the long-term lease agreement), Casal Ribeiro and Restauradores buildings (due to their requalification).

Consolidated revenues increased by 0.4% compared to 2016, driven by growth in the Express & Parcels segment (+€13.8m; +11.4%) and by Banco CTT first full year of activity (+€6.7m).

The evolution of the revenues in 2017 was negatively affected by the gains related to the memorandum of understanding with Altice recognised in the previous year (€9.6m in 2016) and by the decrease in sales and services rendered in the Mail segment (–€5.1m; –1.0%), with mail volumes declining by 5.6%, and the decrease in the Financial Services segment (–€5.2m; –8.0%), especially due to the reduction in payment solutions, PPR (Retirement Savings Plans) and life and health insurance.

The operating activity generated a recurring EBITDA of €89.9m, –24.8% (–€29.6m) than that obtained in the previous year, with an EBITDA margin of 12.9% compared to 17.2% in 2016.

In the full year 2017, CTT achieved a consolidated net profit of €27.3m, –56.1% (–€34.9m) than in the previous year, corresponding to a consolidated net profit per share of €0.18, compared to €0.42 in 2016, contributing to this decrease the termination of the Altice agreement, the effect of the reversals of provisions in 2016 referred to above and the expenses provisioned in 2017 arising from the operational transformation plan in progress.

These results reflect a 5.6% increase (+€32.5m) in recurring operating expenses (excluding impairment, provisions, depreciation / amortisation and non-recurring expenses), of which €6.2m (+28.6%) relate to the Banco CTT segment, €10.3m relate to Transporta in the Express & Parcels segment and €13.3m (+3.1%) to the Mail segment.

Consolidated income statement

thousand euros	2017	2016	Δ% 17/16
Revenues	697,932	695,060	0.4
Sales and services rendered	676,008	669,669	0.9
Sales	19,386	20,082	-3.5
Services rendered	656,622	649,586	1.1
Financial margin	3,390	26	12,938.5
Other operating income	18,534	25,365	-26.9
Operating costs excluding impairments, provisions, depreciation/amortisation and non-recurring costs	608,025	575,561	5.6
Cost of sales	12,765	13,904	-8.2
External supplies and services	241,586	223,258	8.2
Staff costs	340,076	328,394	3.6
Other operating costs	13,598	10,005	35.9
Earnings before depreciation/amortisation, impairments and provisions, non-recurring results, interest and taxes (recurring EBITDA)	89,906	119,499	-24.8
Impairment of accounts receivable, net	(614)	549	-211.8
Provisions, net	319	1,251	-74.5
Impairment of other financial banking assets	(117)	-	n.a.
Impairment of non-depreciable assets	-	-	n.a.
Depreciation/amortisation and impairment of investments, net	(29,289)	(26,611)	10.1
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	60,205	94,687	-36.4
Company restructuring	(17,313)	(10,588)	63.5
Costs associated to studies and advice services for strategic projects	(10,904)	(9,676)	12.7
Other non-recurring income and costs	15,106	16,459	-8.2
Earnings before interest and taxes	47,093	90,883	-48.2
Financial results, net	(5,001)	(5,869)	14.8
Gains/losses in associated companies	-	230	-100.0
Earnings before taxes (EBT)	42,093	85,245	-50.6
Income tax for the period	(14,977)	(23,348)	-35.9
Net profit before non-controlling interests	27,115	61,897	-56.2
Non-controlling interests	(148)	(263)	43.7
Net profit for the period attributable to equity holders	27,263	62,160	-56.1%

Note: Revenues and costs exclude non-recurring items.

3.1.1. Revenues

Revenues by segment

thousand euros	2017	2016	Δ% 17/16
Mail	527,493	533,551	-1.1%
Express & Parcels	134,596	120,810	11.4%
Financial Services	61,800	70,761	-12.7%
Banco CTT	7,615	962	691.6%
CTT Central Structure	102,411	100,101	2.3%
Intragroup eliminations	(135,983)	(131,125)	-3.7%
Revenues	697,932	695,060	0.4%

Note: Revenues exclude non-recurring items.

The Mail segment, which includes the letter mail postal service revenues of CTT, including the USO (Universal Service Obligation), represents the greatest weight in terms of revenues, amounting to €527.5m, with a decrease of 1.1% (-€6.1m) in the year 2017 in comparison to the previous year.

Sales decreased by €0.7m (-3.7%), mostly due to the decrease in retail products: mainly lottery by €1.1m (-18.0%) as a consequence of supply problems arisen between the end of 2016 and the middle of the 2nd quarter of 2017, but also due to the drop of €0.5m (-12.9%) in merchandising. Conversely, philatelic products increased by €0.9m (+12.7%).

Services rendered decreased by €4.4m (-0.9%), continuing to be influenced by the evolution of addressed mail volumes

which decreased by 5.6%. This decrease was mitigated by the average increase in the prices of the USO services of April 2017, which represents a 1.9% increase in 2017 vs the previous year, and by the effect of a change in the price mix as a result of the growth of higher added-value products, namely registered mail and “green mail”.

It is also worth noticing the growth in prices and volumes of presentation-to-customs services (+€1.2m; +96.8%), and international mail (+€3.2m; +15.4%), with a favourable evolution of revenues generated by foreign operators, which contributed to the continuing growth trend of volumes received from Asian countries. In the opposite direction, it is important to point out the reductions verified in business solutions of printing & finishing (-€1.1m; -12.6%).

The other operating income in the Mail segment decreased by €0.9m (-2.2%).

The Express & Parcels segment with €134.6m of revenues recorded an increase of 11.4% (+€13.8m) compared to the previous year.

Services rendered increased €16.6m (+14.4%), reflecting a growth in Spain of €7.7m (+18.1%) and in Portugal of €8.9m (+12.6%), of which €8.8m concerning Transporta, with an increase in volumes from external customers of 26.1% in Spain and 21.5% in Portugal. In Mozambique services rendered recorded an increase of €0.1m (+4.4%) due to the evolution of the exchange rate, since in terms of MZN there was an increase of 7.0%, i.e. +7.3m MZN in revenues mainly due to the banking business growth and the price increase.

On a year-on-year comparison basis, it is to be noted the negative impact on other operating income of the termination of the memorandum of understanding entered into with Altice for an amount of €3.2m.

The Financial Services segment with €61.8m of revenues registered a 12.7% (-€9.0m) decrease when compared to the previous year.

Services rendered decreased by €5.2m (-8.0%), influenced by the declines of €2.4m in payment solutions (in particular invoices, mobile phones and ticketing), €1.7m in savings and insurance products (in particular in PPR and life and health insurance), and €0.6m in money orders and transfers.

Other operating income decreased by €3.7m (-77.1%), with -€3.2m (-100%) resulting from the termination of the memorandum of understanding with Altice and -€0.6m (-56.5%) derived from the improvements made in the direct allocation method of VAT deduction, with a lower impact than in 2016.

The Banco CTT segment reached revenues of €7.6m (+€6.7m than in 2016, the Banco CTT opening year), which translated into €3.4m in financial margin and €4.2m mainly related to com-

missions received. The net interest income shows the profitability of the available-for-sale financial assets portfolio and the growing focus on the credit to customers. Health, life and multi-risk insurance, commissions for attracting consumer credit agreements and credit cards, as well as transactionality revenues contributed to the commissions received.

The CTT Central Structure shows an increase of €2.3m in revenues, due to a €2.2m increase in staff costs.

3.1.2. Operating costs ¹⁴

Operating costs

thousand euros	2017	2016	Δ% 17/16
Cost of sales	12,765	13,904	-8.2
External supplies and services	241,586	223,258	8.2
Staff costs	340,076	328,394	3.6
Other operating costs	13,598	10,005	35.9
Operating costs	608,025	575,561	5.6

Note: Excluding non-recurring items.

Recurring operating costs amounted to €608.0m, +5.6% (+€32.5m) compared to the previous year. This year-on-year growth was mostly the result of +€17.1m from Express & Parcels due to the integration of Transporta (+€10.3m) and an increase in variable costs in Portugal and Spain (+€5.9m) related to traffic growth, +€6.2m from Banco CTT segment and +€5.2m of staff remuneration in the Mail segment, the main reasons being the increase in the services provided to the other segments in both the Retail and Distribution networks and the salary revision agreed with the organisations representing the workers.

The evolution of the operating costs in 2017 is broken down as follows:

- The recurring cost of sales decreased €1.1m (-8.2%) following the sales evolution, namely in what concerns lottery and merchandising products.
- The recurring external supplies and services costs increased by 8.2% (+€18.3m) when compared to the previous year.

The cost reduction from initiatives of optimisation and rationalisation of operations, from the distribution networks integration, as well as other efficiency measures, didn't allow to absorb the recurring external supplies and services, especially due to:

- Banco CTT segment activity increase (+€2.8m; +23.9%);
- Integration of Transporta since May 2017 (+€7.8m);
- Distribution and transport/routes costs increase in Tourline (+€4.8m, +17.1%) resulting from the volume growth and from the strengthening and the creation of new routes;
- Energy and fuel costs increase (+€1.8m; +12.5%).

¹⁴ Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

c. The recurring staff costs reached €340.1m, increasing €11.7m (+3.6%) when compared to the previous year, mainly due to the following additions: +€2.3m in staff costs related to the increase arising from the salary revision agreed with the organisations representing the workers with effect as of January 2017; +€2.7m (+30.4%) in fixed-term contract staff due to a higher operating activity; +€2.6m (+26.7%) in staff costs at Banco CTT segment, +€1.9m (+79.2%) related to the lower cut in the benefit associated with the “telephone subscription fee” and +€2.4m in staff costs at Transporta.

d. The recurring other operating costs increased by €3.6m (+35.9%), largely due to the increase in banking services costs (+€0.5m; +21.8%) and in unfavourable exchange rate differences (+€2.1m; +299.8%).

Operating costs by segment are as follows:

2017 - Operating costs by segment

thousand euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Operating costs
External supplies and services	99,939	109,419	9,128	14,644	40,640	(32,183)	241,586
Staff costs	246,548	21,484	3,843	12,195	56,099	(92)	340,076
Other costs	55,043	2,356	18,040	1,174	5,671	(55,922)	26,363
Allocation to CTT central structure	47,515	-	271	-	-	(47,785)	-
Operating costs	449,044	133,259	31,281	28,013	102,411	(135,983)	608,025

Note: excludes non-recurring items.

2016 - Operating costs by segment

thousand euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Operating costs
External supplies and services	98,709	92,749	9,830	11,823	40,628	(30,482)	223,258
Staff costs	239,040	21,232	4,601	9,626	53,895	-	328,394
Other costs	54,177	2,190	18,164	338	5,579	(56,539)	23,909
Allocation to CTT central structure	43,800	-	304	-	-	(44,104)	-
Operating costs	435,726	116,171	32,900	21,788	100,101	(131,125)	575,561

Note: Excluding non-recurring items.

The Mail segment recorded a significant amount of operating costs as it includes the functions of mail sorting, transport, delivery, sales, as well as the retail network, areas of major significance in terms of operating costs, particularly due to the number of allocated workers and assets. These operating activities also provide services to the other segments – sorting/transport and especially delivery of parcels for the Express & Parcels business unit, financial services and banking services rendered in the Retail Network, and commercial management and sales services provided to the Group – thus increasing synergies via the scalability of the unique assets, in both the distribution and retail networks.

In 2017 the Mail segment recorded €449.0m of recurring operating costs, an increase of €13.3m (+3.1%) compared to the previous year, with special emphasis on the remunerations of fixed-term contract staff (+€2.9m; +35.5%) and permanent staff (+2.3m; +1.0%), electricity and fluids (+€1.3m; +11.6%), post office managers, delivery outsourcing and partnerships (+€0.4m; +8.0%), the main reasons being the increase in the activity of the other segments in both networks and the salary review agreed with the organisations representing the workers. Also, unfavourable

exchange differences (+€2.4m; +698.5%) and costs with foreign operators (+€0.8m, +4.4%).

The Express & Parcels segment recorded an increase of €17.1m (+14.7%) in recurring operating costs, of which:

- +€10.3m concerning Transporta largely due to subcontracting transport (€6.3m), rental of buildings (€0.6m) and staff costs (€2.4m);
- +€4.8m related to the growth of transport/routes costs (+€2.6m; +31.4%) and delivery costs (+€2.3m; +11.3%) in Spain;
- +€0.8m related to the increase in external subcontracting of EMS collection and delivery due to traffic volume increase;
- +€0.3m for the use of synergies within the group, leading to an increase in the internal billing of the EMS collections and deliveries in the group.

The Financial Services segment reported a decrease of €1.6m (-4.9%) in recurring operating costs, with an emphasis on the cost reduction in the transport of valuables (-€0.4m; -12.2%), in Payshop agents' commissions (-€0.3m; -14.3%), in sales incentives (-€0.8m; -68.9%) and internal services provided by the retail network (-€0.4m; -3.4%). Conversely, it is important to mention the costs increase with banking services (+€0.3m; +28.4%).

The Banco CTT segment registered €28.0m in recurring costs in 2017, +€6.2m (+28.6%) than in 2016 due to the increase in the banking activity in relation to the previous year:

- Staff costs of €12.2m (+€2.6m; +26.7%), mainly because 2017 was the first full year of activity, due to an increase in the headcount, sales incentives and multiple employment.
- External supplies and services costs of €14.6m (+€2.8m; +23.9%), mainly related to transactionality systems (inter-bank fees for transaction services provided to customers), communications, IT systems and Contact Center.

The CTT Central Structure showed a cost increase of €2.3m (+2.3%), of which €2.2m are related to staff costs namely €1.9m due to the lower reduction in the benefit associated with the "telephone subscription fee" (in 2016 a €2.4m decrease of this liability was recognised and in 2017 the recognition was €0.5m).

3.1.3. Recurring EBITDA

The recurring EBITDA¹⁵ amounted to €89.9m, -24.8% (-€29.6m) than the one recorded last year.

Recurring EBITDA by segment

thousand euros	2017	2016	Δ% 17/16
Mail	78,449	97,825	-19.8%
Express & Parcels	1,337	4,639	-71.2%
Financial Services	30,519	37,861	-19.4%
Banco CTT	(20,398)	(20,826)	2.1%
Recurring EBITDA	89,906	119,499	-24.8%

Note: Excluding non-recurring items.

3.1.4. Non-recurring results

In 2017 CTT recorded negative non-recurring results of €13.1m, which include:

- Other operating income (+€16.3m), mainly those resulting from the sale of real estate at Rua de S. José, in Lisbon, and associated interests.
- External supplies and services (-€9.9m):
 - -€9.3m of costs associated with studies and strategic projects, especially those related to Banco CTT (-€3.8m), to the Commercial Excellence programme (-€1.9m),

to other strategic projects (-€0.8m), to the HR Talent Management plan and diverse consulting (-€1.9m);

- -€0.6m of sales commission regarding the real estate of the Rua de S. José, in Lisbon.

iii. Staff costs (-€14.7m), including:

- -€11.9m related to the HR optimisation programme;
- -€1.1m regarding the human resources optimisation process at Transporta;
- -€0.6m resulting from the completion of the "Long-term variable remuneration – Share Plan".

iv. Other costs (-€0.6m), including:

- -€0.4m refer to a donation.

v. Net depreciation/amortisation, impairments and provisions amounting to -€4.3m, mainly concerning:

- -€1.7m, a provision for optimisation of the Retail Network;
- -€1.1m impairment of Mailtec's goodwill;
- +€0.1m other impairments and provisions.

¹⁵ Recurring EBITDA = Operating results + amortisation and depreciation + net change in provisions and impairment losses (does not include non-recurring revenues and costs, such as company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies).

2017 Non-recurring results

thousand euros	Mail	Express & Parcels	Financial Services	Banco CTT	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating income	2	-	-	-	16,345	-	-	16,346
External supplies and services	2,688	195	7	3,780	3,226	-	-	9,896
Staff Costs	10,069	1,645	148.9	-	2,801	-	-	14,663
Other costs	25	-	-	-	530	-	-	555
Non-recurring results that affect EBITDA	(12,780)	(1,840)	(156)	(3,780)	9,787	-	-	(8,768)
Depreciation/amortisation and impairment of investments. net	1,580	-	-	-	-	-	(199)	1,381
Impairment of accounts receivable. net	-	484	-	-	-	-	-	484
Impairment of non-depreciable assets	1,133	-	-	-	-	-	-	1,133
Provisions net	1,730	(144)	-	-	(241)	-	-	1,345
Non-recurring results that affect EBIT	(17,223)	(2,180)	(156)	(3,780)	10,029	-	199	(13,111)

2016 Non-recurring results

thousand euros	Mail	Express & Parcels	Financial Services	Banco CTT	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating income	36	-	-	-	1,726	-	-	1,762
External supplies and services	2,230	-	-	4,616	1,934	-	-	8,779
Staff Costs	3,336	131	0.1	-	6,526	-	-	9,993
Other costs	85	-	-	-	350	-	-	435
Non-recurring results that affect EBITDA	(5,615)	(131)	(0.1)	(4,616)	(7,084)	-	-	(17,446)
Depreciation/amortisation and impairment of investments. net	848	-	-	-	-	-	9	857
Impairment of accounts receivable. net	-	594	-	-	-	-	-	594
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	(6)	(2,151)	-	-	(12,935)	-	-	(15,093)
Non-recurring results that affect EBIT	(6,456)	1,425	(0.1)	(4,616)	5,851	-	(9)	(3,805)

3.1.5. Financial results

The financial results reached a negative amount of €5.0m, representing an increase of 11.3% (+€0.6m) in relation to 2016.

Interest income and financial revenues decreased by 43.3% (-€0.3m) when compared to the previous year, due to the low remuneration rates of term deposits, to lower liquidity levels and to the preservation of a conservative policy regarding liquidity applications by CTT.

Financial costs incurred amounted to €5.4m, mainly incorporating the financial costs of €5.2m associated with the financial update of the employee benefits liability, as well as, but of little relevance, interest associated with financial leasing operations and bank loans (€0.2m).

Financial results

thousand euros	2017	2016	Δ% 17/16
Interest income	381	672	-43.3
Interest expenses	(5,381)	(6,540)	-17.7
Interest expenses (financial)	(151)	(217)	-30.4
Interest costs with employee benefits (accounting)	(5,231)	(6,323)	-17.3
Gains/losses in associated companies	0	230	-100.0
Financial results	(5,001)	(5,638)	11.3

3.1.6. Net profit

In 2017 CTT achieved a consolidated net profit attributable to equity holders of €27.3m, 56.1% lower than the one obtained in the previous year, corresponding to consolidated earnings of €0.18 per share and a net margin of 3.9% (8.9% in 2016). If the non-recurring effects in both years were excluded, the net profit would have decreased by 37.5%.

3.1.7. Capex

The Group's investment amounted to €28.5m, -32.3% (-€13.6m), compared to 2016, the year in which the initial phase of the launch of Banco CTT took place with significant investments in the opening of branches and in adapting the computer system ("Core Banking System"). In 2017, the following investments stand out: those associated to (i) Banco CTT, but with less expression, namely in computer systems, ATMs, works, furniture and other equipment to adapt the post offices, amounting to a total of €6.6m, (ii) the renewal and expansion of the fleet (€2.0m), (iii) the change of the SAP platform (€3.2m) and other IT transformation initiatives (€3.5m), (iv) the development of computer systems to support the Express & Parcels business (€2.3m) and (v) security and works in buildings and premises (€2.3m).

The company continues to invest in strategic IT systems development, such as management information, e-commerce and commercial excellence and in accounting and operational processes, which aim to provide the company with the necessary tools and agility to face the market challenges and the change, which occurs ever more rapidly and sometimes in a disruptive manner.

3.1.8. Financial position

Consolidated statement of financial position

thousand euros	31.12.2017	31.12.2016	Δ% 17/16
Non-current assets	678,474	452,618	49.9
Current assets	930,291	864,080	7.7
Total assets	1,608,765	1,316,697	22.2
Equity	183,991	233,327	-21.1
Total liabilities	1,424,774	1,083,370	31.5
Non-current liabilities	282,738	269,533	4.9
Current liabilities	1,142,037	813,837	40.3
Total equity and liabilities	1,608,765	1,316,697	22.2

Total assets reached €1,608.8m (+€292.1m vs 31.12.2016), of which €449.9m (+€282.2m vs 31.12.2016) are related to applications, financial assets and credit held by Banco CTT broken down as follows:

- €267.3m concerning investments held to maturity and financial assets available for sale;
- €103.2m of other bank financial assets, mainly investments in credit institutions and in the interbank market; and
- €79.3m of credit to bank clients, especially factoring operations, mortgage loans and other credits.

Total assets also include the increase in cash and cash equivalents by €8.0m (+1.3%).

Equity decreased by €49.3m (-21.1%) following the dividend distribution for the year 2016 (€72.0m), which occurred in May 2017, for a net profit of €62.2m in 2016 which compares with the net profit of €27.3m in 2017.

On 31 January 2017, a total of 600,530 own shares were granted to the Executive Directors of the Company, as long-term variable remuneration, having reduced its reserve by €5.1m and recorded a non-recurring cost of €0.6m.

The liabilities increased by €341.4m (+31.5%), of which the increase of €365.3m (+143.8%) in banking client deposits from Banco CTT should be emphasised, along with the reduction of €61.8m related to financial services payables.

Employee benefit liabilities (post-retirement and other long-term benefits) in 2017 amounted to €270.0m, a decrease of 0.8% (-€2.3m) when compared to December 2016, of which stand out:

- the termination of the Share Plan as a long-term variable remuneration related to the 2014/2016 term of office (-€4.5m);
- the reduction of the liability with other benefits by €0.9m, including the one related to the "telephone subscription fee" benefit of €0.5m;
- the reduction of the suspension agreements amount by €2.2m;
- the increase of €4.9m in Healthcare due mainly to the effect of actuarial losses;
- the Pension plan of Transporta (€0.4m) recorded in 2017.

Liabilities with post-retirement benefits and other long-term employee benefits

thousand euros	31.12.2017	31.12.2016	Δ% 17/16
Liabilities	270,020	272,317	-0.8
Healthcare	253,972	249,110	2.0
Staff (suspension agreements)	3,312	5,495	-39.7
Other long-term employee benefits	12,340	13,231	-6.7
Share plan	0	4,481	-100.0
Pension plan (Transporta)	356	0	n.a.
Other benefits	40	0	n.a.

3.1.9. Cash flow

The net change in cash and cash equivalents amounted to +€8.0m, which is mainly the result of:

- +€283.1m in the operating cash flows related to Banco CTT;

- +€67.3m in cash flows from operating activities (excluding the cash flows from financial services and Banco CTT);
- -€57.6m in changes in financial services receivables/payables;
- -€31.2m in payments related to tangible and intangible assets;
- +€25.4m of other investment cash flows, of which €22.5m refer to real estate located at Rua de S. José, in Lisbon;
- -€234.6m of Banco CTT's financial assets (includes available-for-sale financial assets, investments held to maturity and other bank financial assets of Banco CTT);
- -€72.0m of dividend payment.

The adjusted cash flow in 2017 was -€33.3m and adjusted operating free cash flow amounted to €38.5m, increasing from the €2.9m in 2016, due to the improvement in operating cash flow and the sale of real estate in Rua de S. José in Lisbon.

Cash Flow

thousand euros	Reported			Adjusted*		
	2017	2016	Δ% 17/16	2017	2016	Δ% 17/16
Cash flow from operating activities	291,077	268,217	8.5	44,329	23,750	86.6
<i>Cash flow CTT excluding FS and Banco CTT</i>				67,337	43,598	54.4
<i>Banco CTT cash flow</i>				(23,009)	(19,848)	-15.9
Cash flow from investment activities	(240,433)	(185,602)	-29.5	(5,805)	(20,835)	72.1
Capex	(31,219)	(29,514)	-5.8	(31,219)	(29,514)	-5.8
<i>of which Banco CTT</i>				(5,380)	(9,977)	46.1
Banco CTT financial assets**	(234,627)	(164,767)	-42.4			
Other	25,414	8,679	192.8	25,414	8,679	192.8
Operating free cash flow	50,645	82,616	-38.7	38,523	2,915	1,221.5
Cash flow from financing activities	(71,947)	(72,420)	0.7	(71,947)	(72,420)	0.7
<i>of which dividends</i>	(72,000)	(70,265)	-2.5	(72,000)	(70,265)	-2.5
Other***	29,317	4,966	490.4	135	-	n.a.
Net change in cash and cash equivalents	8,014	15,161	-47.1	(33,289)	(69,505)	52.1

* Cash flow from operating activities excluding the changes in the financial services receivables/payables and Cash Flow Statement items: "Banking customer deposits and other loans", "Credit to bank clients", third parties "Other receivables/payments" regarding Banco CTT, "Financial assets available for sale", "Investments held to maturity", "Demand deposits at Bank of Portugal" and "Other banking financial assets".

** Including financial assets available for sale, investments held to maturity and investments in credit institutions held by Banco CTT.

*** These figures were not considered under Cash and equivalents in the Cash flow Statement. However, they are included in Cash and equivalents in the Balanced Sheet.

3.1.10. Financing

The company holds financial leasing operations (related to the acquisition of basic equipment and vehicles), bank loans in Corre in order to fund operating activities and a cash pooling system used within CTT scope, particularly by Tourline, to support the activity.

Net financial debt (excluding financial liabilities and assets of Banco CTT) is negative by €163.3m, if we include the liabilities with employee benefits is positive by €30.6m.

Net debt

thousand euros	31.12.2017	31.12.2016	Δ% 17/16
Financial debt	10,378	9,807	5.8
Bank loans and other loans	10,322	8,813	17.1
Financial leasings	56	994	-94.4
Net cash	360,930	295,306	22.2
Net financial debt	(350,551)	(285,499)	22.8
Banking client deposits	619,230	253,945	143.8
Other banking financial assets	17,882	1,218	1,368.1
Financial assets (Banco CTT)	(449,896)	(167,700)	168.3
Net financial debt (excluding financial liabilities and assets of Banco CTT)	(163,336)	(198,036)	-17.5
<i>Net financial debt (excluding financial liabilities and assets of Banco CTT)/EBITDA</i>	<i>-1.8 x</i>	<i>-1.7 x</i>	<i>0.1 x</i>
Liabilities with employee benefits	270,020	272,317	-0.8
Deferred tax assets related to employee benefits	(76,045)	(77,093)	-1.4
Net debt (incl. Liabilities with employee benefits)	30,638	(2,813)	-1,189.2
<i>Net debt/EBITDA</i>	<i>0.3 x</i>	<i>0.0 x</i>	<i>-0.3 x</i>

Net cash

thousand euros	31.12.2017	31.12.2016	Δ% 17/16
Net cash			
(+) Cash and cash equivalents	626,825	618,811	1.3
(-) Net Financial Services payables	(265,896)	(323,506)	-17.8
Net cash	360,930	295,306	22.2

3.1.11. Impact of Banco CTT results on the consolidated results

The analysis of the balance sheet and income statement without the full consolidation of Banco CTT allows for a clear view of the CTT Group without the assets / liabilities related to the activity of Banco CTT.

The economic and financial position of the CTT Group excluding Banco CTT from the consolidation perimeter, being accounted as a financial participation according to the equity method, would be as follows:

Consolidated income statement

thousand euros	2017	2016	Δ% 17/16
Revenues	708,021	696,470	1.7
Operating costs	(633,854)	(578,582)	9.6
Earnings before financial income and taxes	74,167	117,887	-37.1
Financial results	(26,302)	(27,077)	2.9
Gains/losses in associated companies	(21,302)	(21,208)	-0.4
Earnings before taxes	47,865	90,811	-47.3
Income tax for the period	(20,749)	(28,914)	-28.2
Net profit for the period	27,115	61,897	-56.2
Non-controlling interests	(148)	(263)	43.7
Net profit for the period attributable to equity holders	27,263	62,160	-56.1
EBITDA	105,316	127,495	-17.4

Consolidated statement of financial position

thousand euros	2017	2016	Δ% 17/16
Non-current assets	408,302	393,226	3.8
Current assets	567,562	669,901	-15.3
Total assets	975,864	1,063,127	-8.2
Equity	183,991	233,327	-21.1
Total liabilities	791,873	829,800	-4.6
Non-current liabilities	282,652	269,512	4.9
Current liabilities	509,221	560,288	-9.1
Total equity and liabilities	975,864	1,063,127	-8.2

Impact of the exclusion of Banco CTT from the consolidation perimeter on the economic position (Profit & Loss) in 2017:

- +€27.1m of revenues and +€24.2m of EBITDA;
- -€21.3m of financial results, which reflect the equity method of Banco CTT, due to the negative net profit.

Impact of the exclusion of Banco CTT from the consolidation perimeter on the financial position (Balance Sheet) in 2017:

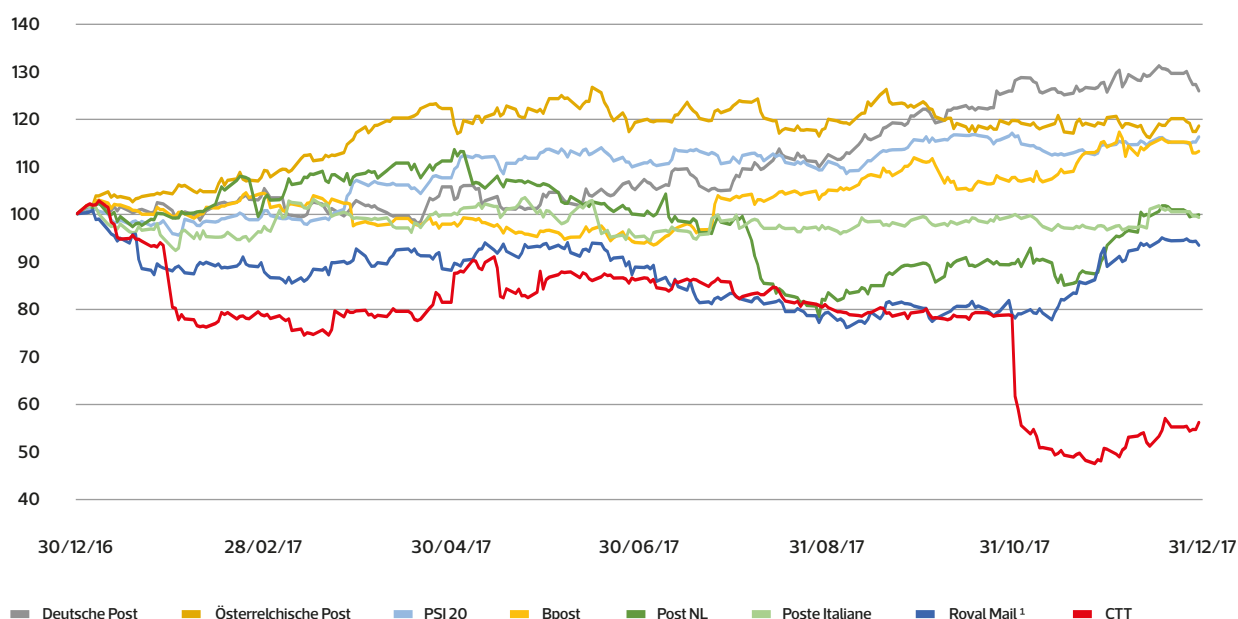
- -€632.9m on assets;
- -€235.0m concerning cash and cash equivalents.

3.2. CTT share performance

In 2017, CTT paid a dividend of €0.48 per share and the CTT share price depreciated by 45.59%. Hence, the total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2016) was -40.68%. During this period, the PSI 20 had a total shareholder return of 19.32%.

In terms of share price appreciation, the best performer of the EU postal sector in 2017 was Deutsche Post, whose shares appreciated by 27.26%. On the same basis, the PSI 20 index appreciated by 15.15% in the year 2017.

CTT share price performance vs PSI 20 index & sector (Year 2017 - rebased at 100 as at 31 Dec 2016)



¹ Royal Mail share price in Euro.

Throughout the year 2017, circa 268 million CTT shares were traded, corresponding to a daily average of 1.05 million shares, which translates into an annualised turnover ratio of around 180% of the share capital, which is a strong measure of the share liquidity level. As at 29 December 2017, in the last trading session of the year, the closing price of the CTT shares was €3.507.





If on the one hand
we are driven by
experience

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On the other
what drives us
is potential

4

Human Resources

Human resources management continued to be driven by the following priorities: (i) definition and implementation of new, all-encompassing and consistent human capital development policies that promote skills and reward the performance and the agility of the Company, (ii) maintaining a sound social climate, (iii) continued investment in training and qualification, and (iv) optimisation and adequacy of staff to meet the evolving needs and challenges of the markets CTT operates in.

Current activity

As at 31 December 2017, the number CTT employees (permanent staff and on fixed-term contracts) was 12,163, fourteen more (+0.1%) than in 2016. This increase includes the 139 workers at Transporta, acquired by the company in May 2017. Excluding Transporta, the number of employees fell by 1.0% (-125) compared to 2016.

Number of employees

	31.12.2017	31.12.2016	Δ 2017/2016	
Mail	9,756	9,774	-18	-0.2%
Express & Parcels	1,094	1,027	67	6.5%
Financial Services	87	96	-9	-9.4%
Banco CTT	184	162	22	13.6%
Other	1,042	1,090	-48	-4.4%
Total, of which:	12,163	12,149	14	0.1%
Permanent	11,122	11,247	-125	-1.1%
Fixed-term contracts	1,041	902	139	15.4%
Total in Portugal	11,715	11,702	13	0.1%

Together, the operations and distribution departments (6,609 employees, of which 4,600 are delivery postmen) and the retail network (2,755 employees) represent around 77% of all CTT employees.

Employee turnover in 2017, excluding the integration of Transporta, shows a slightly higher number of employees leaving the company than new recruitments.

431 employees left the company, due to retirement (65) and death (25). The company recruited 138 new employees, 107 in Portugal (4 in CTT Expresso, 2 in Transporta, 36 in Banco CTT and 65 in CTT SA) and 31 abroad (in Tourline Express).

Among the employees leaving the company, it should be noted that 161 left in the context of the Human Resources Optimisation Programme, a part of the current Operational Transformation Plan.

The recruitment policy aimed to obtain competences lacking in the company which are indispensable for its strategic options (banking, commercial activities, IT, etc.).

On 28 June 2017, effective from January 2017 and therefore affecting the accounts for the first half, a Revision Agreement for CTT's 2016 Company Agreement was signed with the eleven Trade Unions represented in the company, agreeing a pay increase on the following terms: basic monthly salary up to €1,267.20, an increase of 1.0%; basic monthly salary between €1,267.21 and €1,889.60, an increase of 0.75%; basic monthly salary between €1,889.61 and €2,772.30, an increase of 0.65%. An identical increase was applied in subsidiary companies.

It was also agreed to set the minimum monthly wage in the various Group companies at €600.00 with effect from 1 July 2017. This review of fixed remuneration represented an important adjustment for the lower levels of remuneration.

The Revision Agreement takes into account the importance of a climate of social stability and peace within the Company, which is a goal of both CTT and the signing Trade Unions, seeking to value employees' work.

Development of human capital

In the context of strengthening and developing the human capital required for the growth of CTT, the measures taken to promote the recruitment of employees with new skills and resources were extended, particularly to strengthen the growth areas.

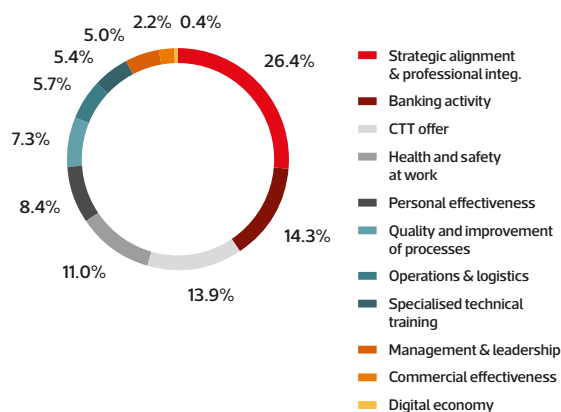
In this context, the selection process for the 3rd edition of the Trainee Programme, Trainee 2017 – “Your potential moves us”, was launched with a view to attracting and retaining young people of high potential, promoting their development within a structured overall programme, contributing to the rejuvenation of staff, fostering a mobility culture and positioning CTT as an “employer of first choice”. This edition of the programme is now being implemented with 14 newly recruited trainees.

For the third consecutive year since CTT became established as a Public Company, a variable annual remuneration was allocated, at a lower level than the previous year, taking into account the company's results for 2016. This extraordinary bonus is paid on an individual basis, differentiated in consideration of personal merit and the levels of performance and absenteeism of the various functional groups. It was paid to more than 7,750 employees and totalled around 3.4 million euros.

Pursuing a policy of good practices in human resource management after the principles and objectives of a CTT talent model had been established, the 2017 talent management programme was put into effect, assessing competences and identifying potential for a number of management and employee positions in various departments and functional groups. Assessments and feedback sessions were held to analyse the management structure, and subsequently performance plans were developed for execution in the 2018-2019 period.

In terms of training, 2017 saw strong investment to bolster and promote skills geared toward i) attaining the stipulated goals and addressing new challenges, ii) gaining or developing knowledge in the new growth areas, such as the banking business, iii) professional and personal development, and iv) motivation, involvement and strengthening the commitment of employees to the company, its culture and values.

Training Volume per Programme



In 2017, a total of 262,000 hours of training were undertaken with 11,000 employees, with particular stress on the following areas: strategic alignment and professional integration; health and safety at work (especially for employees working in the operational departments and the retail network); banking (for teams in the post offices which began to provide Banco CTT services); and CTT services (especially for the Retail Network and the Contact Centre).

Distance training was of particular importance because of the gains in efficiency which it can generate; more than 14,000 training actions were carried out, representing 26% of the total number of hours of training executed in 2017, translating into an increase of 4% over the previous year.





If on the one hand
we are driven by
achievement

On the other
what drives us
is resilience

5

Quality, Innovation and Sustainability in CTT's Activities

5.1. Quality of Service

In 2017, the perception of CTT customers of the quality of the postal service remained quite positive, with 84.7% of the customers who responded to the satisfaction survey considering that the overall quality of CTT was good or very good.

The OQSI (Overall Quality of Service Indicator) stood at 110.1 points, compared to a target of 100.

In 2017, there were continued efforts to keep management systems certified. In this context, the external certification audit of CTT Expresso occurred in April, and that of Mailtec in May. The audit for the maintenance of the certification of the sorting centres occurred in July, also with very positive results.

Services certification was maintained in all the post offices, postal delivery offices and 204 postal agencies, as was the quality and environment certification of the subsidiary company CTT Contacto after an external audit in November.

At the end of the year, CTT obtained its corporate certification, which recognises the compliance with the ISO requirements of cross-company human resources processes, IT, physical resources and security, procurement and logistics, all of which serve CTT's internal departments and certified management systems.

Contact Center

In 2017 the telephone line (55%) and the e-mail channel (45%) of the Contact Center were the means used most frequently by customers to contact the company; in recent years it has been noticed that the latter has grown at the expense of the former.

Overall, more than 2.6 million contacts were recorded, representing an increase of 20% over the previous year. There were 1.4 million answered telephone calls, which represents a year-on-year increase of 14% over 2016. This evolution was mainly due to an increase in contacts related to customs clearance (in e-commerce) and with searches for items. There were 1.2 million e-mail contacts, an increase of 28% over the previous year, related particularly with tracking items.

Of note are the awards made to CTT and CTT Expresso by the APCC (Portuguese Association of Contact Centers) Best Awards 2017, in the Transport, Distribution and Logistics category (mentioned above); the main purpose of these awards is to recognise organisations in Portugal which have made the most noticeable efforts to adopt and implement good practices in the running of their Contact Centers, in strategic, operational and technological management and in human capital, contributing to recognition and appreciation of the industry in general.

5.2. Innovation and development

Today, with the vertiginous rate of progress in Information and Communication Technologies, all businesses are digital – including postal services, and they too are having to reinvent themselves. The paradigm has changed: on the one hand, everything that can be digitalised is being, and very quickly; on the other, it is now clearly the final user (e-buyer/addressee) who sets the pace (date, time, place and manner of delivery/receipt). Furthermore, the rate of digital transformation continues to accelerate, on various levels, through, for example: the Internet of Things, big Data, automation and artificial intelligence. CTT accepts these realities in order to transform them, by innovation, into new business opportunities.

Development of solutions, products and services

Reinforcement of the Mail business:

- Launching the CTTAds.pt service for the design, production and contracting of advertising campaigns distributed using CTT network, including a new line of advertising services: “Brindes de Marca” which allows every customer to personalise the promotional material with its own logo. This service received the PostEurop Innovation Award for 2017;
- Availability of the newly developed features of the ViaCTT service, including access via an app;
- Extension of the Online Receipts service (ROL): present in more than 1,200 CTT post offices and postal agencies, and a study on integrating the service with partners and major customers;
- Introduction of innovative printing technology to improve the Printing & Finishing service;
- Start-up of the VEDUR (Electric Urban Distribution Vehicle) project: pilot route with an innovative electric tricycle developed by a Portuguese startup company;
- Automatic feed system for the Rest Mail machine, based on the use of robots and an automated arm;
- Installation of the new bar-code reading system (able to capture the 5 faces of EMS objects), contributing to an increase in the productivity of the parcel sorting service and strengthening the revenue assurance by filing important information about each parcel.

The following advances have been made in e-commerce:

- Consolidation/expansion of the CTT e-segue system (and associated functions) to both contract and occasional customers and in the physical channels (CTT post offices and postal agencies), complemented with a dedicated app;

- Availability of parcel lockers for parcel deliveries in 5 locations with high footfall, constituting an improvement in the convenience of the CTT e-segue service;
- Launch of a pilot for dynamic distribution based on a mobile application in the urban context (Lisbon), ensuring rapid delivery for e-commerce (Same Day & Instant Delivery);
- Integration of the CTT despatch services with various e-commerce platforms;
- Exploration of new partnerships to extend the geographical range of the Express2Me service;
- Execution of various activities/developments in the context of the Interconnect (eCIP) programme, particularly pilot tests with Standard packets and Premium items (outbound and inbound) and launch of production for Premium items (inbound).
- Implementation of the customer and sales support system, with gradual inclusion of all group companies leading to synergies which will improve customer service;
- Providing CTT at various levels with advanced Big Data analytical tools, to leverage future projects resulting in greater efficiency and the creation of new products and services;
- Availability of the new portal allowing CTT customers to speed up their customs processes and receive constant feedback through a self-service option.

The “+Innovation by CTT” programme – CTT’s Innovation and Development Management System, offered the following:

Highlights in the financial area were the advances made in Banco CTT and Payshop:

- The Mortgage loans offer, based on the innovative Casa Banco CTT app, allows the customer to carry out the whole process of contracting the loan and purchasing the property, including uploading documents;
- Payshop offers services in various areas and in its agents’ network: new pre-paid services for online purchases of international brands, creation of a Virtual Agent in partnership with the Portuguese startup OneBiller, partnership with CTT Expresso to make the Payshop network available for delivery/collection of parcels and signing up new companies to its ticket purchasing services.

Corporate initiatives

Launch of a new application for smartphones (App CTT), offering more functions to allow the customer to personalise his stamps (“Meuselo”) and postcards (“Meupostal”), and purchase tickets in advance for shows (ticket office). The customer can also obtain details of all despatches, tolls payable, information about CTT post offices and order the SIGA service.

Reformulation of the company’s IT infrastructure, allowing maintenance costs to be reduced.

Important features of the transformation of the company’s IT:

- New version S/4 Hana & Hybris Billing of the SAP environment. Current implementation will gradually be extended to the whole group and all its business;
- Introduction of the Robotic Process Automation (RPA) technology, which has speeded up organisational processes;

5.3. Sustainability

CTT was one of the first Portuguese companies in the postal industry to integrate the UN’s Sustainable Development Goals (SDG) into its business strategy.

The Board of Directors includes four women (31% of the total), and CTT’s management and supervision bodies comply with legal thresholds. The company’s equality plan was approved, including 17 measures in various areas.

The training offered reached 262,000 hours and the rate of absenteeism was 6.8%. A total of 1,072 accidents at work was reported (none fatal). Drivers’ Challenge (to assess eco-efficient driving) involved 4,700 drivers and received an honourable mention in the Green Project Awards 2017.

A total of 130 volunteers and their family members were involved in 16 voluntary environmental and social actions. Community initiatives were supported with funding worth €1.1m, and a partnership programme was launched to offer preferential prices to CTT employees.

In climate change actions, CTT obtained Leadership level A in the Carbon Disclosure Project 2017, the most important international carbon exchange rating (only two Portuguese companies and two others in the postal industry reached this level); the company's carbon targets, absolute and intensity, were approved by SBTi – Science Based Target Initiative (the only company in the industry whose targets were approved) and CTT was the company with the greatest reduction in emissions in the industry worldwide, -76% (2008-2016).

CTT Expresso was the first Portuguese company in the industry to fully compensate its CO₂ emissions, which it did by a participative vote in facebook which involved more than half a million people.

In the area of biodiversity, the 4th edition of the "A Tree for the Forest" project – a partnership between CTT and Quercus to help reforest critical areas of Portugal – reached more than 8 million people, with a record sale of 65,000 kits.

The eco-portfolio showed relative stability in DM Eco, with reasonable growth in "green" mail. CTT's eco-services now represent nearly 12% of its total turnover.

The CTT car-pooling platform, which seeks to reduce emissions from employees who commute to work, was a finalist in the environment category of the 2017 PostEurop Coups de Cœur awards.

Fuel consumption fell by 1.8%, electricity, gas and air-conditioning grew by 3.5%; overall energy consumption was stable (+0.4%). CO₂ emissions in scopes 1 and 2 fell by 1.4%. The purchase of 40 electric vehicles and one hybrid vehicle brought the CTT ecological fleet up to 353 vehicles, the biggest in the country.

For the purposes of complying with the obligations set forth in article 508-G of the Portuguese Companies Code, as amended by Decree-Law no. 89/2017 of 28 July, CTT chose to disclose the information regarding the CTT Group's non-financial statements in the Sustainability Report. This report contains information that is sufficient for an understanding of the evolution, performance, position and impact of CTT Group activities, including environmental and social issues and those related to the workers, equality between women and men, non-discrimination, respect for human rights, the fight against corruption and attempted bribery.

The Sustainability Report is available on the CTT website at:

<http://www.ctt.pt/ctt-e-investidores/sustentabilidade/politicas-relatorios-indices.html?com.dotmarketing.htmlpage.language=1#panel2-1>





If on the one hand
we are driven by
what's material

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On the other
what drives us
is digital

6

Subsequent Events and Future Perspectives

Subsequent events

Optimisation of the Retail Network

Aiming at the present and future sustainability of the company, the Board of Directors of CTT approved an Operational Transformation Plan that provides for, among other measures to be applied during its implementation, the optimisation of the presence of the postal customer service activity according to demand, always ensuring an adequate quality in the provision of services, namely the Universal Postal Service.

In a first stage (1st quarter of 2018), 25 CTT post offices (CTT Retail Network) were identified to be optimised resulting in an increase of 3 points of access, as 20 post offices were replaced by 23 postal agencies within the more than 2,360 Access Points existing countrywide. It is important to note that this optimisation does not jeopardise the presence of CTT and its capillarity throughout the national territory, fully complying with the criteria of geographical density this company is required to meet as the Universal Postal Service Concessionaire. CTT continues to guarantee a service of proximity to the populations and to its customers given the existing demand for the services it provides, namely the Universal Postal Service – including the payment of postal money orders for social benefits (retirement pensions and other), collection of utilities invoices, handling of ordinary and priority mail, receiving registered items and parcels, among others.

Share capital increase of Banco CTT

On 4 January 2018, Banco CTT's share capital increase of €6,400,000 was carried out by transferring to Banco CTT all the shares representing the share capital of Payshop (Portugal), S.A.. This operation is in line with the strategy of concentrating the CTT Group's business lines related to the financial sector at Banco CTT as well as with the project submitted to Banco de Portugal at the time of its creation and information transmitted at Capital Markets Day.

Additionally, on 7 March 2018, a new share capital increase was made in the amount of €25,000,000.00 (from €131,400,000.00 to €156,400,000.00), by means of the issuance of new shares without par value and for an issuance value of €1 each, to be fully subscribed and paid in cash by CTT as single shareholder. This is also in line with the 2016-2018 and 2017-2019 Plans approved by the Board of Directors of Banco CTT, as well as with the information transmitted in the Capital Markets Day.

Future perspectives

The year 2018 will be another challenging year as it will mark the beginning of the implementation of the Operational Transformation Plan, focused on improving the profitability, efficiency and quality levels of the postal business, while maintaining the proximity to the Portuguese population and complying with all regulatory obligations. It will address a large part of the CTT

cost base, across all cost categories, and, although it is expected to have a positive contribution on recurring EBITDA, it will necessitate a significant amount (c. €20m in 2018) of restructuring costs and €25m of incremental Capex in the next couple of years. The plan is necessary to prepare the next wave of growth and operational efficiency of CTT, however, it will have a significant impact on the dividend policy in the short term, due to the high one-off costs in the first two years of its implementation.

We believe that the rate of decline of mail volumes will continue to be affected predominantly by the structural trend toward electronic substitution, and less by macroeconomic factors. It should remain close to the trend observed during 2017, although it may still vary slightly depending on the behaviour of domestic consumption and e-government initiatives. Similar structural trends are affecting the Financial Services business, namely payments and transfers.

The impact of Mail and Financial Services on the consolidated revenues should continue to be offset by strong growth in the parcels and banking businesses, although from what is still a very small base. Electronic commerce will continue to be the main driver of growth in the parcels business while for Banco CTT 2018 should be a year of the beginning of the monetisation of the strong customer acquisition, mainly through the offer of mortgage loans and consumer credit. Complementary acquisitions are also in consideration for Banco CTT to reduce time-to-market and to profitability.

In January 2018 a draft the decision published on quality of service requirements indicated that a set of much more demanding requirements is likely to be introduced, although the exact level and the corresponding negative impact of complying with those on CTT's operating cost base are still unclear.

Balance sheet optimisation measures, such as optimisation of working capital and sale of non-core assets will continue as announced in the operational transformation plan, with slight estimated positive contribution to CTT's earnings and cash flow.





If on the one hand
we are driven by
consolidation

On the other
what drives us
is expansion

7

Proposal for the Appropriation of Results

Under the terms of article 23 of the Articles of Association of CTT - Correios de Portugal, S.A. ("CTT" or "Company"), the annual net profit, duly approved, will be appropriated as follows:

- a. A minimum of 5% will be transferred to the legal reserve, until the required amount is reached;
- b. A percentage will be distributed to the shareholders as dividends and as decided by the General Meeting;
- c. The remaining amount will be appropriated as deliberated by the General Meeting in the interest of the Company.

Under the terms of article 295(1) of the Portuguese Companies Code ("PCC"), a minimum of 5% is intended for the constitution of the legal reserve and, if necessary, its reintegration until this reserve reaches 20% of the share capital. As the share capital is €75,000,000.00, 20% is calculated at € 15,000,000.00, whereby the legal reserve as at 31 December 2017 corresponds to the minimum amount required by the Articles of Association and the PCC.

Pursuant to article 294(1) of the PCC, save for another bylaw provision or a resolution passed with a majority of 3/4 of the votes corresponding to the share capital in a General Meeting called for that purpose, half of the financial year's distributable profits must be distributed to shareholders, as set out by law. CTT's Articles of Association contain no provision contrary to the referenced legal provision.

Distributable profits are the financial year's net profit after the constitution or increase of the legal reserve and after negative retained earnings have been covered, if applicable. As at 31 December 2017, the legal reserve is fully constituted and retained earnings are positive. For the financial year ended 31 December 2017, net profit for the year in the individual accounts amounted to €27,263,244.00.

Given the accounting rules in force, an amount of €1,702,843.00 is already reflected in the stated net profit regarding profit sharing with CTT employees.

Accordingly and in compliance with the provisions applicable under the law and the Articles of Association, the Board of Directors proposes that:

- a. The net profit for the 2017 financial year, totalling €27,263,244.00, as per the individual financial statements, is allocated as follows:

Dividends* €27,263,244.00;

- b. An amount of €14,364,534.00 that is booked as Retained Earnings is appropriated in the form of dividends*;
- c. An amount of €15,372,222.00 that is booked as Free Reserves is appropriated in the form of dividends*.
- d. A maximum amount of €1,702,843.00 (already considered in the individual financial statements) is allocated to CTT employees (not including any of the members of the Board of Directors of CTT) as bonuses.

* Distribution of €57,000,000.00 in dividends, which corresponds to €0.38 per share.

Lisbon, 7 March 2018

The Board of Directors,



Banco **ctt**





If on the one hand
we are driven by
history

On the other
what drives us
is the future

8

Declaration of Conformity

For the purposes of article 245(1)(c) of the Portuguese Securities Code, the members of the Board of Directors of CTT - Correios de Portugal, S.A. ("CTT") hereby declare that, to the best of their knowledge, the management report, the annual individual and consolidated accounts, the legal certification of accounts and other accounting documents i) were prepared in compliance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of CTT and of the companies included in its consolidation perimeter; ii) faithfully describe the business evolution, the performance and position of CTT and of the companies included in the consolidation perimeter, and iii) contain a description of the major risks faced by CTT in its activity.

Lisbon, 7 March 2018

The Board of Directors

The (non-executive) Chairman of the Board of Directors

António Sarmiento Gomes Mota

The Chief Executive Officer (CEO) & Vice-Chairman of the Board of Directors

Francisco José Queiroz de Barros de Lacerda

The Member of the Board of Directors and of the Executive Committee

Dionizia Maria Ribeiro Farinha Ferreira

The (non-executive) Member of the Board of Directors and of the Audit Committee

Nuno de Carvalho Fernandes Thomaz

The (non-executive) Member of the Board of Directors

José Manuel Baptista Fino

The (non-executive) Member of the Board of Directors

Céline Dora Judith Abecassis-Moedas

The Member of the Board of Directors and of the Executive Committee

António Pedro Ferreira Vaz Silva

The Member of the Board of Directors and of the Executive Committee

Francisco Maria da Costa de Sousa de Macedo Simão

The (non-executive) Member of the Board of Directors

João Afonso Ramalho Sopas Pereira Bento

**The (non-executive) Member of the Board of Directors
and Chairwoman of the Audit Committee**

Maria Luísa Coutinho Ferreira Leite Castro Anacoreta Correia

**The (non-executive) Member of the Board of Directors
and of the Audit Committee**

Maria Belén Amatriain Corbi

The (non-executive) Member of the Board of Directors

Rafael Caldeira de Castel-Branco Valverde

**The Member of the Board of Directors
and of the Executive Committee**

Guy Patrick Guimarães de Goyri Pacheco

Audit Report and Report and Opinion of the Audit Committee



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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **CTT – Correios de Portugal, S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 (showing a total of 1,608,765,392 euros and shareholders' equity of 183,990,949 euros, including non-controlling interests of 146,738 euros and a profit attributable to the shareholders of the Entity of 27,263,244 euros), and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **CTT – Correios de Portugal, S.A.** as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Risk	Our Response
<p>CTT is a listed company and the International Standards on Auditing assume that there is an increased risk of fraud related to revenue when there is pressure over management to achieve budgeted results.</p> <p>Additionally, CTT is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 40.</p>	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none">▪ Test the design and implementation of key controls related to revenue recognition;▪ Test the operating effectiveness of controls related with the revenue recognition process;▪ Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;▪ Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls; and▪ Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.



Employee benefits

Risk	Our Response
The responsibilities with post-employment health benefits and other long-term benefits of employees and board members involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 32.	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none">▪ Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility;▪ Comparison of the information provided by management to the independent actuary for the computation of the responsibility;▪ Evaluation of the competence, independence and integrity of the actuary hired by management; and▪ Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.

Provisions

Risk	Our response
The provisions for labor contingencies included in the financial statements are based on the Board of Directors' best estimate about the timing and future cash outflows for their settlement, using assumptions that require judgment, as referred to in notes 2.21, 2.28 and 33.	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none">▪ Analysis of the lawsuits brought against CTT by third parties and the contingencies identified by CTT, namely supporting information and replies to our confirmation requests from lawyers on the status of the lawsuits where CTT is involved;▪ Challenge the assumptions that support the estimates of the Board of Directors; and▪ Evaluation of the adequacy of the disclosures made by CTT in relation to the recognition of provisions, taking into account the applicable accounting framework.

Start of activity of Banco CTT (Bank)

Risk	Our response
<p>As referred in note 1.2 the Bank started its activity at the end of 2015, and in 2017 continued the strategy for investment, increase of the number of branches and launch of new products.</p> <p>The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities.</p>	<p>Among other procedures, we analyzed the evolution of the activity during 2017, the revised budget for 2018 and the new medium term business plan as well as the adjustments performed to the plan approved at the end of 2016.</p> <p>We discussed with the management the future expectations, namely regarding the development of credit concession, forms of financing, shareholders' support and expected profitability.</p>

Operational transformation plan

Risk	Our response
<p>As referred in notes 33, 45 and 56, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were:</p> <ul style="list-style-type: none"> ▪ Recognition of a restructuring provision of 11,841,708 euros; ▪ Recognition of a 1,729,651 euros provision related to costs to incur with the closure of branches to optimize the existing net of branches; ▪ Decrease of the variable remuneration liability estimate. 	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> ▪ Challenge the assumptions supporting Management's estimates; ▪ Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions; ▪ Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and ▪ Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2017, taking into account the accounting framework.

Credit concession

Risk	Our response
<p>The <i>Banco CTT</i> started conceding housing loans in March 2017.</p> <p>This process was newly created by the bank, based on an IT workflow developed with an external partner.</p> <p>Due to the recent integration of this process, defined objectives and related risks, we have classified this area as a key audit matter.</p>	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> ▪ Understanding the credit concession process, since the proposals reception until the final booking, identifying the risks and related controls; ▪ Analysis of the minutes of the Credit Committee, where the proposals with higher risk are discussed and the key guidelines for the credit concession process are defined; ▪ Analysis of the integration of processes between the bank and the other partners, as well as between the operational and accounting systems; ▪ Evaluation of the design and implementation of controls related to the credit concession process; ▪ Analysis of the impairment model implemented by the bank; and ▪ Evaluation of disclosures made by the Entity in accordance with the applicable accounting framework.

Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;



- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group has prepared a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, having that report being published with the management report.

On the additional matters provided in article nr. 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following::

- We were first appointed as auditors of CTT – Correios de Portugal, S.A. (parent Entity of the Group) in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;



- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Group on 6 March 2018; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.

Lisbon, 7 March 2018

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)



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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of **CTT – Correios de Portugal, S.A.** (the Entity or CTT), which comprise the statement of financial position as at 31 December 2017 (showing a total of 941,045,268 euros and shareholders' equity of 183,844,211 euros, including a profit of 27,263,244 euros), the income statement by nature, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **CTT – Correios de Portugal, S.A.** as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Risk	Our Response
<p>CTT is a listed company and the International Standards on Auditing assume that there is an increased risk of fraud related to revenue when there is pressure over management to achieve budgeted results.</p> <p>Additionally, CTT is active in several business areas (Post and Financial Services) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 40.</p>	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none">▪ Test the design and implementation of key controls related to revenue recognition;▪ Test the operating effectiveness of controls related with the revenue recognition process;▪ Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;▪ Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls; and▪ Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.

Employee benefits

Risk	Our Response
<p>The responsibilities with post-employment health benefits and other long-term benefits of employees and board members involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 32.</p>	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> ▪ Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility; ▪ Comparison of the information provided by management to the independent actuary for the computation of the responsibility; ▪ Evaluation of the competence, independence and integrity of the actuary hired by management; and ▪ Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.

Provisions

Risk	Our response
<p>The provisions for labor contingencies included in the financial statements are based on the Board of Directors' best estimate about the timing and future cash outflows for their settlement, using assumptions that require judgment, as referred to in notes 2.21, 2.28 and 33.</p>	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> ▪ Analysis of the lawsuits brought against CTT by third parties and the contingencies identified by CTT, namely supporting information and replies to our confirmation requests from lawyers on the status of the lawsuits where CTT is involved; ▪ Challenge the assumptions that support the estimates of the Board of Directors; and ▪ Evaluation of the adequacy of the disclosures made by CTT in relation to the recognition of provisions, taking into account the applicable accounting framework.

Start of activity of Banco CTT (Bank)

Risk	Our response
<p>As referred in note 1.2 the Bank started its activity at the end of 2015, and in 2017 continued the strategy for investment, increase of the number of branches and launch of new products.</p> <p>The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities.</p>	<p>In this area, our audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ Analysis of the valuation methodology used, <i>Dividend Discount Model</i> (DDM), with the involvement of our valuation specialists; ▪ Analysis of the computation of the recoverable amount of Banco CTT and of the main assumptions of the impairment model, namely the discount rate (cost of equity), the perpetuity growth rate, the Core Tier 1 requirements considered for the computation of profits available for distribution, dividends distributed and capital increases; ▪ Test the mathematical accuracy of the impairment model; ▪ Comparison of the financial projections with the budget and plan approved and presented to the Banco de Portugal; ▪ Discuss with management the future expectations, namely in relation to credit concession, forms of financing and expected profitability; ▪ Performance of sensitivity analyses to the main assumptions; and ▪ Evaluation of the adequacy of disclosures made by the Entity in the financial statements.

Operational transformation plan

Risk	Our response
<p>As referred in notes 33, 45 and 56, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were:</p> <ul style="list-style-type: none"> ▪ Recognition of a restructuring provision of 11,841,708 euros; ▪ Recognition of a 1,729,651 euros provision related to costs to incur with the closure of branches to optimize the existing net of branches; ▪ Decrease of the variable remuneration liability estimate. 	<p>Within the scope of our audit we performed, among others, the following audit procedures:</p> <ul style="list-style-type: none"> ▪ Challenge the assumptions supporting Management's estimates; ▪ Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions; ▪ Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and ▪ Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2017, taking into account the accounting framework.

Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.



Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,



- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Entity has prepared a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, having that report being published with the management report.

On the additional matters provided in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following::

- We were first appointed as auditors of the Entity in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;
- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud;



- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on 6 March 2018; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.

Lisbon, 7 March 2018

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)

AUDIT COMMITTEE

Report and Opinion of the Audit Committee – 2017 Financial Year –

1. Introduction

In compliance with the provisions of Article 423-F(1)(g) of the Portuguese Companies Code (“PCC”) and article 5(5) of Internal Regulation of the Audit Committee (“AUC” or “Committee”), of CTT-Correios de Portugal, S.A. (“CTT” or “Company”), this body is hereby submitting its report of the supervisory and oversight activities carried out during the 2017 financial year and giving its opinion on the CTT Annual Report for the financial year ended on 31 December 2017, as well as on the respective Proposal for the Appropriation of Results, both presented by the Board of Directors.

2. Activities Carried Out

During the 2017 financial year, the AUC held 18 meetings at which all its members were present.

In order to ensure the full accomplishment of its mission, throughout the year, the Commission carried out various activities within the scope of its competences and in the fulfilment of its duties and responsibilities, with emphasis on the following in each of its main areas of intervention:

- **Monitor the functioning of the Company and ensure compliance with the law, the regulations and the articles of association**

The regular monitoring of the evolution of the activity of the Company and its main subsidiaries was carried out in particular through:

(i) the participation of its members in the Board of Directors meetings; **(ii)** the contacts with the Executive Committee, especially the participation in the meetings of approval of accounts; **(iii)** other contacts with Company Directors as deemed necessary and timely by the AUC, particularly with the Chief Financial Officer and other senior officers of the Company such as the Heads of the Accounting & Treasury, Planning & Control, Finance & Risk, Legal Services and Audit & Quality Departments, including the Head of Compliance; and **(iv)** meetings with the Statutory Auditor.

In the performance of its duties the Committee also examined the documents distributed to support its work and obtained the information and clarifications to the questions raised in the analysis of such documents, especially those considered timely and adequate on the compliance of the Articles of Association and the applicable legal and regulatory provisions. The Committee did not come across any constraints or limitations to its action.

- **Supervising the quality and integrity of the financial information in the statements of accounts**

Within the competences laid down in Article 423-F(1)(c) to (f) of the PCC, particularly for the purpose of supervising the compliance with accounting policies, criteria and practices, and reliability of the financial information, the following main actions were carried out:

(i) Regular monitoring of the preparation and disclosure of the financial information as well as assessment of the accounting principles and standards and respective amendments, including the supervision of their compliance, as well as of the estimates and judgements, the proceedings and the valuation criteria used; (ii) Monitoring of the new IFRS and their impacts on CTT; (iii) Analysis of the impact of the subsidiaries accounts on CTT accounts; (iv) Monitoring of the relevant financial and operating indicators; (v) Analysis of the Annual Report of the 2016 financial year as well as of the Corporate Governance Report, including opinion on same and on the Proposal for the Appropriation of Results submitted to the Annual General Meeting of Shareholders held on 20 April 2017; and (vi) Analysis of the consolidated and individual quarterly and half-yearly accounts of the 2017 financial year.

- **Overseeing the internal audit, internal control and risk management systems**

In the scope of the oversight of the effectiveness of the risk management, internal control and internal audit systems, as well as the assessment of their functioning and their procedures, the following aspects should be noted:

(i) Follow-up of the work of the Audit & Quality Department on internal audit and compliance issues, and of the implementation of the recommendations issued; (ii) Approval of the Audit & Quality Department Activity Plan; (iii) Follow-up of the preparation of the Report on the Prevention of Money Laundering and Terrorism Financing ("PML/PTF") as laid down in Notices no. 9/2012 and no.2/2014 of the Bank of Portugal, on which an opinion was issued, and a PML/PTF self-evaluation questionnaire appreciated that was sent to the Bank of Portugal; (iv) Follow-up of the work related to the assessment, control and management of the main risks and vulnerabilities identified by the Company and the respective mitigation plans; (v) Follow-up of the litigation underway and other closed relevant contingencies; (vi) Assessment of the Reports on the Violation of the Code of

Conduct; **(vii)** Assessment of the Activity Report of the Ethics Committee and of the Whistleblowing Reports; and **(viii)** Preliminary assessment of the transactions with related parties, whenever required under the Regulation on Related Parties' Transactions, and subsequent assessment in the case of the other transactions with related parties, as provided for in same Regulation.

- **Supervising the performance of the duties of the Statutory Auditor**

Regarding the supervision of the independence and the work of the Statutory Auditor of the CTT Group companies, KPMG & Associados, SROC, S.A. ("KPMG"), the AUC carried out several activities, of which the following stand out:

(i) Analysis of the proposal for the contracting of statutory audit services and prior authorisation for the provision of non-audit services by the Statutory Auditor to companies of the CTT Group in 2017; **(ii)** Assessment of the KPMG 2017 audit plan, including the methodology, timeline and corresponding work team; **(iii)** Assessment of the Statutory Auditor's Report and Audit Reports on the 2016 consolidated and individual Financial Statements; **(iv)** Appraisal of the Statutory Auditor's Additional Report for the 2016 financial year; **(v)** Assessment of the Limited Review Report regarding the consolidated Financial Statements as at 30 June 2017; **(vi)** Assessment of the preparatory work and matters considered relevant in the Statutory Auditor's Report of 2017; **(vii)** Assessment of the Statutory Auditor's recommendations, following the audit of the 2016 Financial Statements, on accounting and internal control aspects and of the information of the Company on the implementation of these recommendations; and **(viii)** Assessment of KPMG's activity and independence, appreciation of its letter of independence, and issuance of the Activity and Independence Assessment Report for the 2016 financial year.

3. Declaration of Conformity

Under the provisions of article 245(1)(c) of the Portuguese Securities Code ("PSC"), the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they are assigned with, hereby state that, to the best of their knowledge, the information in the Management Report, the annual consolidated and individual Statements of Accounts, the Statutory Auditor's Report and Auditor's Report of consolidated accounts, and the Statutory Auditor's Report and Auditor's Report of individual accounts, and other consolidated and individual Financial Statements related documents required by law or regulation, regarding the financial year ended on 31 December 2017:

- i. was prepared in accordance with the International Financial Reporting Standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of CTT and the companies included in its consolidation perimeter; and

- ii. the Management Report, in particular, faithfully describes the business evolution, the performance and position of CTT and the companies included in its consolidation perimeter and contains a description of the major risks and uncertainties they are faced with.

4. Opinion on the Annual Report for the 2017 financial year

The AUC has reviewed the Management Report and the consolidated and individual Financial Statements for the financial year ended on 31 December 2017, including the statement of financial position, the income statements by nature, the statement of comprehensive income, the statement of changes in equity and the cash flow statement, as well as the notes attached thereto, all of which deserve its approval.

The consolidated and individual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union on 31 December 2017.

The AUC also analysed the Corporate Governance Report, taking into account the provisions of article 420(5) of the PCC and article 245-A of the PSC, and the Sustainability Report, pursuant to articles 66-B and 508-G of the PCC.

The AUC appraised with special attention the terms of the Statutory Auditor's Report and of the Audit Reports on **(i)** the auditing of the consolidated and individual Financial Statements approved by the Board of Directors and issued on 7 March 2018 by KPMG & Associados–Sociedade de Revisores Oficiais de Contas, S.A., which express a favourable opinion on said Financial Statements, with no limitations or qualifications and **(ii)** the compliance with other legal and regulatory requirements applicable to the Management Report, the Corporate Governance Report and to the Sustainability Report, which express compliance with said requirements in force. The AUC also noted that the Statutory Auditor's Report and the Audit Reports include the additional information required in Article 10 of Regulation (EU) No 537/2014, particularly the so-called "Audit-Relevant Matters" which, in the case of the Company, KPMG defined as being:

- i. Recognition of revenue;
- ii. Employee benefits;
- iii. Provisions;
- iv. Start of activity of Banco CTT;
- v. Operational transformation plan;
- vi. Granting of credit (in the consolidated accounts).

Given the above-mentioned data and the action carried out, as well as in compliance with the provisions of article 423-F(1)(g), article 420(5) and (6), applicable by reference to the provisions of article 423-F(2), and article 452, all of the PCC, the Audit Committee hereby states that, to the best of its knowledge:

- the Management Report,
- the consolidated and individual Financial Statements,
- the Proposal for the Appropriation of Results,
- the Corporate Governance Report,
- the Sustainability Report, and
- the Statutory Auditor's Report on the consolidated and individual accounts

comply with the applicable legal and accounting rules and the Articles of Association. Accordingly, the Committee agrees with same and recommends that the General Meeting of CTT approves them.

Lisbon, 7 March 2018

The Audit Committee of CTT – Correios de Portugal, S.A.,

Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia (Chairwoman)

Nuno de Carvalho Fernandes Thomaz (Member)

Maria Belén Amatriain Corbi (Member)

(SIGNED ON THE ORIGINAL)

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