Consolidated Results

1st Half 2017

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

1ST HALF 2017 CONSOLIDATED RESULTS

- **Recurring Revenues** increase by 0.8% following the 1.3% growth of the Sales and Services Rendered of the Express & Parcels and the Financial Services business units, as well as the €1.1m Net Interest Income of Banco CTT. The positive evolution of the revenues despite the decrease of other operating income was mostly due to the expiration of the agreement with Altice which had a negative impact of €5m in the semester. Excluding this impact, revenues grew by 2.3%.
- **Addressed mail volumes** decrease by 5.6%, influenced by one less working day in the 2nd quarter than in the same period of the previous year, particularly during the month of April which had less 2 working days due to Easter holidays, which in the year of 2016 occurred in March. The decrease in volumes was mitigated by the price increase that took effect on 4 April 2017 and by the positive evolution of the product mix (registered mail and international mail volumes growth) that led to a 5.5% increase in average revenues per item in the semester and mitigated the effect of the volumes decline in the revenues.
- **Express & Parcels volumes** grow by 13.1% in Portugal (6.8% contributed by the acquisition of Transporta and 6.3% by the existing businesses) and 17.1% in Spain with revenues growth of 6.2% (Portugal) and 11.4% (Spain), and strong growth of the parcels originated by e-commerce.
- **Banco CTT** launches mortgage loans and is authorised to offer insurance products, being present countrywide in 203 CTT post offices. It opened more than 147 thousand current accounts, earning the trust of over 185 thousand clients. The launch of mortgage loans concludes the launch stage of Banco CTT, completing the basic offer of the bank to its clients.
- **Recurring EBITDA and Net profit** decrease by 15.8% (-€9.8m) and 22.8% (-€7.8m), respectively, mainly as a consequence of the loss of income from Altice (€5m), the greater-than-estimated drop of addressed mail volumes, the acquisition of Transporta, the integration and restructuring of which are still underway and contributing negatively to the results, and of the evolution of Banco CTT which still has a negative impact on the consolidated accounts.
- The semester results illustrate the **strong investment in the company's growth levers, Express & Parcels and Financial Services/Banco CTT**, as a **key component of the strategy in place** to achieve **growth of the consolidated revenues of CTT**.

Consolidated Results

€ Million

	Reported			Recurring(*)		
	1H17	**1H16**	Δ	**1H17**	**1H16**	Δ
Revenues	352.1	351.1	0.3%	352.1	349.4	0.8%
Sales and services rendered	340.5	336.2	1.3%	340.5	336.2	1.3%
Net interest income	1.2	0.02	»	1.2	0.02	»
Other operating income	10.5	14.9	-29.5%	10.5	13.2	-20.3%
Operating costs	306.4	294.1	4.2%	299.5	286.9	4.4%
EBITDA	**45.7**	**57.0**	**-19.8%**	**52.6**	**62.5**	**-15.8%**
Amortisation, depreciation, provisions and impairments	15.2	9.6	58.5%	14.2	13.0	9.0%
EBIT	**30.6**	**47.4**	**-35.6%**	**38.4**	**49.5**	**-22.3%**
Financial income, net	-2.4	-2.7	12.4%	-2.4	-2.7	12.4%
Gains / (losses) in associated companies	-	0.2	-	-	0.2	-
Earnings before taxes (EBT)	**28.2**	**44.9**	**-37.3%**	**36.0**	**47.0**	**-23.2%**
Income tax for the period	10.5	13.4	-21.8%	9.7	13.0	-24.8%
Losses / (gains) attributable to non-controlling interests	-0.05	-0.1	-60.6%	-0.05	-0.1	-60.6%
Net profit attributable to equity holders	**17.7**	**31.7**	**-44.0%**	**26.4**	**34.1**	**-22.8%**

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

1. Economic and Financial Analysis

Revenues

Recurring revenues totalled €352.1m, +0.8% than in the same period of the previous year.

This evolution reflects the growth in the revenues of all the business units: Banco CTT (+€3.3m), Express & Parcels (+€2.9m) and Financial Services (+€0.6m), with the exception of the Mail business which unit posted a slight drop of 0.8%. The evolution of the caption Central Structure and Intragroup Eliminations relates mainly to the €2.3m cost increase (+4.6%), €1.4m of which relate to the lower impact in 2017 of the cost reduction of the "telephone subscription fee" benefit (in the 1st half of 2016 a €1.8m decrease of this liability was recognised and in the 1st half of 2017 the impact of the decrease was only €0.4m).

Comparing the 1st half of 2017 with the same period of 2016, there is some increase of the weight of the Express & Parcels and Banco CTT business units in total recurring revenues, with a small percentage reduction in the Mail and stabilisation in the Financial Services business units.

Revenues

€ Million

	Reported			Recurring			Weight %	
	1H17	1H16	Δ	1H17	1H16	Δ	1H17	1H16
Revenues	**352.1**	**351.1**	**0.3%**	**352.1**	**349.4**	**0.8%**	100%	100%
Business units	368.8	364.2	1.3%	368.8	364.2	1.3%		
Mail	269.8	272.0	-0.8%	269.8	272.0	-0.8%	77%	78%
Express & Parcels	62.8	59.9	4.8%	62.8	59.9	4.8%	18%	17%
Financial Services	32.8	32.2	1.8%	32.8	32.2	1.8%	9%	9%
Banco CTT	3.5	0.2	»	3.5	0.2	»	1.0%	0.1%
Central Structure and intragroup eliminations	-16.7	-13.1	-27.9%	-16.7	-14.8	-13.0%	-5%	-4%

MAIL

The recurring revenues[1] of the **MAIL** business unit reached €269.8m in the 1st half of 2017, corresponding to a slight year-on-year decrease of 0.8%.

The evolution of the revenues is associated with the evolution of **addressed mail volumes** (-5.6%), especially that of the 2nd quarter (-7.6%), which was partially offset by the price update of 4 April 2017. When compared to same period of the previous year, the 2nd quarter was influenced by one less working day, particularly during the month of April which had less 2 working days due to the Easter holidays (which in the year of 2016 occurred in March), which significantly affected mail consumption. The months of May and June showed smaller reductions, more in line with the 1st quarter, which attenuated the reduction in the 2nd quarter.

Mail Volumes

Million items

	1Q17	1Q16	Δ	2Q17	2Q16	Δ	1H17	1H16	Δ
Transactional Mail	174.5	180.5	-3.3%	156.5	169.4	-7.6%	331.0	349.9	-5.4%
Editorial Mail	10.6	11.6	-8.8%	11.1	11.0	0.3%	21.6	22.6	-4.4%
Advertising Mail	18.5	19.4	-4.6%	16.9	19.2	-11.6%	35.4	38.6	-8.1%
Addressed Mail	**203.6**	**211.5**	**-3.7%**	**184.5**	**199.6**	**-7.6%**	**388.1**	**411.1**	**-5.6%**
Unaddressed Mail	**107.4**	**108.5**	**-1.1%**	**127.4**	**126.2**	**1.0%**	**234.8**	**234.7**	**0.0%**

The price update of the basket of letter mail, editorial mail and parcels services took effect from 4 April of this year, thus having just a partial impact in this semester. The average change in Universal Service prices in the 1st half of 2017 versus the same period of the previous year was 1.3%, which mitigated the effect of the volumes decline on addressed mail revenues.

The reason for the change in addressed mail volumes was mainly the drop in **transactional mail volumes** (-5.4%). This evolution is the result of changes in the volumes of ordinary mail (-7.3%), and priority mail (-7.7%). On the contrary, registered mail (+6.0%), "green mail" / *correio verde* (+1.4%), international outbound mail (+5.9%) and international inbound mail (+3.4%) had a positive evolution, thus contributing to the positive mix effect. It should be noted that the performance of transactional mail volumes in the 2nd quarter of 2017 (-7.6%) contributed negatively

[1] Including internal services and intra-group transactions which are eliminated for consolidation purposes.

to the performance of this type of mail in the semester, mainly due to the sharp decline of **ordinary mail** in the 2nd quarter (-9.4%), leading to a reduction of 7.3% in volumes in the 1st half of 2017. For this evolution contributes the occurrence of Easter holidays in the 2nd quarter which in 2016 had occurred in the 1st quarter.

Registered mail volumes increased by 6.0% mainly due to the Government and the Public Administration's higher consumption, particularly the Tax Authority (+22.8%), although this behaviour is not expected to continue throughout the 2nd half of 2017.

Editorial mail registered a marked recovery in the 2nd quarter, especially in the Editors sector and in other different sectors.

Addressed advertising mail volumes dropped by 8.1% in the 1st semester, especially in the 1st quarter when this decline was very sharp (-11.6%) mostly due to the reduced number of campaigns by large customers of the banking and insurance, utilities and large retail industries.

The new CTT Ads solution, launched in the 1st quarter of 2017, has not yet had visible effects on both volumes and income of advertising mail and some measures are being implemented to boost and promote this new offer.

Unaddressed advertising mail volumes stabilised vis-à-vis the 1st half of last year.

EXPRESS & PARCELS

The **EXPRESS & PARCELS** business unit posted recurring revenues[2] of €62.8m, corresponding to a 4.8% growth compared to the same period of 2016. This business unit is ensured by the activities of CTT Expresso and Transporta in Portugal, and Tourline Express in Spain, all in a logic of an increasingly Iberian presence, and CORRE in Mozambique.

In **Portugal**, as planned, the acquisition of the total share capital of "**Transporta** - Transportes Porta a Porta, S.A." was completed on 4 May 2017. The agreement for the sale of the company by Group Barraqueiro had been announced on 15 December 2016 and on 2 March 2017 CTT was notified of the decision of the Competition Authority not to oppose the transaction.

This acquisition falls within the scope of CTT's expansion and diversification strategy to capture growth opportunities in neighbouring markets with potential synergies with the CEP market. On the one hand, the fact that Transporta offers integrated logistics and last-mile cargo solutions in the Portuguese market allows CTT to expand and reinforce its presence in these markets. On the other hand, as it operates mostly in the market of delivery and transport of items above 30 kg, it allows CTT to widen the range of services provided and offer even more integrated solutions to its customers. This growth strategy has already been followed by other international postal operators and, in addition to the benefits already shown, is crucial for customer loyalty.

Since 4 May, CTT has been working on the implementation of a plan to capture synergies of various natures: synergies in the migration of items between networks (transferring items from the Transporta network to that of CTT and vice versa depending on the degree of competitiveness of each of the companies in the different types of flows), infrastructure and fleet synergies, as well as optimisation of outsourcer networks, human resources and other costs.

[2] Including internal services and intra-group transactions which are eliminated for consolidation purposes.

Revenues from this business (excluding internal customers of the Group) in Portugal increased by 6.2% to €36.6m, an amount that includes €2.3m from Transporta corresponding to the revenues of the months of May and June (€2m in Express & Parcels and €0.3m in Logistics). Revenues in Portugal excluding Transporta, i.e. from CTT Expresso, basically stabilised compared to the same period of the previous year (-0.6%). This situation resulted, on the one hand, from a growth of 3.2% in the parcels business and, on the other, from a marked decrease in the banking business (-26.6%), which currently has a small weight (around 7%) in the global revenues of this business unit in Portugal.

Total volumes in Portugal grew by 13.1% in the 1st half of 2017 compared to the same period of 2016 (6.3% excluding the approximately 0.5 million items contributed by Transporta in the months of May and June). The performance of CTT Expresso has resulted both from the B2B segment (some customers acquired in 2016 entered cruising speed in 2017 mainly in the retail, electronics and telecommunications industries), as well as from the B2C/e-commerce, due to strong customer dynamics in the fashion and accessories sectors and to new recruitments in the sporting goods segment and food industry. It should also be noted that micro and small enterprises managed through remote channels (telemarketing and web) recorded a marked increase in volumes (over 20%).

The evolution of volumes when compared to revenues shows a decline of average price in CTT Expresso's domestic business, which was mainly influenced by (i) the competitive pressure and renegotiation of large accounts, (ii) the growth in the B2B segment, with lower average prices, and (iii) the growth in the small business segment, which allowed to partially compensate the former effects. The new CTT e-segue offer, by increasing the value proposition and the range of services directed to the e-buyers, and the focus on the growing SME segment should allow to contain the referred dilution effect.

E-commerce was a crucial lever for the growth of the parcels volumes. During the 1st half of 2017, its activity grew by an estimated 18.1% in terms of (last-mile) delivered volumes, including inbound cross-border flows.

In **Spain**, business revenues (excluding internal customers of the Group) stood at €24.0m, +11.4% than in the same period of the previous year, mainly due to the 17.1% growth in volumes.

The strategy outlined for the recovery of Tourline is essentially based on two principles: (i) volumes growth, in order to leverage the fixed cost structure, and (ii) growth in the number of franchised branches that allows, on the one hand, greater independence from large customers (typically with aggressive prices) and, on the other hand, reduce distribution costs by switching from own distribution to distribution through franchisees.

Operational changes were made (profile of shipments, cut-off times and use of the other logistics platforms), which nowadays allow for greater growth in volumes and upon which the company's evolution strategy can be based.

At the beginning of 2017, Tourline changed its market position in a way that was consistent with the defined strategy - increased the aggressiveness in the pricing for end customers and the level of discounts to franchisees – in order to reach the desired growth. This change of position allowed for the aforementioned volumes growth in the 1st half of 2017 compared to the same period of 2016 and triple the franchise openings in the 2nd quarter compared to the 1st quarter of the year.

Continued growth, which is expected to accelerate with the entry of more franchisees and their development, as well as the entry of large accounts (some already in the process of integration) will allow for the intensification of trends in revenues growth and cost reduction, thus creating conditions to achieve the goal of positive EBITDA in the last quarter of 2017.

In **Mozambique**, CTT has been present in the Express & Parcels business since October 2010 with the company CORRE – Correio Expresso de Moçambique, whose share capital is 50% held by CTT and 50% by Empresa Nacional de Correios de Moçambique (Mozambican National Post Office).

The company intends to reach the leadership of the domestic express mail market and also to stand as one of the most important players in the international express and parcels trade with Mozambique. It already covers most of the provinces and it has an operating centre in Maputo, two own branches and an Airmail Unit at the airport. CORRE products and services are also available at all Correios de Moçambique post offices, with national coverage, which has contributed to the expansion of the business.

CORRE recorded a 9.3% revenues growth in local currency (metical) vis-à-vis the 1st half of 2016, +4.8 million metical, mainly due to the growth of the banking business (+2.7 million metical; +9.5%); in terms of euros, due to the negative evolution of the metical exchange rate, revenues stood at €791 thousand (-8.7%).

In terms of business, CORRE, in contrast with the economic performance of the country, has increased its turnover and consolidated its position as the largest Mozambican logistics operator in the services sector, seeking diversification of the client portfolio in order to ensure less dependence on its hegemonic position in the banking sector.

A strategic plan is underway to reinforce the commitment and alignment of shareholders with a set of assumptions that will allow the consolidation of CORRE's accounts by reducing its exposure to currency fluctuation.

FINANCIAL SERVICES

The **FINANCIAL SERVICES** business unit revenues[3] totalled €32.8m in the 1st half of 2017, corresponding to a growth of 1.8% compared to the same period of 2016. This business unit includes the financial services provided by CTT, S.A. aimed at retail and payments, directed to the business segment, either through the Retail network or through Payshop with its vast network of agents.

Weighing approximately 52% within the revenues structure of this business unit, **public debt products** – Savings Certificates (SC) and Treasury Certificates Poupança Mais (TCPM) – have a critical influence on the final result. For that reason, the 41.9% growth of the revenues of the public debt products in this 1st semester was decisive. Growth was equally strong in terms of volumes, as the subscriptions increased by 18% and redemptions tripled when compared to the same period of 2016.

The demand for public debt products was naturally focused on the TCPM, due to their high profitability (average gross income of 2.25% p.a. for 5 years), in contrast with the reality of bank deposits, whose average annual return rate decreased again to 0.31%, according to data from the Bank of Portugal in the middle of the reference period. The demand for TCPM also benefited from the fact that it was totally free of costs, in a context where banks are increasing their servicing fees, in particular regarding current accounts.

The **transfers of funds** business contributed positively, especially the outbound area, as the number of transactions and the revenues increased, following up the positive evolution of the economy, employment and consumer confidence. The inbound side maintained the downward trend in the number of transactions, although offset in terms of revenues, which have increased as a result of rising prices in the issuing countries.

[3] Including internal services and intra-group transactions which are eliminated for consolidation purposes.

In the area of **life and non-life insurance**, a reference should be made to the development of projects aimed at relaunching and strengthening this product offer, scheduled for the beginning of the 2nd semester, with an emphasis on the technical and behavioural training of commercial teams in health insurance, where a real pilot test has been running since 2016 with positive results in an initial group of 150 post offices.

The business of **consumer credit and credit cards** in post offices which were not included in Banco CTT perimeter in both periods under analysis grew by almost 23% in terms of consumer credit, following the market trends. Taking into account in the previous comparison the post offices without banking activity in each one of those periods (a number that was reduced from 2016 to 2017 as a consequence of the expansion of the Banco CTT network in the period), there was a year-on-year decrease of 12.7%, totalling 4.2 million euros in placements.

The 1st half of 2017 marks the launch of the implementation of the CTT **payments** business transformation plan – a commitment to diversification, innovation and excellence of the service, leveraged by the potential of new technologies and maximising the value of the Payshop agents network for themselves and for the users. Four key elements stand out: the signing of a contract with the Portuguese start-up OneBiller to develop an innovative application to be launched in the market, the provision of new prepaid services available in the Payshop agents network for Internet purchases of internationally renowned brands such as Sony PlayStation, Sony Plus and Nintendo and the development of the partnership between Payshop and CTT Expresso, allowing for the launch of the service of delivery and collection of express parcels at Payshop agents.

The payment business as a whole generated revenues of around 10 million euros this semester, despite the decrease in revenues, mainly due to the evolution of the invoice payment service, the top-up of mobile telephones and public transport ticketing.

On a positive note stood out the income generated by the new services, the integrated payment solutions and the payment of single collection documents of the State, mainly taxes.

BANCO CTT

The recurring revenues[4] of the **BANCO CTT** business unit reached €3.5m in the 1st half of2017.

After only 15 months since its opening to the public in March 2016, Banco CTT is present countrywide in more than 200 CTT post offices, having earned the trust of over 185 thousand customers (having reached 200 thousand clients in the 3rd week of July), through the opening of more than 147 thousand current accounts. Of note is also the capture of clients' funds in an amount higher than 420 million euros, of which about 252 million euros were in current accounts.

Worthy of note is the launch of the Banco CTT credit card offer, with more than 25 thousand cards placed, and personal credit in partnership with Cetelem BNP Paribas, available both in the post offices and on the Bank's website, which granted over €20m in credit.

In the 1st quarter of 2017 Banco CTT launched mortgage loans, a simple and inexpensive product for those who wish to buy a new house or move home and which maintains the values associated with the launch of Banco CTT: an affordable, understandable and useful offer. The Banco CTT offer of mortgage loans also reinforces the proximity values of the brand by providing follow-up to the customer by an expert in housing credit throughout the process of home purchase. And with the launch of a new smartphone App, specific to this offer, it speeds up and

[4] Including internal services and intra-group transactions which are eliminated for consolidation purposes.

guides our customers through every step until they get to the new home, a process that is often considered as lengthy and bureaucratic.

The total of credit to clients totalled slightly above 32 million euros as at 30 June 2017.

In the 2nd quarter of 2017, Banco CTT was authorised by the Insurance and Pensions Funds Supervisory Authority to present insurance products to its clients, thus allowing for the offer of life insurance, multi-risk housing insurance and health insurance.

In the 2nd half of the year, the bank's goal is to strengthen the focus on housing loans, improving the solutions available to its customers, in order to make the process more agile and comfortable. Continuing to grow in clients, resources and credit granted is thus the focus to consolidate the presence and boost growth in the Portuguese banking sector.

OPERATING COSTS[5]

Recurring operating costs totalled €299.5m, +€12.6m (+4.4%) than in the same period of the previous year. This increase includes +€2.6m from Transporta and +€4.6m in the recurring costs of the Banco CTT segment.

Operating costs

€ Million

	Reported			Recurring		
	1H17	**1H16**	**Δ**	**1H17**	**1H16**	**Δ**
Operating costs (*)	**306.4**	**294.1**	**4.2%**	**299.5**	**286.9**	**4.4%**
External supplies & services	120.0	114.5	4.8%	116.2	109.7	6.0%
Staff costs	174.2	167.1	4.3%	171.4	164.8	4.0%
Other operating costs	12.1	12.5	-2.7%	11.9	12.4	-3.9%

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

Recurring **external supplies & services** (ES&S) costs increased by 6.0% (+€6.5m) year-on-year. The cost reductions resulting from the optimisation and rationalisation of the operations and the distribution networks integration initiatives, as well as from other initiatives did not offset the increased costs, of which should be mentioned (i) +€2.3m with Banco CTT segment, (ii) +€1.9m refer to costs relating to the integration of Transporta as from May 2017, (iii) +€1.6m of costs with transport and delivery of Tourline due to the expansion and strengthening of domestic routes and the creation of new routes associated with new clients.

As far as **staff costs** are concerned, the €6.6m (+4.0%) increase in the recurring costs derives mainly from the following increased costs: (i) +€2.0m in staff costs of the Banco CTT segment, (ii) +€1.2m in fixed-term contracted staff, (iii) +€1.4m related to the "telephone subscription fee" benefit (in the 1st half of 2016 a decrease of €1.8m was recognised in that liability and in the 1st half of 2017 the effect of the decrease amounted to only €0.4m), and (iv) +€0.7m of staff costs in Transporta.

To the decrease in **other costs** contributed the reduction of the **cost of sales** (-€1.8m), in line with the evolution of sales, in particular with regard to lottery and merchandising products, which was offset by the growth of **other**

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

operating costs (+€1.3m), mainly due to increased costs from banking services and unfavorable exchange rate differences.

STAFF

As at 30 June 2017, the CTT headcount (including permanent and fixed-term contracted staff) consisted of 12,911 employees, 189 more (+1.5%) than as at 30 June 2016. This increase includes the integration of 205 employees of Transporta following its acquisition in May 2017.

There was an increase of 15 permanent employees and 174 under fixed-term contracts. With special impact on this change is the increase in the staff of the Express & Parcels business unit, as a consequence of the integration of the Transporta staff, and of Banco CTT.

Headcount

	30.06.2017	30.06.2016	Δ 2017/2016	
Mail	10,417	10,260	157	1.5%
Express & Parcels	1,179	1,085	94	8.7%
Financial Services	92	96	-4	-4.2%
Banco CTT	176	136	40	29.4%
Other	1,047	1,145	-98	-8.6%
Total, of which:	**12,911**	**12,722**	**189**	**1.5%**
Permanent	11,363	11,348	15	0.1%
Fixed-term contracts	1,548	1,374	174	12.7%
Total in Portugal	12,474	12,275	199	1.6%

Excluding the number of employees of Transporta, the total staff would have been 12,706, which represents a reduction of 16 employees (-0.1%) compared to the same period of 2016.

The number of employees includes 7,214 mail operations and delivery staff (including 4,666 delivery postmen) and 2,806 employees in the Retail Network. Together, these areas represent circa 78% of CTT headcount.

In terms of staff rotation during the 1st half of 2017 and excluding the integration of Transporta, more employees left the company than joined it.

Thus, **113 employees left**, due to termination of work contract and similar situations (69 employees in this situation, of whom 16 in Tourline Express and 4 in CORRE), to retirement (29) and death (15). On the other hand, **58 employees were hired**, 45 in Portugal (3 for CTT Expresso, 13 for Banco CTT and 29 for CTT, SA) and 13 abroad (Tourline Express). Staff recruitment aimed at obtaining inexistent but indispensable skills for accomplishing the company's strategic options (banking business, commercial activities, and information systems, among others).

RECURRING EBITDA

The operating activity generated a recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results) of €52.6m, 15.8% (-€9.8m) below that of the same period of 2016, with an EBITDA margin of 14.9%. The recurring EBITDA is predominantly affected by the loss of the Altice revenues (€5m), by the evolution of addressed mail volumes, the acquisition of Transporta, the integration and restructuring of which are still underway, and the evolution of Banco CTT which still has a negative accumulated impact on the consolidated accounts. These factors influenced negatively the evolution of the recurring EBITDAs of the Mail, Express & Parcels and Banco CTT business units.

Consolidated EBITDA by Business Unit

€ Million

	Reported			Recurring			Weight %	
	1H17	**1H16**	**Δ**	**1H17**	**1H16**	**Δ**	**1H17**	**1H16**
EBITDA	**45.7**	**57.0**	**-19.8%**	**52.6**	**62.5**	**-15.8%**	100%	100%
Mail	41.1	50.6	-18.8%	44.3	52.8	-16.1%	84%	84%
Express & Parcels	-0.8	1.9	-143.8%	0.8	1.9	-60.3%	1%	3%
Financial Services	17.0	15.9	6.7%	17.0	15.9	6.9%	32%	25%
Banco CTT	-11.5	-11.4	-1.3%	-9.4	-8.1	-16.1%	-18%	-13%

Recurring EBIT and Net Profit

Recurring EBIT (earnings before interest, tax, and non-recurring results) stood at €38.4m, -€11.1m (-22.3%) than in the same period of 2016. The EBIT margin was 10.9%.

The consolidated net financial result reached -€2.4m, which represents a €0.1m (+4.3%) increase vis-à-vis the same period of 2016. Financial costs incurred amounted to €2.7m, mainly incorporating financial costs corresponding to the financial effect in the amount of €2.6m associated with the discount rate of employee benefits and also, but of less relevance, interest related to financial leasing and bank loans operations (€0.07m). Interest and other financial income decreased by 38.4% (-€0.2m) in relation to the figures of the 1st half of 2016 due to the reduced rates of return on time deposits, the reduction in the liquidity levels as a result of the investment in Banco CTT, and the continued conservative treasury management policy.

CTT obtained a €17.7m consolidated net profit attributable to shareholders, which is 44.0% below that of the 1st half of 2016 and corresponding to a result of €0.12 per share and to a 5.0% net profit margin on the revenues. Excluding the non-recurring effects in both periods, the net profit would have decreased by 22.8% to €26.4m.

NON-RECURRING COSTS AND REVENUES

In the 1st half of 2017, CTT recorded non-recurring results of -€7.9m.

Non-recurring costs and revenues

€ Million

	1H17	1H16
Total	**-7.9**	**-2.0**
affecting EBITDA	**-6.9**	**-5.4**
. Other operating income	0.0	1.7
. External supplies & services and other costs	-4.0	-4.9
. Staff costs	-2.9	-2.3
affecting only EBIT	**-1.0**	**3.4**
. Provisions (reinforcements / reductions)	0.1	3.8
. Impairments, depreciations and amortisations (losses / reductions)	-1.1	-0.4

ES&S costs include €3.8m of costs incurred with studies and consulting on strategic projects, especially those related to (i) Banco CTT (€2.1m), (ii) the commercial excellence programme (€0.4m), (iii) the Talent Management plan (€0.2m), and (iv) consulting on other projects (€0.7m).

Under **staff costs** is included the negative impact of (i) €1.0m associated with the termination of employment contracts by mutual agreement, (ii) €1.2m relative to the human resources optimisation process by the gradual integration of Transporta, and (iii) €0.6m corresponding to the difference between the "long-term variable remuneration – share plan" liability, which was previously recognised, and the amount of the acquisition cost of the treasury shares granted to the Executive Directors of the Company.

The depreciation / amortisation, impairments, and net provisions posted an increment amounting to €1.0m broken down into: (i) €0.7m of depreciation / amortisation regarding Banco CTT, (ii) €0.4m of increased costs relative to net impairments resulting from the optimisation of the Express & Parcels business unit, due to the restructuring of the Tourline network, and (iii) -€0.1m, of net reversal of provisions relative to labour contingencies.

INVESTMENT

Capex stood at €7.2m, which is 42.3% below that of the same period of last year (€12.5m). In the investment during the period stands out the one associated with Banco CTT (€4.0m), allocated mainly to IT systems, ATMs, works in buildings and premises, furniture and other equipment to adapt CTT post offices to Banco CTT, and the investment in Tourline (€0.3m) in PDAs (Personal Digital Assistant).

The company continues to invest in the development of strategic IT projects relating to management information, e-commerce, commercial excellence, and accounting and operating processes.

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased €119.7m year-on-year to €182.7m. The adjusted operating free cash flow (excluding the change in net financial services payables) stood at €64.8m.

The **change in cash** amounted to +€101.5m, a positive change of €60.6m versus the 1st half of 2016. Excluding the change in the financial services receivables/payables (€114.0m), the change in cash was -€12.5m. This situation results mostly from: (i) +€137.4m in Banco CTT's operating cash flows; (ii) +€45.6m of cash flow from the operating activities (excluding the financial services and Banco CTT's cash flows); (iii) +€114.0m regarding the change in the financial services receivables/payables; (iv) -€24.7m relative to payments regarding tangible and intangible fixed assets (-€22.9m) and in the acquisition of the company Transporta (-€1.7m); (v) -€96.7m of financial assets held by Banco CTT; and (vi) -€72.0m relative to dividend payment.

Cash flow

€ Million

	Reported			Adjusted (*)		
	1H17	**1H16**	**Δ**	**1H17**	**1H16**	**Δ**
Cash flow from operating activities	**296.7**	**187.9**	**57.9%**	**182.7**	**63.0**	**190.1%**
Cash flow without Fin. Services and Banco CTT	-	-	-	*45.3*	*16.9*	*167.8%*
Cash flow Banco CTT	-	-	-	*137.4*	*46.0*	*198.4%*
Cash flow from investment activities	**-117.9**	**-76.5**	**-54.2%**	**-117.9**	**-76.5**	**-54.2%**
Capex	-24.7	-21.0	-17.2%	-24.7	-21.0	-17.2%
Of which cash flow Banco CTT	-	-	-	*-4.1*	*-7.8*	*47.8%*
Financial assets Banco CTT (**)	-96.7	-61.1	-58.4%	-96.7	-61.1	-58.4%
Other	3.4	5.6	-38.8%	3.4	5.6	-38.8%
Operating free cash flow	**178.8**	**111.4**	**60.5%**	**64.8**	**-13.5**	**579.7%**
Cash flow from financing activities	**-73.8**	**-70.6**	**-4.5%**	**-73.8**	**-70.6**	**-4.5%**
Of which Dividends	*-72.0*	*-70.3*	*-2.5%*	*-72.0*	*-70.3*	*-2.5%*
Other (***)	-3.6	-	-	-3.6	-	-
Net change in cash	**101.5**	**40.8**	**148.4%**	**-12.5**	**-84.1**	**85.1%**
	30.06.2017	**31.12.2016**	**Δ**	**30.06.2017**	**31.12.2016**	**Δ**
Cash and equivalents at the end of the period	**720.3**	**618.8**	**16.4%**	**282.8**	**295.3**	**-4.2%**

(*) Cash flow from operating activities and investment activities excluding change in Net Financial Services payables (+€114.0m in 1H17 and +€124.9m in 1H16). Cash and equivalents at the end of the period excluding Net Financial Services payables (€437.5m in June 2017 and €323.5m in December 2016).

(**) Includes financial assets available for sale, investments held to maturity and other banking financial assets of Banc o 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 Balance Sheet

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 30.06.2017 and that at the end of the 2016 financial year are as follows:

Total **assets** reached €1,547.8m, an increase of €231.1m (+17.6%), of which €294.1m relative to investment, financial assets and credit held by Banco CTT, broken down as follows: (i) €186.1m of investments held to maturity and available-for-sale financial assets; (ii) €75.5m of other banking financial assets, mostly investments in credit institutions and in the interbank market; and (iii) €32.6m of credit to banking clients, especially factoring operations and mortgage credit. Within the total assets, mention should be made to the €101.5m increase in cash and equivalents (+16.4%).

Equity decreased by €53.7m (-23.0%) as a result of the net profit of the period before the payment of dividends relative to the 2016 financial year (€72.0m) that took place in May 2017 which has not yet been offset by the results of the period (€17.7m).

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, thus reducing the corresponding reserve by €5.1m.

Liabilities increased by €284.8m (+26.3%) with the following changes thereto: (i) €170.3m increase of Banco CTT customer deposits; and (ii) the €110.7m increase in current liabilities financial services payables, due to the payment of holiday bonus to the pensioners in June.

Consolidated Balance Sheet

€ Million

	30.06.2017	31.12.2016	Δ
Non-current Assets	525.0	452.6	16.0%
Current Assets	1,022.8	864.1	18.4%
Assets	**1,547.8**	**1,316.7**	**17.6%**
Equity	**179.7**	**233.3**	**-23.0%**
Total Liabilities	**1,368.2**	**1,083.4**	**26.3%**
Non-current Liabilities	267.1	269.5	-0.9%
Current Liabilities	1,101.1	813.8	35.3%
Total Equity and Liabilities	**1,547.8**	**1,316.7**	**17.6%**

As at 30 June 2017, the **liabilities related to employee benefits** amounted to €265.2m, 2.6% below those registered in December 2016, broken down as shown in the table below.

Liabilities related to long-term employee benefits

€ Million

	30.06.2017	31.12.2016	Δ
Total responsibilities	**265.2**	**272.3**	**-2.6%**
Healthcare	247.8	249.1	-0.5%
Staff (suspension agreements)	4.4	5.5	-20.6%
Other benefits to Corporate Bodies	-	4.5	-
Other long-term benefits	12.7	13.2	-4.4%
Transporta pension plan	0.4	-	-

To be noted is also the liability regarding the "telephone subscription fee" benefit (-€0.4m) and the record of the Transporta Pension plan (+€0.4m), as well as the effect of the attribution of own shares to the Executive Directors of the Company as long-term variable remuneration.

2. OTHER HIGHLIGHTS

ACQUISITION OF TRANSPORTA

On 4 May 2017, the **acquisition by CTT of the total share capital** of "Transporta - Transportes Porta a Porta, S.A." was concluded. The agreement to purchase with Grupo Barraqueiro had been announced on 15 December 2016 and CTT was notified of the Competition Authority's decision not to oppose it on 2 March 2017.

This acquisition falls within the scope of CTT's expansion and diversification strategy to capture growth opportunities in neighbouring markets with potential synergies with the CEP market. On the one hand, the fact that Transporta offers integrated logistics and last-mile cargo solutions in the Portuguese market allows CTT to expand and reinforce its presence in these markets. On the other hand, as it operates mostly in the market of delivery and transport of items above 30 kg, it will allow CTT to widen the range of services provided and offer even more integrated solutions to its customers. This growth strategy has already been followed by CTT Expresso competitors and other international postal operators and, in addition to the benefits already shown, is crucial for customer loyalty.

Since 4 May, CTT has been working on the implementation of a plan to capture synergies of various natures: synergies in the migration of items between networks (transferring items from the Transporta network to that of CTT and vice versa depending on the degree of competitiveness of each of the companies in the different types of flows), infrastructure and fleet synergies, as well as optimisation of outsourcer networks, human resources and in External Supplies and Service (ES&S).

TRANSFORMATION PROGRAMME[6]

- **OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS**

  In the 1st half of 2017, the restructuring of the operating cycle, as well as the expansion of the **integration of the Mail and Express & Parcels distribution networks** proceeded with a view to increasing the productivity and improve the efficiency of the networks.

  As result of the initiatives carried out in recent years to better profit from the mail distribution capacity for the delivery of EMS, in the 1st half of 2017, approximately 75% of all the EMS volumes were delivered by the mail distribution network (70% in the same period of 2016). Especially noteworthy is the implementation of the NARPEL (New Logistics Network Architecture) which started in the past month of April and will go through a second implementation stage in August of this year. This project involves changes to the mail and EMS items routing model, the videocoding operating model, encompassing the intensification of the North and South Production and Logistics Centres activity (with the transfer of 4 devices)and the adaptation of resources, a new sorting model and new layouts in said centres.

  Regarding the GEO10 project (geo-referencing of the doors of each home and their classification), it is important to mention the address information, either by the introduction of the place names as approved by the municipalities or by the integration of the surveys carried out in the framework of GEO10, totalling 4 million doors with identification and enabling coverage of 97% of the Portuguese population and 98% of the entire territory.

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

Also worth noting is the fact that, as from January 2017, the operating process (handling and delivery) of unaddressed advertising mail has been fully undertaken by the mail network, thus maximising this network's installed capacity and reducing the costs of outsourcing this activity.

Finally, a special note to the strong growth of the activities related to Customs which had a positive impact on the quality of service to the client and on the revenues.

- **INFORMATION SYSTEMS STRATEGIC PLAN**

In 2016 CTT began the implementation of its applications and infrastructures transformation plan, defined as the **IT Systems Strategic Plan** and along with the current activity.

In the 1st half of 2017, the most relevant initiatives in the field of **transformation of applications** are highlighted below:

- consolidation of the CTT Expresso offer with the new *e-segue* service, an innovative service based on the interaction with the final client and allowing him/her to schedule the delivery according to his/her convenience. At the same time, several initiatives were implemented in connection with the integration of e-commerce partners, allowing for the creation of new agile and reusable linking mechanisms;
- offer of the new version of the CTT App and Via CTT which allow access to CTT to be increasingly "in the hands" of customers;
- start of the implementation of the support solution for the sale and assistance to the customer (after the organisational change of the commercial structure). The CRM of CTT will cover all companies in the group, enabling synergies that allow for a better service to customers;
- mobile devices were given to all postmen which will enable the delivery of registered mail and parcels without using paper;
- pilot tests were successfully carried out using Robotic Process Automation (RPA), a technology to be implemented in several projects of the support areas throughout the year;
- integration of Transporta IT systems within CTT's IT.

In the area of **transformation of infrastructures**, the consolidation of the SQL Server pool has started, which allows for significant savings of maintenance costs and strong performance improvements.

REGULATORY ISSUES

Complying with the pricing criteria for the 2015-2017 period as defined by a decision of ANACOM of 21.11.2014, the proposal on the **prices of the Universal Postal Service** submitted by CTT on 31.01.2017, and subsequently adjusted, was approved by ANACOM by a deliberation of 28.03.2017. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 04.04.2017. This update corresponds to a 2.4% annual average change of the price of the letter mail, editorial mail and parcels basket of services, excluding the offer of the universal service to bulk mail senders, to whom the special pricing arrangement applies. In terms of prices and as far as the **special prices for postal services included in the universal postal service** applicable to bulk mail senders are concerned, these were also updated on 04.04.2017, following a proposal submitted to the Regulator on 24.03.2017.

Framed within the Company's pricing policy for the year of 2017, said updates correspond to an average overall annual price change of 1.9% and also reflect the price update for reserved services (registered mail used in legal or administrative proceedings) and the special prices for bulk mail.

As regards the **quality of the Universal Postal Service**, following the new Postal Law, as from the beginning of the 4th quarter of 2016 the quality of service levels started to be measured by an independent external entity and its operation is carried out by an international company, which will ensure the operation of the measurement system throughout the current year. Following some deficiencies detected in the measurement process, this entity is currently implementing a number of improvements to the operation and stability of the new measurement system.

QUALITY OF SERVICE

In the 1st half of 2017, CTT **customers' perception** of the quality of service continued to be favourable: 85.2% of the customers who responded to a satisfaction questionnaire consider the overall quality of CTT as good or very good.

During the 1st quarter of the year, the **Overall Quality of Service Indicator** stood at 136.1 points, compared to a target of 100. No stable version of the quality of service indicators of the universal postal service relative to the 2nd quarter of 2017 is available yet, as the external entity responsible for the measurement is currently implementing improvements to the system.

DIVIDENDS

In the 1st half of 2017, CTT paid a **dividend of €0.48** per share and the share depreciated by 14.00% in the period. Hence, the total shareholder return (capital gain + dividend, calculated on the basis of the share price as at 31 December 2016) in the period was -6.24%. In the same period, the PSI 20 index had a total shareholder return of +13.87%.

COMPANY AGREEMENT

On 28 June 2017, with effect from January 2017, a Revised Agreement of the 2016 CTT Company Agreement was entered into with all eleven trade unions, under which a salary increase between 0.65% and 1% in monthly remunerations up to €2,772.3 was agreed. A similar increase was applied in the subsidiaries.

In addition, it was agreed to set at €600.00 the minimum amount of the basic monthly salary to be paid in the various companies of the group, effective as from 1 July 2017. This revision of the fixed remuneration represented an important adjustment in the lower remuneration levels.

This Agreement takes into account the promotion of a stable and peaceful social climate in the Company, which is the purpose of CTT and the signatory unions. It also values work, which is essentially based on the performance-linked variable remuneration policy.

3. FUTURE PERSPECTIVES

The 1st half of 2017 confirmed the 1st quarter trend of revenues growth resulting from the development of the CTT growth levers, the business units Express & Parcels, Financial Services and Banco CTT, as seen from an integrated perspective. This trend, together with the gradual and growing revenues that have been forecast for the next quarters and the business generating initiatives over the last months, enable CTT to maintain its expectation of revenues growth for these levers in 2017. This assuming the revenues performance of the Mail business unit remains stable.

The decline in addressed mail volumes by 5.6% in this period, which was higher than expected from the normal substitution effect (-4% to -5%), puts some additional pressure on the 2nd semester. For now, this does not indicate a steeper decline in volumes, but only various effects in the period. We highlight that the evolution in addressed mail volumes for 2017 will be very material to the growth of the consolidated revenues, given it is an essential condition for stable revenues in the Mail business unit, which will benefit from the positive impact of the April price update.

Growing integration and restructuring of Transporta throughout the 2nd half of 2017, after the completion of the acquisition in May, will allow CTT to expand its Express & Parcels offer, which will further enhance the growth of this lever. The results in the 1st semester reflect CTT's focus on this business unit, mainly in parcels.

Together with this Portugal-focused initiative, the restructuring project in Spain is underway and has already contributed with its strong revenues growth in the 1st half of 2017. Its positive contribution is expected to increase throughout the rest of the year, with break-even at EBITDA level projected to take place in the 4th quarter of 2017.

The comparatively positive contribution of Banco CTT's EBITDA as of the 3rd quarter (as compared to 2016) allows us to forecast improved profitability at consolidated EBITDA level. This shows the potential of the CTT's businesses to maximise profitability based on the use of their unique networks.

CTT is currently analysing non-organic growth opportunities to consolidate its business units in terms of future growth. If these opportunities come to fruition, they may accelerate the aforementioned growth and further maximise the Group's economies of scale and of scope.

Final Note

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1st half of 2017, with limited revision by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 31 July 2017

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code and is also available on CTT's Investor Relations website at: http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1.

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