



ctt

Management Report

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Chairman & Chief Executive Officer's Statement

2016 was a particularly challenging year for CTT. The acceleration of some of the industry trends (digital substitution and liberalisation) – with impact on volumes and also with pressure on prices – and the growth below expectations of some business segments, have tested the resilience of the CTT business model in a year that is marked by the implementation of several concrete initiatives, in line with our strategy, which we are convinced will bring results and sustainability of the business model for the future. The successful launch of Banco CTT, new offers in the Express & Parcels segment and advertising mail, the launch of a commercial excellence programme and the beginning of the transformation of our technological capacities are good examples of the dynamics we are putting in place.

Mail volumes are decreasing and will continue to decline, urging the development of CTT based on its core networks and strong brand, keeping a focus on growth and profitability. Through innovation and constant search for efficiency, we have sought to achieve what we have set out as goals and to respond to the needs of our stakeholders. I believe we are increasingly better prepared to face a naturally different future.

Transformation of the Postal Sector

The postal sector is undergoing a deep transformation with technological disruptions that significantly change our activity and way of operating. Although traditional mail usage has been declining over the last few years, postal operators have been able to explore new sources of value around their core competencies. The dynamics of the postal business market have gone through major changes as the industry has been shifting from public monopolies to liberalised markets, with increasing presence of competitors. This combination of occurrences has accelerated the dynamism of the market by creating a more competitive environment.

On the demand side, companies and end consumers have been showing an increasing preference for digital communications, which impacts the physical business due to the substitution effect. On the other hand, the democratisation of internet access has made it possible to purchase online, not only at national level but also to access international markets. The evolution of e-commerce has been intensifying and as a result the parcels business is the one that has contributed the most to the growth of the industry. However,

Francisco de Lacerda
Chairman & CEO

in many cases it means starting from a smaller base (i.e. the B2C delivery market), and it becomes more difficult in the short term to provide direct compensation to postal operators for the substitution effect that will tend to soften over time.

Postal operators have been ambitious and innovative, striving to expand their presence in the distribution value chain and develop businesses with potential synergies with their traditional activities. There is a phenomenon of diversification, which is naturally framed in the strong structures and assets typically present in companies in this environment, its networks and presence in the market. These companies have leveraged in their strong brand awareness and physical networks, capillarity and proximity to develop adjacent businesses in a sustainable and efficient manner, namely financial services, logistics and retail.

Evolutionary strategy materialised in concrete actions

Mail & Business Solutions

Representing a large part of CTT's revenues, Mail continues and will continue to be one of the main focuses of our Company. The preservation of our core business continues to be a central strategic pillar for CTT.

This year, one of the most important initiatives in this space was the implementation of the new Advertising Mail strategy, which we believe has a high potential for growth in the coming years. It was marked by the re-branding of these solutions, presented today under the **CTT Ads** umbrella. This way the Company strengthens its position in the market, aiming to reinforce digital advertising with the proven effectiveness of the physical advertising means. Earlier in 2017, the new online platform aimed at SMEs was launched, which, in a one-stop-shop approach, will allow for the development of hybrid campaigns that combine various digital and physical solutions.

Keeping up with the digitalisation trend, CTT now offers a number of solutions that streamline the processes associated with sending and receiving mail (e.g. Via CTT, Printing & Finishing solutions, automated address processing and dematerialisation solutions). Strengthening of CTT's technological capacities in this context is currently underway, as it will allow the Company to ensure a more robust offer to our business customers and an expansion to processes that are less adjacent to mail, but equally dependent on communications in the companies (between them and their customers or internally). We have also initiated a review of our portfolio of proximity and geographic information solutions by carrying out several pilot testing of data collection and information provisioning (e.g. meter reading, georeferencing, signal measurements, etc.). We believe that there is a relevant and monetisable path for CTT in these areas.

Express & Parcels business

The Express and Parcels business is clearly one of the areas that presents the greatest growth potential for CTT, highly driven by globalisation and the corresponding dynamism and growth of e-commerce. For CTT, this trend presents opportunities in a broad value chain, within which we believe we will have the capacity to expand. On the other hand, as a result of an increasingly technological and on-the-move culture, this business presents an increasing demand for flexibility and quality of service, typically associated with the criteria of convenience, simplicity and interactivity that both the e-seller and e-buyer seek.

In 2016 we have taken a major step towards meeting the needs of the stakeholders of the e-commerce ecosystem. In November **CTT e-segure** was launched, a new modular offer especially adapted to the dynamic needs of the final consumer allowing him/her to change the day, time and place of delivery as he/she wishes.

In addition, especially focused on convenience and leveraged in the potential of the internet a totally online experience was developed, the **Click and Ship** service, which allows our clients to send a parcel with no need to go to a CTT post office. In 2016, we also invested in the search for self-service solutions in the receipt of parcels, resulting in a first project planned for the beginning of 2017 that will consist of the use of lockers to receive parcels. It is our goal to continue working in this direction, together with the continuous development of our PuDo network, always with a creative and innovative spirit.

It is our conviction that CTT can play a relevant role in the domestic marketplace as a catalyst for the coming digitalisation process of the economy, not only as a supplier of distribution and logistics, but also by helping Portuguese companies to sell more online and encouraging consumers to buy more online. As such, we are studying a set of specific initiatives to that effect.

At international level, we want to position CTT as the partner of the Portuguese e-sellers and e-buyers, giving them access to world trade. The **Express2ME** service appeared in this context and allows the purchase of products in US online shops that do not allow for international sales, and ensures the delivery of products at home in Portugal to the final consumer (through a virtual address).

In Spain, where our presence is ensured through Tourline, we secured some relevant contracts at the end of the year, including a very strong global e-commerce player, which gives us the conviction that the route of operational improvement is getting clearer. In order to achieve this path, it has also been very important to reinforce the analytical skills (people and processes) that now give us more visibility on the value drivers of this business in Spain.

2016 was also marked by the signing of the contract for the purchase of **Transporta** - Transportes Porta a Porta, S.A., a company that essentially operates in the cargo distribution and transport market of goods of over 30 kg. This acquisition fits into

the strategy of capturing growth opportunities in adjacent markets with synergies with our business. This platform will allow CTT to expand and reinforce its presence in the logistics and last-mile cargo value chain, extending the range of services provided and offering even more integrated solutions to our customers. As at this date, the Competition Authority has already communicated its non-opposition decision regarding such acquisition, hence we have already started to prepare its integration, ensuring that we have a robust plan to capture the synergies and the operational growth once the transaction is completed.

Banco CTT

Following the soft opening of Banco CTT only to CTT employees at the end of 2015, the effort of all teams involved in the project culminated in the opening to the general public on 18 March 2016. On that Friday, 52 branches gave the Portuguese population access to the no-frills offer characterised by simplicity and low cost that we strive to ensure. At the end of the year, 9 months after the opening to the public, we can say that we have met our goal for the 2nd wave of expansion of the network, given that branch number 200 was opened in December.

2016 was the year to launch and expand the network, but simultaneously the entire Banco CTT team has been focused on the development of the bank's offer. During this year, our offer was extended, from the simple current account to the credit card with no annual fee, to the salary-account that allows access to an authorised overdraft and solutions of consumer credit and car loans. In 2017, the focus on further developing our offer will continue – in January, the mortgage loans offering was launched in line with the bank's strategy of guaranteeing its customers quality products at competitive prices.

We can confidently conclude that this was a successful year for Banco CTT, which ended with more than 100 thousand customers, 74 thousand current accounts opened and over 250 million Euros in deposits, which proves the acceptance of the bank's concept by the market. As planned, we now follow the path to profitability and growth of the operation.

Payment Services

At the same time a strategic review of the payment services product line of CTT took place in 2016, which resulted in several initiatives to be implemented during 2017, mostly with the aim of maximising the strong network of Payshop agents, the value of this brand and the simplicity and modernisation inherent in the payment processes.

Operational Efficiency

A constant priority in our day-to-day business is to ensure results and for this reason efficiency is a key word in CTT. We have teams focused on the continuous improvement of processes and operations ensuring that, through process review, automation and aggregation, savings that are relevant to the group are achieved.

Due to its importance, operational efficiency has become one of the strategic pillars of the group, highlighting our willingness to continue to implement best practices similar to those that have allowed us to be a reference operator in Europe. In 2017 this will be an integral focus of all the initiatives to be implemented, in order to ensure that we adapt to the evolution and transformation of the market maintaining the same, or better, profitability levels as until today.

Commercial Excellence

We operate in a market in transformation and therefore we try to be dynamic and to have the capacity to adapt to the new reality, always in a distinctive way. Over time and in line with industry practices, we have diversified our offer to products and services more or less adjacent to mail. This scenario has brought a number of challenges, including the specificity of certain products and services and the intensification of the competitive environment.

In this sense, this year we revisited our commercial strategy, always with the objective of better meeting the needs of our customers and providing them with better customer care and attention. As a result of the analysis, several initiatives were defined, partially implemented at the end of 2016 while others will be carried out throughout 2017. Of these, we want to highlight the new segmentation of our business customers and the strengthening and improvement of processes and critical support tools for first-class planning, management and commercial follow-up. The Commercial Excellence programme aims ultimately at (i) ensuring our focus on preserving mail, (ii) leveraging new growth levers and (iii) maximising cross-selling opportunities.

CTT Catalysts

We believe that the agile and effective implementation of what we propose to do is possible due to five catalysts inherent to CTT: i) our financial strength; ii) the proximity (of the CTT brand and networks) to the Portuguese population; iii) the people and the culture in constant learning and transformation; iv) the evolution of our support tools (IT) and adaptation to the digital world; and v) innovation.

Results

In 2016 the overall results were lower than expected and were significantly impacted by the structural decline in mail revenues, which was higher than expected and with a strong negative price mix effect. Recurring revenues totalled €695.1m and recurring EBITDA was €119.5m, reflecting an EBITDA margin of 17.2%. Excluding Banco CTT, recurring EBITDA totalled €139.6m and the EBITDA margin was 20.1%, the latter remaining at similar levels as in the previous year.

A significant part of the revenues still comes from Mail (77%), and the results of this business had the greatest impact on the overall results of the Company. Although unaddressed mail volumes increased by 5.1%, the digitalisation trend led to a drop in addressed mail. The revenue decrease in 2016 is particularly driven by the

decline in Registered Mail volumes, strongly impacted by its lower usage by the Tax Authority. Excluding the Tax Authority effect, Registered Mail volumes grew by 1.3% in the year.

On the other hand, the revenues of the Express & Parcels business were strongly impacted by the operation in Spain, where the strategy implemented in the first half, which aimed at improving the margin of the business, led to the departure of 2 clients representing more than 10% of the revenues. The focus on attracting strategically relevant customers led to the entry of a large e-commerce global player, which only took place at the end of the year and did not compensate for the aforementioned departures. In Portugal, revenues were negatively affected by the loss of a relevant customer and by the continued downturn in the business of transport of internal documents for banks. However, in the last quarter volumes grew by 8.6% driven partially by e-commerce. The competitive dynamics of the business in both markets should be noted, as it exerts increasing pressure on prices, even though there was an improvement in the EBITDA of the business in 2016.

Regarding the Financial Services business, it is worth noting that the savings product line reached 3.8 billion Euro in savings captured from the population, mostly corresponding to placement of public debt products – the revenues of which registered 6.3% growth vis-à-vis 2015. However, the total revenues of this segment were affected by the performance of the payments and money orders and transfers product lines, the latter evolving in line with its main service, pension payments by postal money order, which is decreasing.

By focusing on the efficiency of business management, in 2016, there was a reduction of recurring operating expenses, which totalled €575.6m (-1.3%). Emphasis was given to savings in staff costs, mainly derived from new policies and efficiency measures with permanent impact, which, although with positive effect, were partially offset by the increase in the same heading in Banco CTT. With regard to non-recurring operating costs, it should be highlighted that part of those were directed to the implementation of a human resources optimisation plan, whose positive impacts will be felt in the costs of the coming years.

In 2016 the total investment was €42.2m and was directed mainly to the implementation of Banco CTT objectives and to the IT strategic plan. The increase in this component reflects the effort that CTT is making to ensure that it has the necessary tools to grow.

The full year 2016 results reflect the transition year for the Company; a year focused on strategic projects of structured and sustained planning for the future. This was a period of capacity building at all levels, whether technological, commercial, product or management, which we trust will strengthen the growth levers of the group and mitigate the effects of the decline of mail volumes on the overall results. I believe we are on the right track and that this year of work and reinvention will bring positive results.

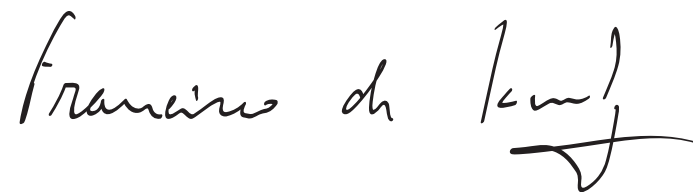
CTT has been pursuing a transformation path since its privatisation, in order to prepare the Company for the future while adequately remunerating its shareholders. Since the IPO, there has been a stabilisation of the level of revenues and a significant increase in the EBITDA. In recent years, a total of €200m of dividends (referring to the years 2013 to 2015) has been distributed and for the 2016 financial year a distribution of €72m will be proposed, an amount higher than the previous year and in line with our policy of stable growth of dividend.

Acknowledgement

I would like to acknowledge the involvement and commitment of all those working at CTT, who are clearly our main asset and act daily as promoters and facilitators of the implementation of CTT's strategy. Together we will implement the business reinvention and adaptation to the New Postal World, as well as the generation of additional value. I also want to highlight the role of our shareholders, customers and other stakeholders, who, through their constant feedback and continued involvement, contribute proactively and positively to our evolution as a Company.

2016 is certainly a mark in the history of CTT for another big event: the opening to the public of Banco CTT.

Over time CTT has demonstrated a high capacity to innovate and diversify its businesses, and new initiatives are making us better prepared to face the future in a rapidly changing industry. I trust future results will show the outcome of the initiatives we are developing!



Francisco de Lacerda

Chairman & CEO

Corporate Bodies and Management ⁽¹⁾

Board of Directors

Chairman:

Francisco José Queiroz de Barros de Lacerda (CEO)

Vice-Chairmen:

António Sarmento Gomes Mota
(Chairman of the Audit Committee)

Manuel Cabral de Abreu Castelo-Branco

Members ⁽²⁾:

André Manuel Pereira Gorjão de Andrade Costa (CFO)

Dionízia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

Nuno de Carvalho Fernandes Thomaz
(Member of the Audit Committee)

Diogo José Paredes Leite de Campos
(Member of the Audit Committee)

Rui Miguel de Oliveira Horta e Costa ⁽³⁾

José Manuel Baptista Fino

Manuel Carlos de Melo Champalimaud ⁽⁴⁾

Céline Abecassis-Moedas ⁽⁵⁾

Board of the General Meeting

Chairman:

Júlio de Lemos de Castro Caldas

Vice-Chairman:

Francisco Maria de Moraes Sarmento Ramalho

Remuneration Committee

Chairman:

João Luís Ramalho de Carvalho Talone

Members ⁽⁶⁾:

Rui Manuel Meireles dos Anjos Alpalhão

Manuel Fernando Macedo Alves Monteiro ⁽⁷⁾

Executive Committee

Chairman:

Francisco José Queiroz de Barros de Lacerda (CEO)

Members:

Manuel Cabral de Abreu Castelo-Branco

André Manuel Pereira Gorjão de Andrade Costa (CFO)

Dionízia Maria Ribeiro Farinha Ferreira

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

Audit Committee

Chairman:

António Sarmento Gomes Mota

Members:

Nuno de Carvalho Fernandes Thomaz

Diogo José Paredes Leite de Campos

Corporate Governance, Evaluation and Nominating Committee

Chairman:

António Sarmento Gomes Mota

Members:

José Manuel Baptista Fino

Céline Abecassis-Moedas ⁽⁸⁾

Statutory Auditor and External Auditor

Statutory Auditor (ROC):

KPMG & Associados, SROC, S.A., represented by Maria Cristina Santos Ferreira

Alternate Statutory Auditor:

Vitor Manuel da Cunha Ribeirinho

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

⁽²⁾ António Manuel de Carvalho Vitorino tendered his resignation as Non-Executive Member of the Board of Directors on 30-05-2016.

⁽³⁾ Rui Miguel de Oliveira Horta e Costa tendered his resignation as Non-Executive Member of the Board of Directors on 08-02-2017.

⁽⁴⁾ Elected at the General Meeting of Shareholders of 28-04-2016 for the position of Non-Executive Member of the Board of Directors to complete the 2014/2016 term of office.

⁽⁵⁾ Co-opted by a deliberation of the Board of Directors of 04-08-2016 to complete the current term of office (pending ratification at the next General Meeting) for the position of Non-Executive member of the Board of Directors to replace António Manuel de Carvalho Vitorino.

⁽⁶⁾ José Gonalo Ferreira Maury tendered his resignation as Member of the Remuneration Committee on 04-01-2016.

⁽⁷⁾ Elected at the General Meeting of Shareholders of 28-04-2016 for the 2014/2016 term of office following José Gonalo Ferreira Maury's resignation as Member of the Remuneration Committee on 04-01-2016.

⁽⁸⁾ 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 who tendered his resignation as Non-Executive Member of the Board of Directors and Member of the Corporate Governance, Evaluation and Nominating Committee on 08-02-2017.

Executive Committee



Francisco de Lacerda
Chairman & CEO



Dionízia Ferreira



André Gorjão Costa
CFO

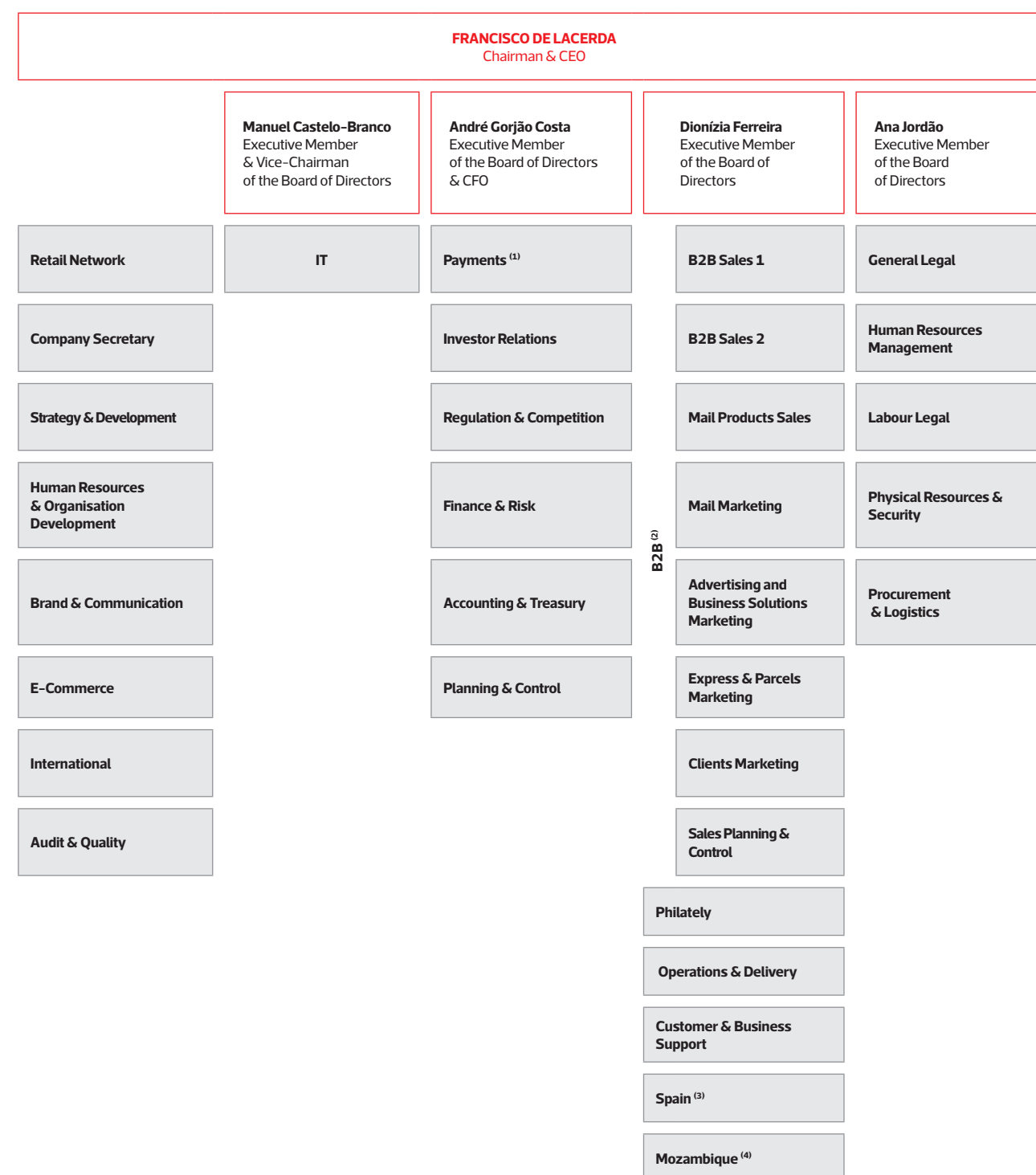


Ana Maria Jordão



Manuel Castelo-Branco

Management Organisation



Note I – Management organisation in place as at this date following adjustments carried out on 1 March 2017;

Note II – Banco CTT has its own management structure, autonomous from CTT's Executive Committee.

⁽¹⁾ Includes Payshop;

⁽²⁾ Includes Mailtec Comunicação, CTT Contacto and CTT Expresso;

⁽³⁾ Includes Tourline;

⁽⁴⁾ Includes CORRE.

Banco CTT

Banco CTT adopts an Anglo-Saxon corporate governance model based on the existence of a Board of Directors, an Audit Committee, a Remuneration Committee and a Statutory Auditor.

The Board of Directors of Banco CTT in office since 31 December 2016 and as at this date is composed of the following 9 Directors, of whom 5 Non-Executive Directors (including the Chairman of the Board of Directors, who is also Chairman of the Remuneration Committee, and 3 independent Directors) and 4 Executive Directors (including the Chairman of the Executive Committee).



⁽¹⁾ Luiana Nunes and Sílvia Correia tendered resignation to the position of Members of the Board of Directors of Banco CTT, respectively on 29 January 2016 (effective as of 12 March 2016) and on 19 February 2016 (effective as of 31 March 2016).

⁽²⁾ Appointed as Member of the Board of Directors on 4 August 2016 and Member of the Executive Committee on 5 August 2016.

⁽³⁾ Appointed as Member of the Board of Directors on 14 January 2016 and Member of the Executive Committee on 15 January 2016.

The Bank also has two Committees supporting the Board of Directors: the Selection Committee, which is chaired by António Gomes Mota (who is also Member of the Remuneration Committee) and composed of Francisco de Lacerda and José Manuel Fino as Members, and a Remuneration Committee chaired by Francisco de Lacerda and composed of José Morais Cabral and Clementina Barroso as Members.

With regard to the Selection Committee, António Vitorino and Rui Horta e Costa tendered their resignation to the position of Members of this Committee respectively on 30 May 2016 and 8 February 2017. Rui Horta e Costa also tendered his resignation to the position of Member of the Remuneration Committee of Banco CTT on 8 February 2017.

Key Figures

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2014	2015	2016	Δ% 16/15
Revenues ⁽¹⁾	717,774	727,180	695,060	-4.4
Operating costs excluding depreciation, amortisation, impairments, provisions and non recurring-costs	582,674	583,205	575,561	-1.3
Recurring EBIT ⁽²⁾	135,100	143,975	119,499	-17.0
Recurring EBIT ⁽²⁾	111,522	119,762	94,687	-20.9
EBIT	135,418	109,932	90,883	-17.3
EBT	127,999	104,610	85,245	-18.5
Net profit for the period	76,844	72,071	61,897	-14.1
Net profit attributable to equity holders	77,171	72,065	62,160	-13.7
Earnings per share (euro) ⁽³⁾	0.51	0.48	0.42	-13.5
Recurring EBITDA margin	18.8%	19.8%	17.2%	-2.6 p.p.
Recurring EBIT margin	15.5%	16.5%	13.6%	-2.9 p.p.
Net profit margin	10.8%	9.9%	8.9%	-1.0 p.p.
Return on Equity (ROE)	29.4%	28.8%	25.6%	-3.1 p.p.
Return on Invested Capital (ROIC)	26.2%	21.3%	13.0%	-8.3 p.p.
Return on Capital Employed (ROCE)	24.0%	20.2%	18.1%	-2.1 p.p.
Capex	16,596	32,331	42,160	30.4
Operating free cash flow ⁽⁴⁾	106,434	68,322	83,761	22.6
	31.12.2014	31.12.2015	31.12.2016	Δ% 16/15
Cash and cash equivalents	664,570	603,650	618,811	2.5
Net cash	278,891	278,999	295,306	5.8
Assets	1,180,997	1,119,472	1,316,697	17.6
Liabilities	931,787	867,637	1,083,370	24.9
Equity	249,210	251,835	233,327	-7.3
Share Capital	75,000	75,000	75,000	-
Number of shares	150,000,000	150,000,000	150,000,000	-
Current liquidity ratio	134.5%	133.0%	106.2%	-26.8 p.p.
Solvency ratio	26.7%	29%	21.5%	-7.5 p.p.
Adjusted Solvency ratio ⁽⁵⁾	45.6%	46.4%	30.7%	-15.7 p.p.
Net debt ⁽⁶⁾	74,876	82,590	90,275	9.3
Net debt/recurring EBITDA ⁽⁷⁾	-0.6 x	-0.6 x	-0.8 x	0.2 x
Tangible fixed asset coverage	239.0%	237.0%	230.4%	-6.6 p.p.

⁽¹⁾ Excluding non-recurring revenues.

⁽²⁾ Before non-recurring revenues and costs.

⁽³⁾ It is considered the number of shares outstanding excluding the 600,531 own shares (200,177 bought in 2015 and 400,354 bought in 2016).

⁽⁴⁾ Cash flow from operating and investment activities excluding change in net Financial Services payables.

⁽⁵⁾ Equity / (Total liabilities - Financial Services payables).

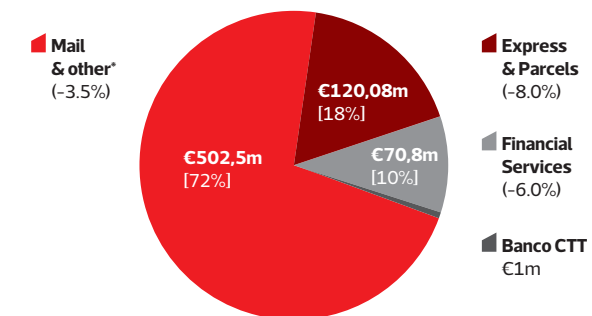
⁽⁶⁾ Net debt includes the responsibility with employee benefits, net of deferred tax credit.

⁽⁷⁾ If negative indicates a positive net cash position.

Revenues and recurring EBITDA per business unit

Revenues 2016

€695.1m (-4.4%)



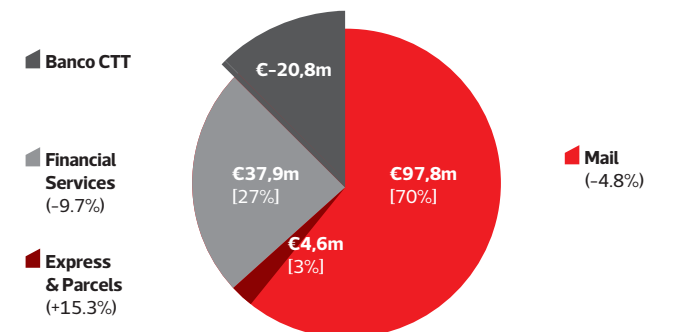
() Change vs 2015.

[] Weight in total 2016.

* Includes revenues related to CTT central structure and intragroup eliminations amounting to -€31m in 2016 and -€34m in 2015.

EBITA 2016

€119.5m (-17.0%)



() Change vs 2015.

[] Weight in total 2016, excluding -€20.8m related to Banco CTT EBITDA.

Operating Indicators

	2014	2015	2016	Δ% 16/15
Mail				
Addressed mail volumes (million items)	841.3	814.7	780.2	-4.2
Transactional mail	718.0	688.3	662.8	-3.7
Editorial mail	47.6	46.2	43.3	-6.4
Advertising mail	75.7	80.2	74.2	-7.5
Unaddressed mail volumes (million items)	507.7	473.4	497.8	5.1
Express & Parcels				
Portugal (million items)	13.8	14.4	14.6	1.1
Spain (million items)	13.7	14.0	12.3	-12.3
Financial Services				
Payments (number of transactions; millions)	67.0	61.5	57.6	-6.2
Savings and insurance (subscriptions and redemptions; € millions)	5,481.6	4,252.9	3,794.0	-10.8
Banco CTT				
Number of current accounts	-	-	74,135	-
Client deposits (€m)	-	-	253.945	-
Number of branches	-	-	202	-
Staff				
Staff (FTE) ⁽¹⁾	12,523	12,462	12,479	0.1
Retail, Transport and Delivery Networks				
Post offices	623	619	615	-0.6
Postal agencies (partnership branches)	1,694	1,711	1,724	0.8
Payshop agents	3,876	3,939	4,202	6.7
Postal delivery offices	262	254	242	-4.7
Postal delivery routes	4,659	4,731	4,698	-0.7
Fleet (number of vehicles)	3,478	3,530	3,609	2.2

⁽¹⁾ FTE = Full-time equivalent.

Sustainability Indicators

	2014	2015	2016	Δ% 16/15
Customers				
Customer satisfaction (%)	84.8	85.2	86.1	0.9 p.p.
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,159	1,183	1,167	-1.4
Retail and delivery networks certification (% coverage)	100	100	100	-
Overall Quality of Service Indicator (points) ⁽¹⁾	236.5	205.8	126.0	-79.8
Staff				
Number of accidents ⁽²⁾	955	949	979	3.2
Training (hours)	263,828	316,042	311,354	-1.5
Women in management positions (1 st management level) (%)	38.3	35.3	32.4	-2.9 p.p.
Community/Environment				
Value chain - contracts with environmental criteria (%)	99.5	99.2	99.4	0.2 p.p.
Total CO2 emissions, scope 1 and 2 (kton.) ^{(3) (4)}	21.1	16.3	16.5	1.0
Energy consumption (TJ) ^{(3) (4)}	368.7	381.3	384.9	1.0
Eco-friendly vehicles	298	304	320	5.3
Weight of Eco product range in Direct Mail line (%) ⁽⁵⁾	22.8	34.3	37.1	2.8 p.p.
Investment in the Community (€ thousand)	1,039	908	1,236	36.1

⁽¹⁾ As of 1 January 2016 the constitution of the Overall quality of service indicator was changed with the introduction of new indicators and weights. The indicator of 2016 is not comparable with those of the previous years. The 2015 OQSI figure published in the Annual Report (206.4) was recalculated considering the items sent (instead of delivered) in the year 2015.

⁽²⁾ 2015 data were updated: accidents were considered which were communicated after the publication of the Annual Report 2015. 2016 data are provisional.

⁽³⁾ 2015 data were updated: includes the acquisition of green energy (with zero carbon emission) and year-end data of Banco CTT.

⁽⁴⁾ Indicators do not include Corre.

⁽⁵⁾ Volume.

Highlights of the year

February

- **Price update** effective 1 February 2016. The update corresponded to an average annual variation of 1.3% in the price of the basket of letter mail, editorial mail and parcel services.

- CTT **granted access to its postal network** to postal operators with an individual license.

- The **new Rest Mail automated sorting equipment** was put into operation, which maximised sorting automation capacity, with a special focus on **medium-sized postal items**. The Rest Mail machine is the only one in Europe that sorts automatically 6,000 non-standard items between 10g and 12kg per hour.

March

- **Banco CTT opened to the general public** with 52 branches (located within CTT post offices), the biggest opening on a single day ever in Portugal.

- A **Revision Agreement for CTT's 2015 Company Agreement** was signed with ten trade unions, effective 1 January 2016.

- CTT granted **access to the delivery service at P.O. Boxes and to the service of returning mail found in the CTT network with postage from other operators**, also under the access of elements of the postal infrastructure to other postals.

April

- **CTT's Annual General Meeting** where the 2015 financial reporting documents were approved, including the management report, the individual and consolidated accounts, the corporate governance report, the allocation of year-end results including the payment of a gross dividend of €0.47 per share, as proposed by the Board of Directors and votes of positive assessment and praise for the members of the Company's management and oversight bodies for carrying out their duties in 2015.

May

- A **gross dividend** of €0.47 per share was paid out.
- **Banco CTT's share capital was increased** by €26m.

June

- **14 additional Banco CTT branches were opened** in CTT's Retail Network, thereby widening Banco CTT's on-site network.

October

- **Banco CTT's share capital was increased** by €25m, making up the current share capital of €85m.

- Launch of CTT Expresso's new modular offer, **CTT e-segue**, which offers clients convenience, flexibility and predictability and whose main target is the B2C/e-commerce segment.

December

- **An agreement to purchase the entire share capital of "Transporta - Transportes Porta a Porta, S.A."**, a goods distribution and transport company, **was entered into**.

- **A promissory agreement to sell real estate belonging to CTT** (one of which was CTT's previous registered office) on Rua de S. José **was entered into**.

- **Banco CTT opened 7 new branches** in CTT's Retail Network, making up a total of 202 branches opened in 2016.

Awards and Recognitions

CTT and its senior officers received the following awards and acknowledgements in 2016:

- **FRANCISCO DE LACERDA RECEIVES BEST CEO AND ANDRÉ GORJÃO COSTA BEST CFO IN THE 2016 INVESTOR RELATIONS & GOVERNANCE AWARDS**

CTT's Chairman and CEO, Francisco de Lacerda, was distinguished for the second consecutive year with the Best CEO Award and CTT's CFO, André Gorjão Costa, was distinguished as the best manager in the financial area, in the Investor Relations & Governance Awards 2016 (IRGA). These awards are promoted by Deloitte and distinguish the best company performances and best corporate governance practices.

- **HUMAN RESOURCES PORTUGAL DISTINGUISHES FRANCISCO LACERDA AND CTT WITH THREE AWARDS**

CTT was distinguished by the magazine *Human Resource Portugal* with the Human Resources Portugal 2015 award in the categories of: "Person of the Year" granted to CTT's CEO, Francisco de Lacerda, "Company with the best health and well-being policy" and "Company that most promotes Gender Equality".

- **FRANCISCO LACERDA, MIGUEL SALEMA GARÇÃO AND CTT DISTINGUISHED WITH THE APCE GRAND PRIZE AND 2016 FEIEA GRAND PRIX**

CTT won in the following categories:

- CEO of the year (Francisco de Lacerda, CTT's Chairman and CEO)
- Communicator of the year (Miguel Salema Garção, CTT's Brand and Communication Manager)
- Image and illustration from APCE (Cover of *Aposta+* no. 143)
- Internal publication from APCE (*Aposta+*)
- External event from APCE (Employer Brand | CTT Assessment Day)
- Best photograph (2nd place) from FEIEA (*Aposta+* magazine no. 142, pg. 26)
- Best cartoon/illustration/graphic image (3rd place) from FEIEA (Cover of *Aposta+* magazine no. 143)

- **MIGUEL SALEMA GARÇÃO RECEIVES THE "BIG FISH" AWARD**

Miguel Salema Garção, CTT's Brand and Communication Manager, was distinguished with the Big Fish award in the 8th edition of the Marketeer Awards.

- **MARKETING AND COMMUNICATION AWARDS FROM MEIOS & PUBLICIDADE**

Miguel Salema Garção won the 2016 Marketing and Communication Person Award attributed by *Meios & Publicidade* (Media & Advertising). *Move-nos* magazine and CTT TV were distinguished for internal communication in the "Internal/Institutional Publication" and "Corporate TV or Web TV" categories.

- **THE 2016 WORLD POST & PARCELS AWARDS DISTINGUISH CTT**

CTT was again distinguished in the 2016 edition of the World Post & Parcel Awards, the Oscars of the world mail industry, having been "Highly Commended" twice in the categories of "e-commerce" and "Human Resource Management", with the "Online Invoice" project and the "Human Resource Development Programme", respectively.

- **SUPERBRANDS 2016**

CTT received the 2016 "Brand of Excellence" award from among thousands of brands through a study carried out by Superbrands, belonging to Netquest. Netquest is an independent market research company with the only certified online panel.

- **46th ASIAGO PRIZE**

CTT was again distinguished in the International Prize of Philatelic Art of Asiago, considered the Oscar of Philately. This time, the two commemorative stamps for the "International Year of the Soil" won in the "Ecology" category.

- **PORTUGUESE ISSUE DEEMED THE MOST ORIGINAL IN THE ENTIRE WORLD**

The issue of the stamps "International Year of Light and International Year of the Soil" was deemed the most original in the entire world by the monthly magazine *L'Arte del Francobollo* in February 2016.

- **NEXOFIL AWARDS FOR PORTUGUESE STAMPS**

Two stamps issued by CTT in 2015 were distinguished in the Nexofil grand prize gala in Madrid. The "International Year of the Soil" stamp won 1st prize for final artwork design in the "Best Design" category and the "Madeira Embroidery" self-adhesive stamp was considered the 2nd best stamp in the "Innovation" competition. The Nexofil awards are granted by *El Eco* magazine, the oldest and most renowned philately and numismatic Spanish magazine.

- **CTT'S CUSTOMER SERVICE LINES DISTINGUISHED IN THE 2016 BEST AWARDS OF THE PORTUGUESE ASSOCIATION OF CONTACT CENTRES**

CTT's and CTT Expresso's customer service lines were awarded the bronze and silver medals, respectively, in APCC's 2016 Best Awards in the category of "Delivery and Logistics" by the Portuguese Association of Contact Centres (APCC).

- **"BICYCLE-FRIENDLY COMPANY 2016"**

CTT was awarded the "2016 bicycle-friendly company" merit badge by MUBi, the Association for Bicycle Urban Mobility (*Associação para a Mobilidade Urbana em Bicicleta*).

- **ENVIRONMENTALLY TRUSTED BRAND**

CTT was also distinguished, for the third consecutive time, as an Environmentally Trusted Brand in the "Public Service Company" category, an important acknowledgement of the environmental policy it has been implementing over the years.

- **8th EDITION OF THE GREEN PROJECT AWARDS**

CTT was distinguished for the "A Tree for the Forest" project, in partnership with Quercus, in the "Mobilization Initiative" category.

- **9th EDITION OF THE GREEN PROJECT AWARDS**

CTT received an honourable mention in the "Efficient resource management" category in the "Driver's Challenge" project, a sustainable driving assessment and acknowledgement system, as regards eco-efficiency, road accidents and customer service.

- **POSTEUROP'S 2016 CSR COUPS DE COEUR**

CTT was bestowed this award in the environment category with the project "A Tree for the Forest", which was described by the organisation as a "good Corporate Social Responsibility practice among European postal operators".



Management
Report



bancoctt

ctt
bancoctt

cttAds
Faça crescer
o seu negócio
em citads.pt

cttAds
Faça crescer
o seu negócio
em citads.pt

EMPURRE

The presence
is driving
us forward

We're driven by a company that is almost 500 years old.
Our history is part of the memory album of our country.
We are a constant and credible reference brand.
We are the brand of excellence in the everyday life
of the Portuguese.
We are an ever-present brand.

Strategic Lines

1.1. Sector Trends

Companies operating in the postal sector face important global challenges that make in depth transformations necessary in order to permanently optimise efficiency and reinforce growth drivers. CTT's action plan and strategy are based on fast changing consumer needs and general sector trends:

- a) **The postal tripod "Globalisation, Liberalisation and Privatisation"** – growing competition and openness of domestic markets with greater integration both on a regional and global scale, scrutiny and the need to ensure results for the various stakeholders.
- b) **Digitalisation / substitution effect** – transformation of processes and communications based on digital resources to the detriment of physical ones – the e-economy – which is the root cause of the gradual drop in mail as a communication tool and transaction aid.
- c) **Growth of e-commerce** – growth in the online retail world is significant, represents a profound change in consumers' way of life and shows great growth potential in an economy that is based on omnichannel commerce, thereby creating opportunities and hurdles in the express & parcels business.
- d) **Focus on efficiency** – continuous concern with optimising processes and resources, for example through integrated automation and management and dynamic operations, in order to ensure attractive profitability margins.
- e) **Internet of Postal Things** – leverage postal operator assets (delivery network: postmen as a field force, extension of the vehicle fleet and retail network: proliferation of physical network points, on-site support services for digital businesses) to collect big data information and provide omnichannel services.
- f) **Service diversification** – focus on new businesses by leveraging on the existing unique networks, namely the delivery network and Retail Network, thereby maximizing returns on existing assets (a focus on financial services, Government partnerships, network integration, etc.).



Source: CTT.

1.2. Strategic Lines

In 2016, CTT reviewed its strategy and made certain adjustments in order to reflect the Company's corporate priorities and the market's vibrant evolution, both as regards trends and its competitive structure.

The strategic pillars are currently five, three of which are directly related to new businesses and the offer upgrade in its main business units (Mail, Express & Parcels and Financial Services). The other two, which cut across the entire organisation, are operational efficiency and commercial excellence. The latter two take on greater importance and relevance within the organisation.

CTT Strategy

New businesses & Upgraded offer

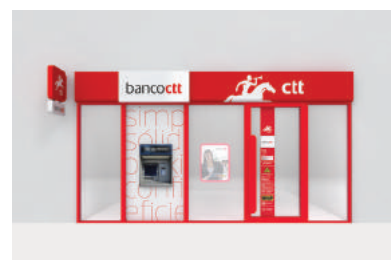
Preserve the value of the Mail Business



Capture the growth trend in Parcels



Ensure the success of Banco CTT expanding the Financial Services Business



Operating Efficiency

Continuous improvement of processes and operations, promoting CTT's profitability

Commercial Excellence

An integrated commercial approach to identify and fully meet our clients' needs and preferences

Financial Strength	Proximity (Network & Brand)	Cultural Transformation	It & Digital	Innovation
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Some of the main initiatives carried out or currently underway concerning these strategic pillars are:

- Preservation of the value of the mail business:** i) regulatory management that promotes a consistently efficient universal service provider; ii) better alignment of prices with the effective cost of service; iii) developing specialised segments, such as advertising mail, which has been repositioned and offered under the name CTT Ads; iv) review of CTT's non-core portfolio of corporate solutions, with a focus on integrated offers; and v) reflection on positioning within the convergence of physical and digital services, with an approach that encompasses the omnichannel trend.
- Capture the growth trend in parcels (CEP, Express & Parcels):** i) new modular offer (CTT *e-segure*, meaning e-follow) that is better suited to the needs of online shoppers and sets itself apart from what already exists in the marketplace with its simplicity, convenience, flexibility and interactivity; ii) implementing specific initiatives for e-commerce development (eg. the ETOE - *Extraterritorial Office of Exchange* in London, the Click & Ship service, the Express2ME service, line-haul solutions, E-commerce in a Box, etc.); iii) monitoring growth opportunities in businesses adjacent to the CEP market, such as integrated logistic/transport services and specialised delivery, whose first step was the execution of the purchase agreement for Transporta - Transportes Porta a Porta, S.A. (essentially, a >30kg cargo distribution and transport company); and iv) restructuring Tourline's business in order to ensure future profitability and ensure a consolidated integrated position in the Iberian Peninsula.
- Ensure Banco CTT's success and expand non-banking financial services:** i) gradual opening of Banco CTT in CTT's existing Retail Network hitting the 200-branch mark in 2016; ii) attracting new clients and deposits through a portfolio of no-frills banking products that is competitive relative to what is currently available in the market and is evolving (eg. by offering credit cards and preparing to offer mortgage loans); iii) focusing on developing new offer diversifying solutions/services that foster further growth resilience; iv) repositioning Payshop to operate as a physical and digital channel (omnichannel), by adapting it to new market trends; and v) reinforcing CTT's Payment business by approving a strategic plan for Payshop.
- Operational efficiency – fostering CTT's profitability by continuously improving processes and operations:** i) optimising sorting processes for bulkier mail, ii) continuous optimising of the fleet's route management and the Mail and Express & Parcels delivery network, which already serves as the sole network for a large portion of products, thereby saving significant costs (namely, with outsourcing agreements)

while maintaining operational excellence, iii) strategic IT transformation plan (for more flexible and agile systems) that improve and increment the value of CTT's offer of products and services and iv) measures to optimise human resources, the balance sheet and other costs.

- Commercial Excellence – an integrated client-focused commercial approach to identify and meet their needs and preferences:** i) optimising processes and creating new tools to support sales, ii) improving the consumer's digital and interactive experience; iii) reorganising the commercial force to adapt it to new client segmentation and iv) commercial proactivity, in order to adapt CTT to a new competitive environment, growing offer diversification and greater client sophistication.

To implement its strategy, CTT relies on 5 differentiating catalysts:

- Financial solidity:** a strong balance sheet and solid ability to generate cash flow.
- Proximity (delivery and retail networks and a strong recognised brand):** leverage the scalability of CTT's core assets and brand.
- Cultural transformation:** build a human capital structure that allows greater efficiency and effectiveness in process and knowledge management.
- IT and Digital:** a critical tool to modernise the business, products and services and support decision-making, while enhancing the various growth drivers.
- Innovation:** new approach to innovation management, by encouraging contributions from all employees and harnessing value from the creative ecosystem and idea incubators, as a way of accelerating the process and harnessing new business trends.

A photograph of a modern office environment. In the foreground, a man with dark hair wearing a grey sweater is standing and leaning over a white counter, writing on a yellow box with a red marker. Behind the counter, a bald man in a dark suit and blue tie is sitting on a red chair, also writing on the yellow box with a black pen. In the background, another person is visible working at a desk. The office has grey cubicle walls, a white ceiling with a security camera, and various colorful items hanging on the walls. The text 'Proximity is driving us forward' is overlaid in red on the right side of the image.

Proximity is driving us forward

We're driven by the wish to be closer and closer to our customers.

We're driven by our wish to bring the Portuguese people closer to the world: for the families, for the surprises, for the news, for the words that bind us and for the parcels handed over to us.

Our customers inspire us. Being by their side is more than a commitment. It is an honour.

Businesses

2.1. Economic, sectoral and regulatory environment

2.1.1. Economic framework

International

The IMF's latest forecasts (January 2017) for the world economy indicate slightly slower growth in 2016 (3.1%, as compared to 3.2% in 2015). This development is the result of different growth rates among regions, with decelerated growth in advanced economies (1.6% in 2016, as compared to 2.1% in 2015), along with stable growth in emerging and developing market economies (4.1% for both years).

U.S. economic activity rebounded throughout the year (1.6% in 2016) and is approaching full employment. In the Eurozone, GDP (1.7%) continued to fall short of its potential level. Some economies grew more than expected, such as Spain that had a 3.2% growth rate (equal to 2015) and the United Kingdom where domestic demand held up better than expected in the aftermath of the vote to leave the European Union, with growth in GDP at 2.0% in 2016. Japan's growth rate also surpassed initial forecasts (0.9%). Economic activity in emerging market economies remains diverse in its evolution, depending on the underlying economic models and government policies. China had a 6.9% growth rate in 2016, thanks to continued policy stimuli. Activity in Latin America was weaker than expected (-0.7%) due to the fact some countries are currently in recession, such as Argentina and Brazil. Turkey suffered a sharp contraction from the fall in service exports (tourism), due to the political turmoil that swept the country and the sentiment of insecurity. Despite contraction, activity in Russia was better than expected (-0.6%), in part reflecting firmer oil prices, as a result of an agreement between the Organization of the Petroleum Exporting Countries (OPEP) and other producing countries to trim global oil production.

Despite growth in the trade of goods and services in emerging economies (from 0.3% in 2015 to 1.9% in 2016), less growth in the trade of goods and services in advanced economies (from 4.0% in 2015 to 2.0% in 2016) led to a strong slowdown in the world trade of goods and services, which grew 1.9%, less than the 2.7% in 2015. This affected e-commerce in these economies. The inflation rate for most advanced economies rose to 0.7% in 2016 (0.3% in 2015), as opposed to the estimated slowdown to 4.5% for the whole of emerging and developing countries (4.7% in 2015). The average inflation rate in the Eurozone remained low throughout 2016, reaching 0.2% in December in terms of variation over the last 12 months (0.0% in 2015), although with varying behaviour in the various economies that comprise it.

In the context of contained inflationary pressure and the still low capacity utilisation rates in most advanced economies, monetary policy remained dovish throughout 2016, especially for the Eurozone, Japan and the United Kingdom. Long-term nominal and real interest rates have risen substantially since August, particularly in the United Kingdom, as a result of the Brexit vote and the announced post-Brexit economic stimulus policies, and in the U.S. since the November election. Short-term Euribor interest rates closed the year at negative levels for all maturities, which in part reflected the broad set of monetary policy measures adopted by the ECB.

National

According to the Preliminary 2016 Quarterly and Annual National Accounts of the INE (National Statistics Institute), GDP grew by 1.4% in 2016, 0.2 percentage points (p.p.) below that of the previous year. The domestic demand's positive contribution to the the annual rate of change of the GDP was lower, as it decreased from 2.6 p.p. in 2015 to 1.5 p.p., essentially due to a shortfall in investment of 0.9% (mainly as a result of the drop in Gross Fixed Capital Formation) but also, to a lesser degree, to the slight slowdown of private consumption (from 2.6% in 2015 to 2.3% in 2016). Net external demand contributed -0.1% to the change in GDP in 2016, which is less negative than in 2015 (-1.0 p.p.), as a consequence of a greater slowdown of the import of goods and services (from 8.2% in 2015 to 4.4% in 2016) than the export of goods and services (from 6.1% in 2015 to 4.4% in 2016). In nominal terms, the external balance of goods and services increased in 2016 and stands at 1.2% of GDP (0.7% of GDP in 2015), benefiting from the 2016 gains in terms of trade which are nevertheless below those of 2015.

Inflation, measured by the Harmonised Consumer Price Index (HCPi), increased slightly in 2016 to 0.6% (0.5% in the previous year), reflecting a more moderate fall in prices for energy products and a pick-up in service prices.

In 2016, the labour market continued to show signs of improvement, with a lower rate of unemployment at 11.1% (-1.3 p.p. than the previous year) and a rise in total employment of 1.6% (0.2 p.p. above that of 2015).

For 2016, the general government deficit should be 2.4% of GDP, 0.2 p.p. of GDP above the target set by the 2016-2020 Stability Programme and the 2016 State Budget and 0.1 p.p. of GDP below the value recommended by the European Commission and adopted by the European Union. The deficit is worse than previously forecast essentially due to the downturn in economic activity, less dynamic development in domestic demand and in consumer prices, leading to lower tax revenues than estimated in the State Budget, where growth was based on a strong pick-up in domestic demand.

2.1.2. Sectoral framework

2.1.2.1. Postal Sector

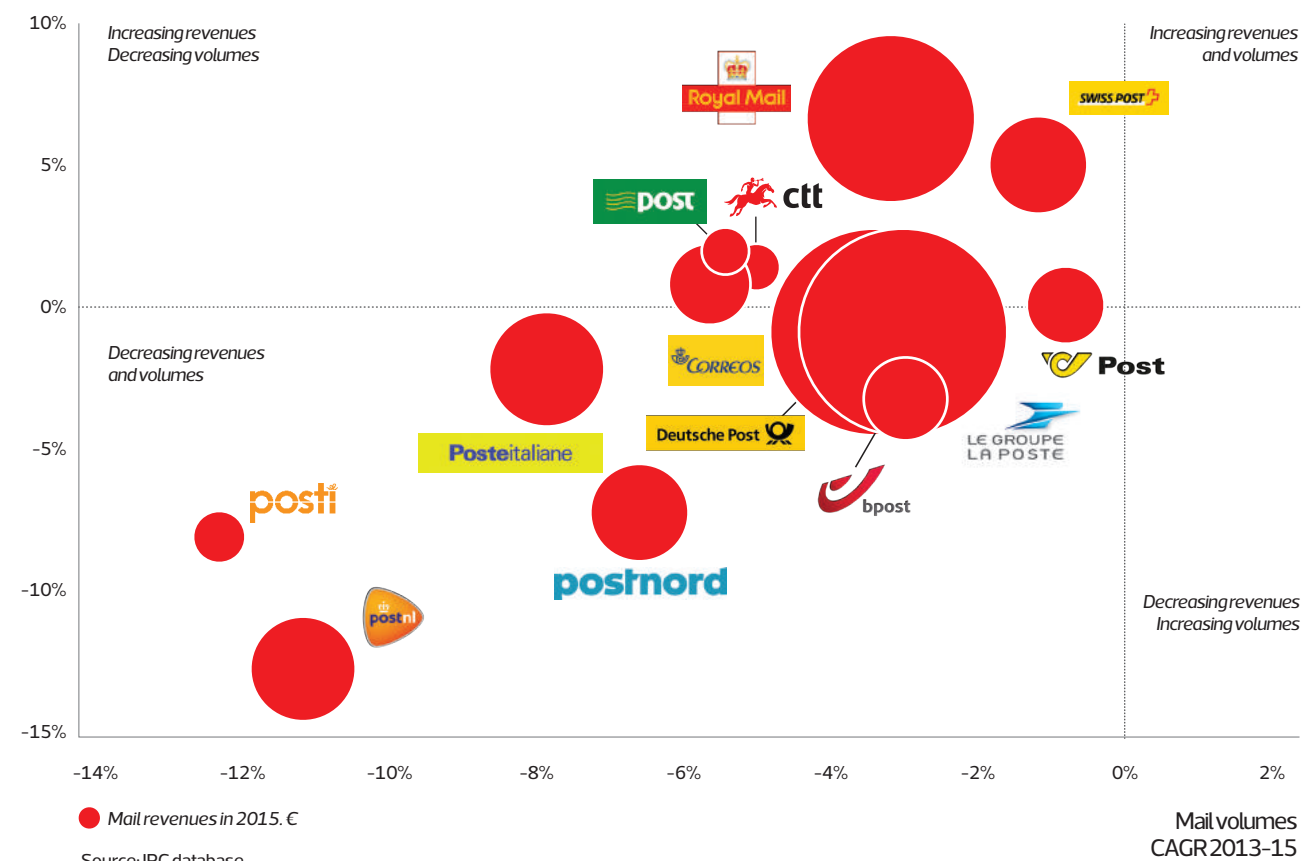
The postal sector continued its transformation process in 2016, due to sectoral trends wherein postal operators have implemented business diversification strategies in which Mail already represents less than 50% of revenue.

As regards mail, volumes are under pressure for most postal operators, which led to a fall in volumes in recent years and thereby a drop in mail-related revenue. CTT, together with certain other

operators, is an exception in this regard for the period between 2013 and 2015. In 2016, the fall in revenue was similar to the fall in volume, due to a change in the volume profile with a sharp fall in mail of greater added-value (registered mail) and a price increase lower than the volume decrease. The following graph shows the relationship between volume growth and revenue growth for a group of European postal operators, in a sectoral trend analysis between 2013 and 2015 (2016 data is not yet available for all operators).

Evolution in mail volume versus revenue by operator

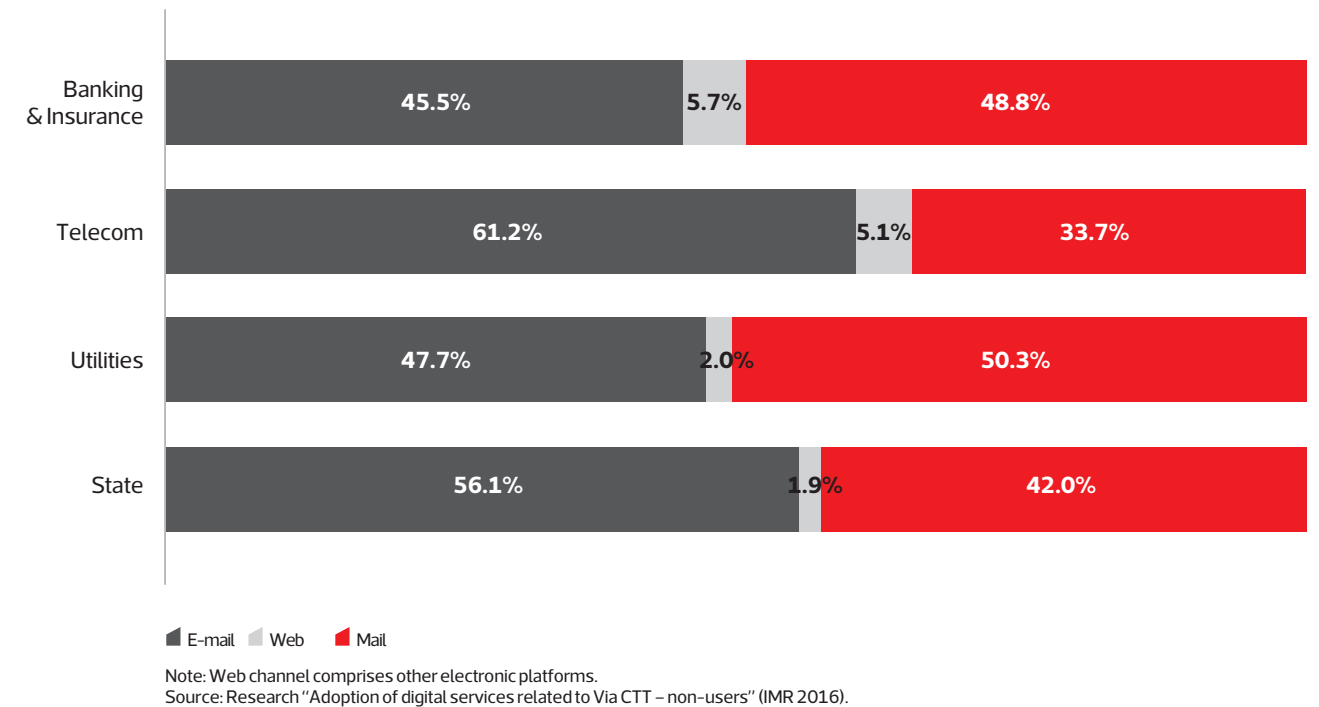
Mail revenues
CAGR 2013-15



In the national market, the panorama is analogous to those of international markets with a historic trend toward a drop in volume in all mail segments in recent years. The evolution in

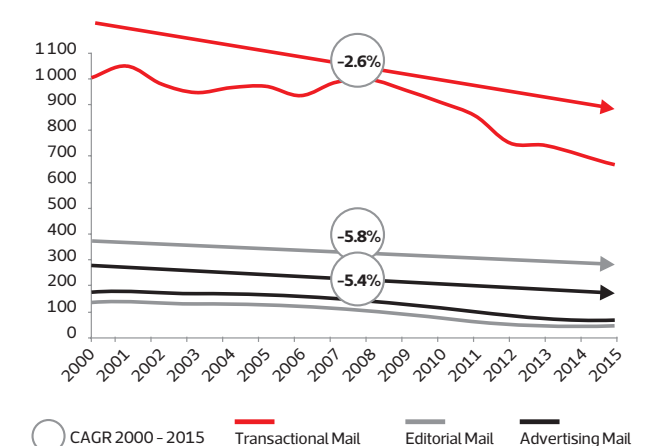
transaction communication, and in government authorities in particular, is one of the reasons for this fall, due to the increasing weight of the use of digital options.

Mail reception channels by sector of activity (%)



However, it is important to note that segments that have historically tended to show sharper downturns are those most permeable to the digital substitution effect, as is the case for advertising mail and editorial mail (2016 has shown signs of a turnaround in this trend as regards addressed advertising mail volumes in Portugal⁽⁹⁾). Letter mail represents the vast majority of postal volumes and has historically tended to fall less sharply than other segments, nearly 2.6% a year. The following table illustrates the evolution of mail volumes over the last 16 years (all of the market).

Evolution in Portuguese mail market volumes in the period of 2000-2015 (million items)



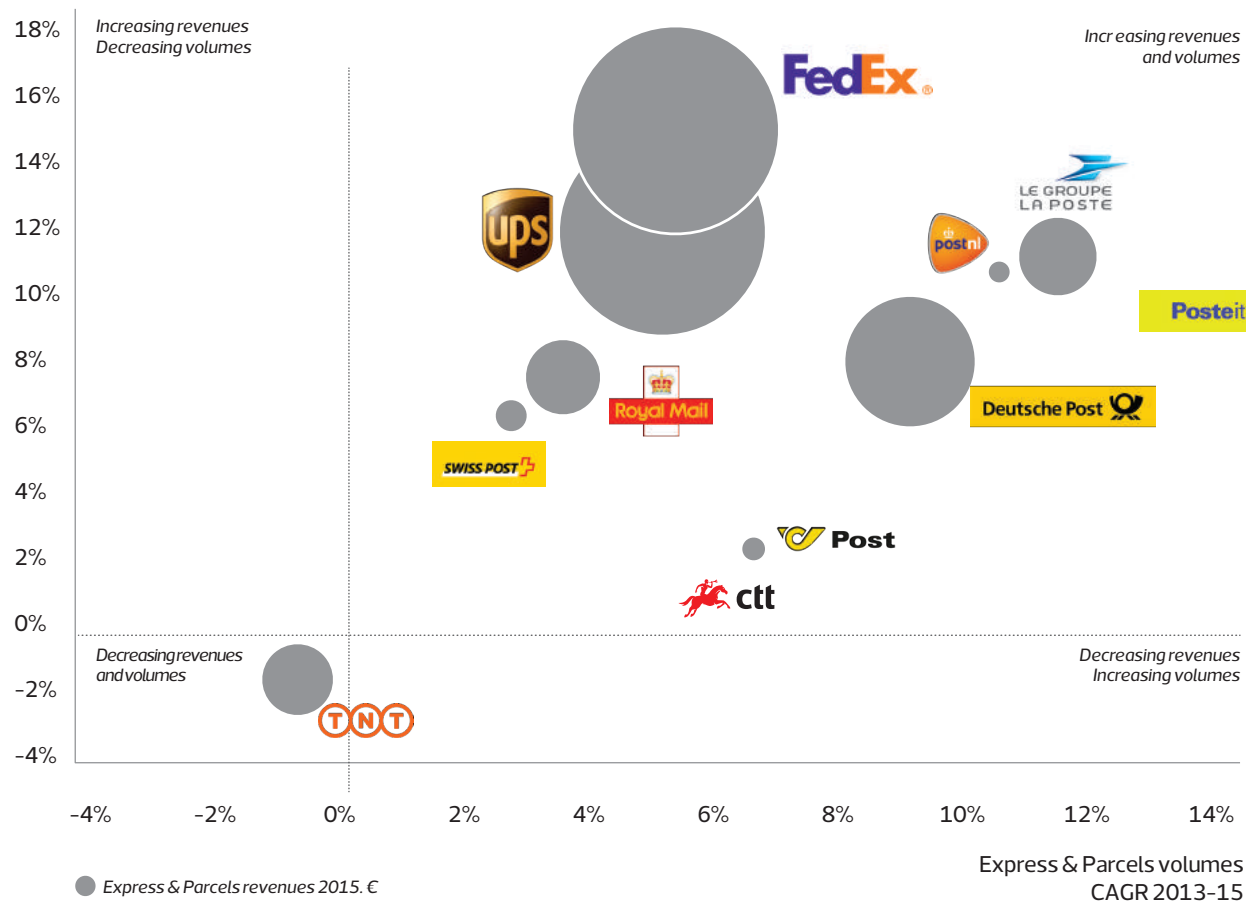
Source: ANACOM, "Evolution of the Portuguese Postal Sector" and "Postal Services - Statistical information - 3rd quarter 2016".

⁽⁹⁾ Source: ANACOM - addressed advertising mail volume in the first 9 months of the year.

Inversely, the global express & parcels market continues to show strong growth (largely driven by e-commerce), with generally growing volumes and revenue, as the following graph illustrates.

Evolution in express & parcels volume versus revenue by operator

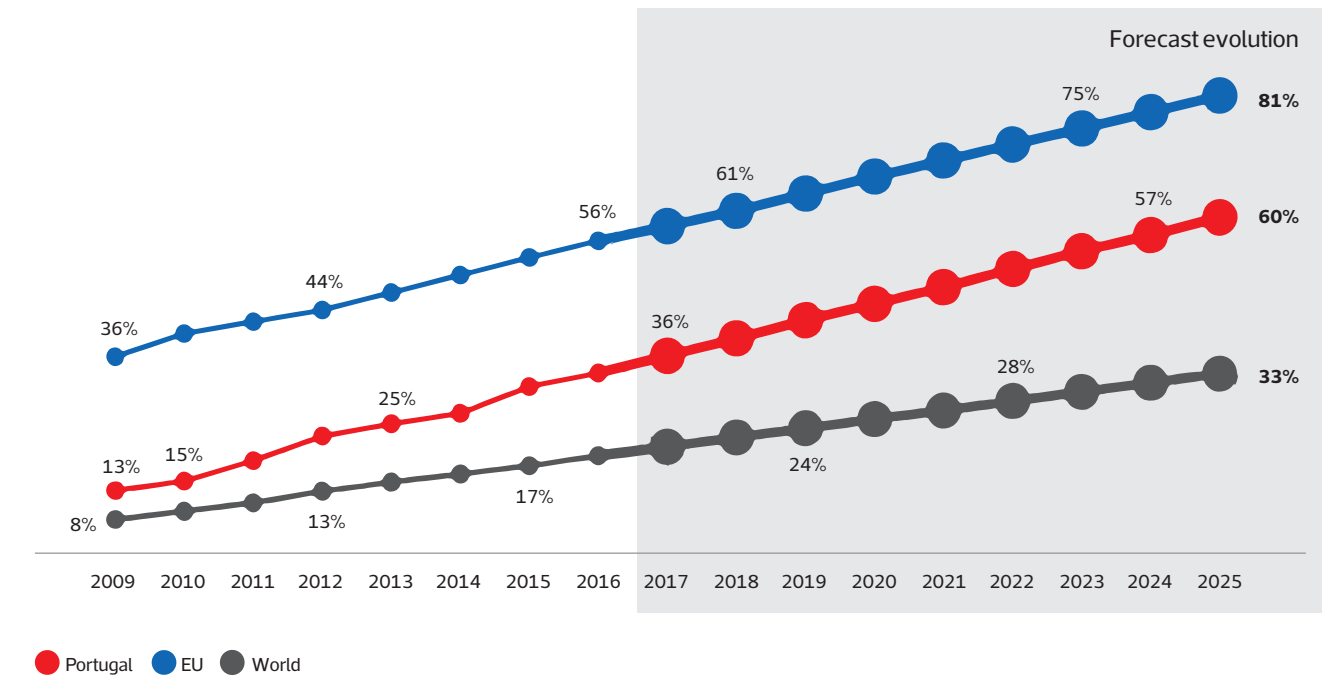
Express & Parcels revenues
CAGR 2013-15



E-commerce has grown quite significantly in recent years. The number of online shoppers has been growing as trust in shopping websites and platforms has increased. Even so, Portugal still has

a way to go as it trails behind European countries with nearly 30% of online shoppers in 2016 (see graph below).

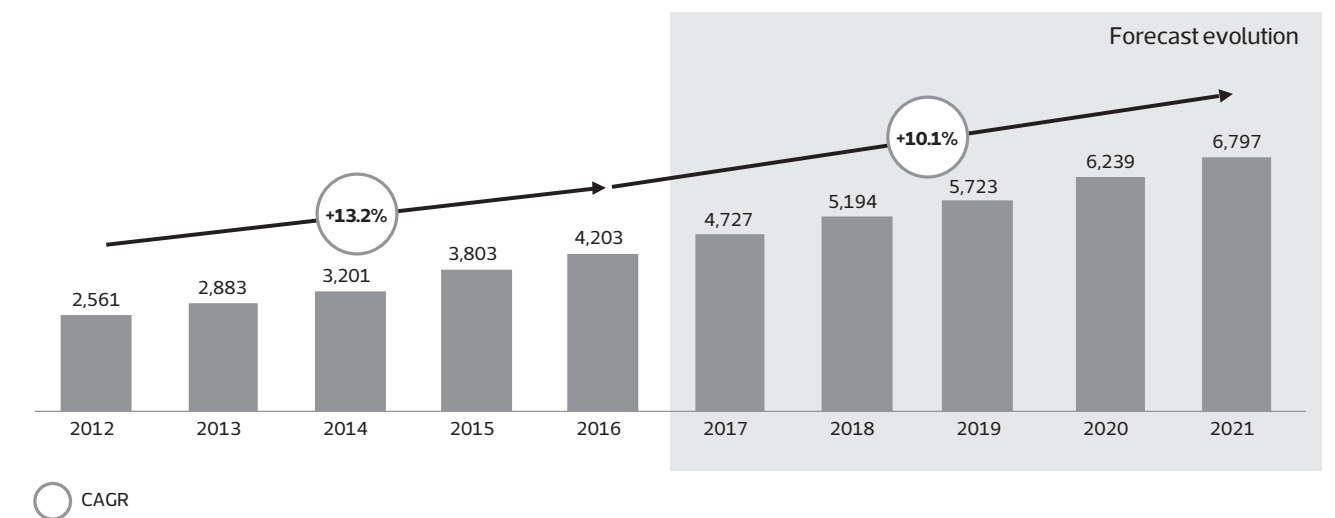
Evolution in % of online shoppers in Portugal, the EU and the world



Notwithstanding, growth forecasts are very positive, with the volume spent on e-commerce growing by double digits in

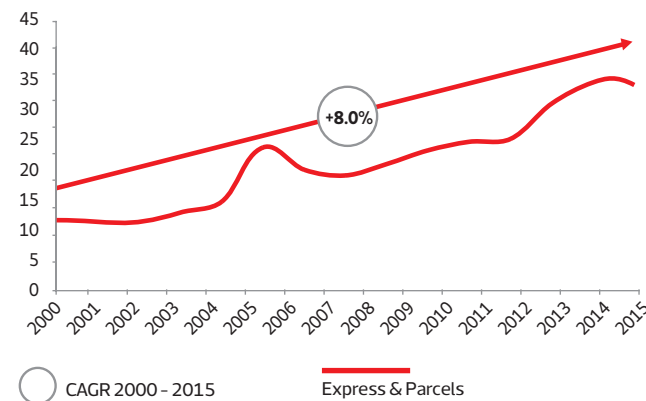
Portugal per year. The outlook for the following years is that the growth trend will continue at a very accelerated pace.

Total volume of e-commerce in Portugal (million euros)



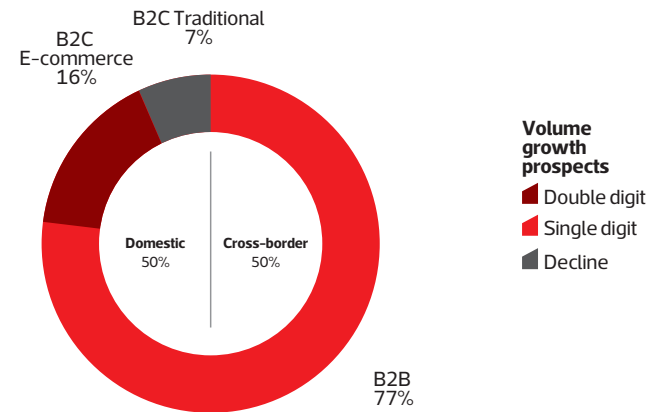
As specifically concerns the domestic Express & Parcels market, the growth trend is in step with the global market and with the opportunity arising from e-commerce, with 8% volume growth per year over the last 16 years, as illustrated by the graph below.

Evolution in the Portuguese Express & Parcels market volume from 2000-2015 (million items)



However, as shown by the graph above, the recent fall in parcel volume between companies (B2B) during the Portuguese economy's period of contraction, slowed the growth this market had been going through since 2011. There was a fall despite the growth in e-commerce affecting the segment of end consumer parcels (B2C), because the weight thereof in the national market was less than 20%. The B2C e-commerce segment continues, therefore, to have quite significant (double digit) growth prospects, as opposed to traditional B2C, which continues to fall.

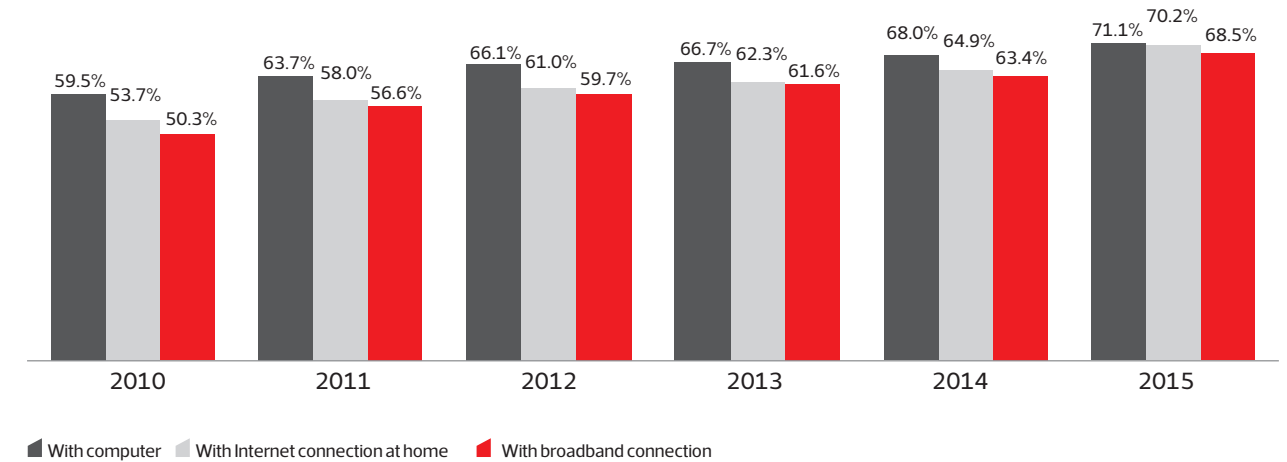
Breakdown of segments in the Express & Parcels market in Portugal – 2015



Computer use and access to the internet in private homes in Portugal has grown at a consistent pace over the last 5 years, with nearly 71% and 70% in 2015 respectively. There is nonetheless still some resistance to using the internet in the home, the main reasons for which are, among homes without internet access where there

is at least one person between the age of 17 and 74, not knowing how to access the internet (65.4%), not being interested (44.8%) and the high-cost of getting online (40.1%)⁽¹⁰⁾.

Internet access in private homes in Portugal – 2010-2015 (%)



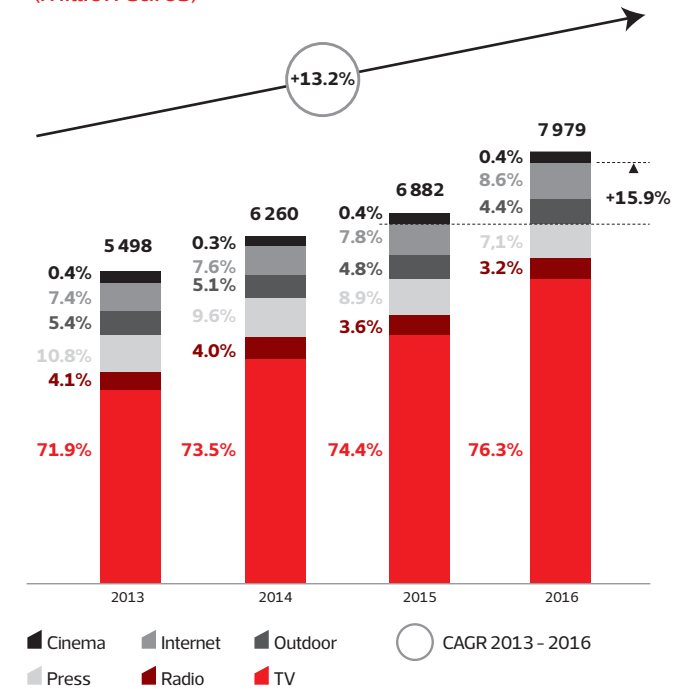
2.1.2.2. Other sectors of activity

The evolution of the postal sector and the trends that affect it result in ever straighter ties between postal operators with other sectors of activity, such as logistics and transport, the financial sector or the advertising market.

Advertising market

The advertising sector in particular has quite a direct and significant impact on postal operators' activity, namely in the performance of the offer lines related to advertising mail. It is therefore relevant to note that the advertising sector in Portugal is undergoing significant growth, following a period of divestment by advertisers. It grew almost 16% in 2016, as indicated in the following graph.

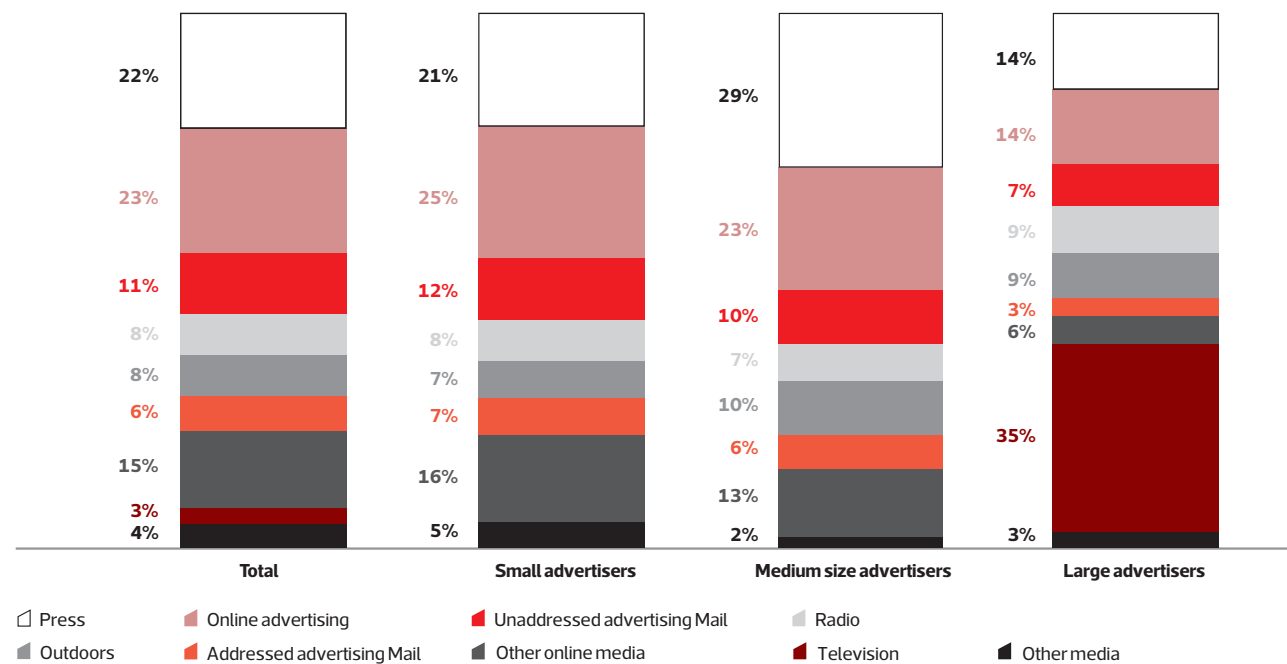
Evolution of advertising investment in Portugal, by medium (million euros)



TV and the internet are the media that have sustained the referenced growth, as opposed to the printed press which is in sharp decline due to its migration online. Notwithstanding the dominant weight of TV, advertisers diversify the media used for campaigns, namely Small and Medium Enterprises that claim the Press and Internet as the prevalent media in their communications

budget planning. These small advertisers tend to rely more heavily than the rest on addressed and unaddressed advertising mail (spending 12% and 7% of their respective budget), while large advertisers essentially use television to promote their products and services.

Breakdown of advertiser budget by category of media used

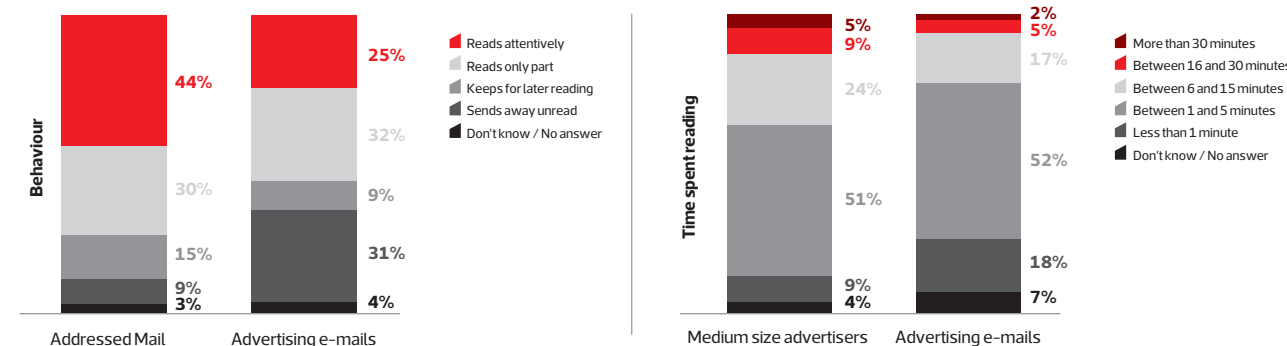


Source: CTT Market research for Advertising Mail.

In addition to the growth trend in the Portuguese advertising sector, it is also relevant to understand the importance consumers give advertising media, in particular those related to physical medium. When comparing the behaviour and time spent on receiving addressed physical mail with advertising e-mails, it is clear the consumer's behaviour differently with

addressed advertising mail, on which he/she spends more time and attention. Nearly 44% reads addressed advertising mail closely (versus 25% in advertising e-mail) and almost 40% spends more than 6 minutes reading it.

Addressed mail and advertising e-mails received by consumers



Source: CTT Consumer Research to assess Direct Marketing

Financial Markets

The year of 2016 was marked by strained world growth of around 3%⁽¹¹⁾, which was close to the post-financial crisis rates of previous years. Growth forecasts were gradually adjusted downward and world growth rates continue to be low, affecting financial market forecasts differently.

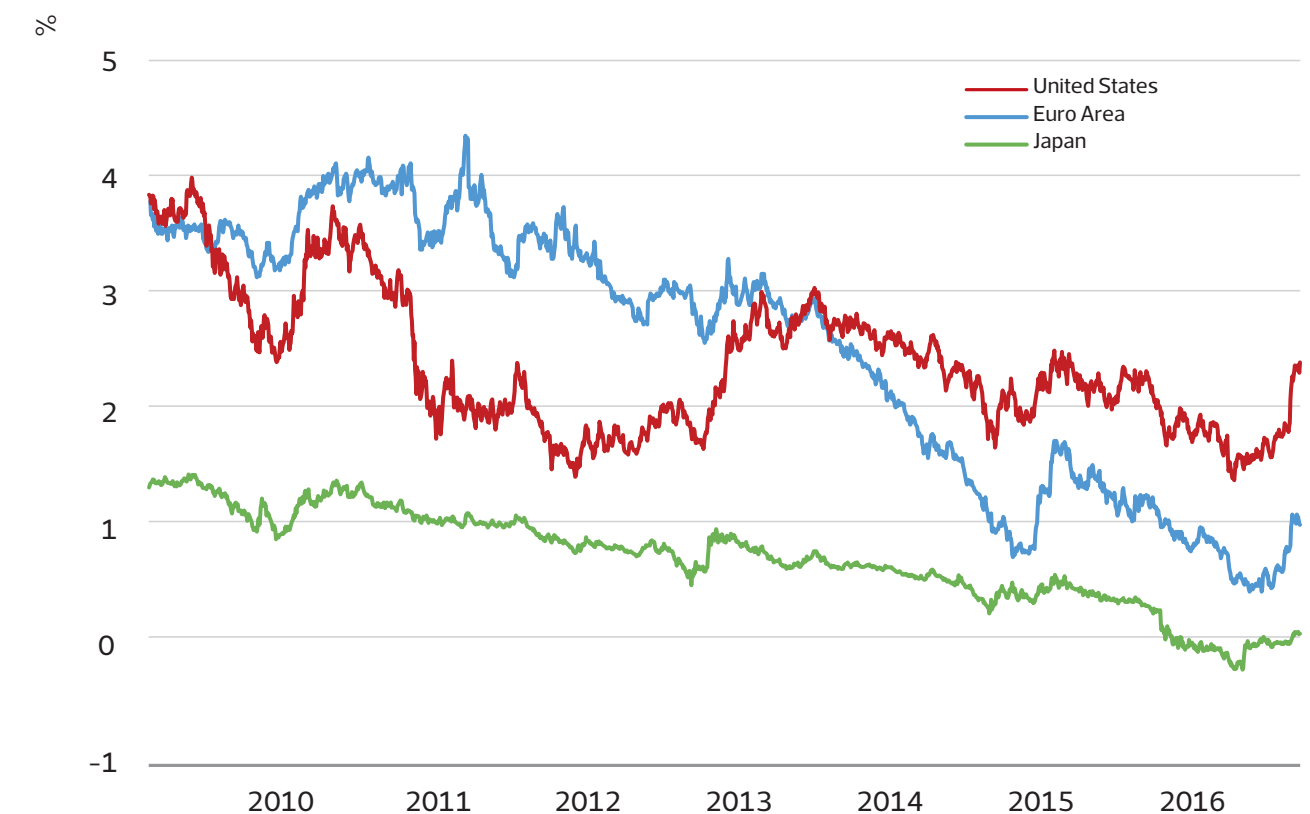
The June referendum in the United Kingdom that determined its exit from the European Union (Brexit) and the U.S. presidential elections that elected Donald Trump as president were two political milestones in 2016 that influenced the behaviour of world financial markets.

After announcing Brexit, European shares, especially British shares, traded at historical lows as compared to North American shares. Lack of clarity as to the framework that will govern economic and commercial ties between the United Kingdom and Europe caused great volatility in the markets, in particular the

foreign exchange market, where the Euro gained ground vis-à-vis the British Pound. This fact also sparked a greater concern with promoting the unity of the Euro economies by the European Union.

On the other hand, 2016 was marked by a climate of low interest rates, due to stability and low growth rates that led to continuity in the U.S. Federal Reserve's (Fed) monetary policy decisions, in addition to those of the ECB. The latter contributed thereto namely through the sovereign and corporate debt purchase programme that enabled Eurozone countries and companies to benefit from very low financing costs. This ECB quantitative easing programme has been fundamental in controlling yields on sovereign debt securities, namely Portuguese debt securities and those of other peripheral countries. As an example thereof, in the last quarter of 2016, there was rebound in yields for the main public debt securities, because of the possibility the ECB would decrease the amount of its monthly long-term asset purchases from 80 to 60 billion euros (see graph below).

10-year government bond yields



Source: Thomson Reuters in OECD Economic Outlook, November 2016.

In 2017, advances in Brexit negotiations, economic slowdown in China, the Fed's and ECB's monetary policy measures and Trump Presidency decisions will have an impact on financial markets. The outcome of elections in countries like France and Italy may also bring greater uncertainty and turmoil to markets, especially the European market.

In its projections for 2017, the Fed⁽¹²⁾ states that interest rates will tend to rise and predicts three 25 basis point increases throughout the year. As evidence thereof, the Fed raised the federal funds rate in December by 25 basis points, from 0.50% to 0.75%. Inflation is also expected to rise to 2% in the medium-term in this region.

	December 2016			
	2016	2017	2018	2019
3-month EURIBOR (as a percentage per year)	-0.3	-0.3	-0.2	0.0
Yields for ten-year public debt bonds (as a percentage per year)	0.8	1.2	1.5	1.7
Oil Price (USD/barrel)	43.1	49.3	52.6	54.6
Prices of non-energy raw materials, in United States dollars (annual change, as a percentage)	-4.0	6.6	3.8	4.5
USD/EUR Exchange rate	1.11	1.09	1.09	1.09
Actual nominal exchange rate for the Euro (TCE 38) (annual change, as a percentage)	3.8	0.1	0.0	0.0

Source: ECB, "Eurosysteem staff macroeconomic projections for the Euro area" – December 2016.

As regards the prices of raw materials, the assumption is that the price of the barrel of Brent crude oil will rise to USD 49.3 in 2017. The prices of non-energy raw materials are expected to increase 6.6% in 2017, as compared to 2016. The average USD/EUR foreign exchange rate is expected to be 1.09 in 2017. As regards the growth of the real GDP and inflation in the Eurozone, rates of 1.7% and 1.3%, respectively, are expected.

Banking System

In 2016, the Portuguese Banking System maintained the trend toward low interest rates and reduced banking business, as a result of that scenario. The system's banks made an effort to reduce operational costs, mainly by decreasing staff and branches. The year was further marked by uncertainties in Caixa Geral de Depósito's recapitalisation plan and new board of directors, as well as by the sale of Novo Banco, which was postponed yet again in light of its complexity. Of relevance is also the takeover bid launched by BPI's largest shareholder in order to seize control of the bank, thereby enabling greater integration with Caixabank and resolving its problem of over-exposure to Angola as a result of its majority stake in BFA.

The Banking system reinforced positive returns on equity in the 3rd quarter of 2016, although with a substantial year-on-year fall, due to solid revenues from financial operations (sale of

In turn, the ECB⁽¹³⁾ decided to keep reference interest rates unchanged in the Eurozone and so the reference rate remains at 0%. For short-term rates, whose reference is 3-month EURIBOR, the ECB predicts an average rate of -0.3% in 2017. Nominal yields for 10-year public debt bonds in the Eurozone are forecast at 1.2% in 2017.

public debt securities). This profitability continued to be positively influenced by the international activity of Portuguese banks, thereby offsetting the fragile returns on domestic activity.

On the other hand, asset reductions continued throughout the third quarter of 2016 (-3.4% as compared to the end of 2015)⁽¹⁴⁾, albeit at a slower rate, with a continued fall in customer credit (nearly -2% as compared to the end of 2015). The weight of client deposits on the financing of the banking sector continued to rise to the detriment of financing from the Eurosysteem. As evidence of these movements, the transformation ratio fell from 103% in the 2nd quarter of 2016 to 101% in the 3rd quarter of 2016.

Volumes of new credit production were also positive, with 14% growth in Mortgage Loans and 8.5% in Consumer Credit, between the end of 2015 and November 2016, although these remain low as compared to the volumes generated before 2011. Spreads on new loans granted by banks to retail customers follow an inverse trajectory, with a 34 b.p. drop for Mortgage Loans to 1.82% and 31 b.p. drop for Consumer Credit to 7.39% between the end of 2015 and November 2016⁽¹⁵⁾.

The Banking sector faces various challenges in 2017. The first is related to the recapitalisation of Caixa Geral de Depósitos, with a share capital increase announced for 2017 and the sale of Novo Banco. Another important challenge will be the uncertainty surrounding sustained economic recovery and the contribution of international economic activity, which is expected to cause banks to focus on optimising costs and adequately controlling credit risk.

2.1.3. Regulatory Framework

2.1.3.1. Postal Sector

At the level of the European Union

The provisions that govern the development of the internal market for E.U. postal services were set out in an initial Directive of the European Parliament and Council of 15 December 1997 (97/67/EC), which was supplemented by the Directives of 10 June 2002 (2002/39/EC) and 20 February 2008 (2008/6/EC), which are at the origin of the gradual liberalisation of the postal sector that was completed with the total opening of the market to competition on 1 January 2011. This liberalised market framework simultaneously safeguards a common level of obligations for the Universal Service for all users of the Member States of the European Union (EU) and defines the harmonised principles for the regulation of postal services in a free market environment.

In terms of funding the Universal Service, and since the provision of reserved postal services as a means of funding has been abolished, the new legal framework establishes a series of mechanisms that Member States can adopt to safeguard and fund the Universal Service. The new Directive also contains guidelines on how to calculate the net cost of the Universal Service. The provision of the Universal Service tends to operate at a loss in the EU, with various countries having implemented measures to mitigate this cost without requiring direct compensation. The regulators, aware of the challenges that the postal sector and primarily the provider of the Universal Service face, have permitted the diversification of activities and a more efficient allocation and use of resources, always safeguarding the obligations set out under European law.

With the creation of the Single Digital Market and measures carried out to improve consumer and corporate access to digital goods and services, namely those facilitating cross-border e-commerce, the European Commission (EC) presented a package of measures on 25 May 2016 to enhance e-commerce across the entire EU, including namely a regulation proposal on cross-border parcel delivery services. This legislative proposal, which is still under discussion, aims to increase price transparency and the regulatory supervision of cross-border parcel delivery services.

In this context, European postal operators are together implementing the Interconnect project that essentially entails 5 commitments: flexible delivery options; return solutions; expansion of the track and trace system; better quality of service for the client; 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 clients 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

The Postal Law entered into force in April 2012 (Law 17/2012, of 26 April, as amended by Decree-Law 160/2013, of 19 November), transposing to the Portuguese legal system Directive 2008/6/EC. The postal market in Portugal was thereby fully opened to competition, eliminating the areas under the Universal Service that were still reserved to CTT. However, for reasons of public order and security or general public interest, some activities and services remain reserved up to 2020: placement of letter and mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

The Universal Service includes the following services, of national and international scope:

- a postal service for letter mail, excluding addressed advertising, books, catalogues, newspapers and other periodicals weighing up to 2 Kg;
- a postal service for parcels weighing up to 10 Kg, as well as delivery in the national territory of postal parcels received from other Member States of the European Union weighing up to 20Kg;
- a registered mail and insured mail service.

In terms of the funding Universal Postal Service obligations (USO), Universal Service providers are entitled to compensation of the net cost of the USO when it constitutes an unreasonable financial burden for them. This compensation is made through a fund supported by the postal service providers, which offer services that, from the point of view of the user, are considered services exchangeable with those covered by the Universal Service, the operation of which has yet to be defined. In February 2014, the regulatory entity (ANACOM) approved the methodology for the calculation of the net cost of the Universal Service provided by CTT as a provider of the Universal Service, as well as on the concept of unreasonable financial burden for effects of compensation of the net cost of the Universal Service as well as the terms for its calculation.

⁽¹²⁾ "Economic projections of Federal Reserve Board members and Federal Reserve bank presidents under their individual assessments of projected appropriate monetary policy" – December 2016.

⁽¹³⁾ "Macroeconomic projections for the Eurozone prepared by Eurosysteem specialists" – December 2016.

⁽¹⁴⁾ Bank of Portugal – Portuguese Banking System – Recent Developments – 3rd quarter 2016.

⁽¹⁵⁾ Bank of Portugal – Statistical Bulletin – January 2017.

As the concessionaire of the Universal Postal Service, CTT shall remain the Universal Service provider until 2020, with the Government having reviewed the principles of the concession pursuant to the system established in the Postal Law, through the publication of Decree-Law 160/2013, of 19 November, with the execution thereunder of an amendment to the concession contract on 31 December 2013.

Pursuant to the Base XV of the Concession of the Universal Postal Service, in August 2014, ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply until 2017. The objectives defined in terms of postal network density and minimum services offer, which do not significantly alter the current postal network, reinforce the assurance of the existence of availability and accessibility of the Universal Service provision entrusted to CTT.

Under the criteria for formation of prices 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 17 November 2015, as later adjusted, by a resolution of 20 January 2016. The prices inherent to this proposal, which complied with the established price formation principles and criteria, became effective on 1 February 2016.

As further regards prices, special prices for postal services included in the Universal Service that apply to bulk mail senders were also updated on 1 February 2016 to keep prices consistent, following the proposal submitted to the Regulator on 18 January 2016.

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. Through this offer, the other postal operators access a specific price list in order to feed their clients' mail in the CTT postal network, thereby enabling them to only develop their own network in certain geographic areas wherein they may compete with CTT while using CTT for the rest of the national territory.

Further regarding access to elements of the postal infrastructure by other postal operators, access was granted as of March 2016 to (i) 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 (ii) the return service of mail found in the CTT network with postage from other operators. CTT will continue to work toward improving and expanding the conditions of access to the network and infrastructures, while maintaining the present efficiency of operations in the universal postal service. It will also seek to not compromising future maximisation options of that efficiency in a sector that shows a drop in traditional mail and growth in parcels and non-standard mail.

In terms of the quality of the Universal Postal Service and in the aftermath of the new Postal Law, a new quality measurement and control system was implemented throughout 2016, which will be carried out by an independent external entity. Following the pre-qualified international tender, the selection fell on an international company that carried out the works necessary to implement the measurement system for quality of service indicators as of 1 October 2016.

In terms of the objectives and minimum quality of service levels, whose quantification is presented in the section on quality of service, the quality of service standards and the performance goals associated with the provision of the Universal Service in the 2015/2017 period, defined by an ANACOM resolution of 30 December 2014, maintain the high standards required for postal services in Portugal, which CTT has complied with.

2.1.3.2. Financial Sector

As of the implementation of Basel III, Banking Institutions have faced increased demands from regulators as regards compliance with minimum capital and liquidity requirements, in order to increase their ability to absorb losses and comply with short-term undertakings, thereby avoiding scenarios such as in the subprime crisis and the recapitalisation and resolution of Portuguese Banks in the last decade.

Capital and liquidity requirements are increasingly heavier. Of note are the liquidity cover ratio (LCR) and the net stable funding ratio (NSFR). The LCR, to be implemented by banks at 100% by 2019⁽¹⁶⁾ serves to increase their resilience in the event of a strong liquidity stress over a 30-day period. The NSFR, to be implemented by 2018, serves to stipulate a minimum amount of stable funding, with a maturity of at least a 1 year, to control changes in banks' balance structure during that period.

The CRD – Capital Requirements Directive IV / CRR – Capital Requirements Regulation reinforced standards to attribute Core Tier I status to banking capital and RWA calculation standards. This directive introduced the Leverage Ratio as a new prudential measure for the banking sector, which stipulates the minimum amount of own funds over total exposure. The Leverage Ratio has been currently set at a minimum of 3%⁽¹⁷⁾ of CET1 by the EBA and is expected to be fully calibrated and applied at the beginning of 2018.

The implementation of increasingly tighter and more uniform regulation at the level of the European Union, by creating Single Supervisory and Single Resolution Mechanisms, the Banking Recovery and Resolution Directive (BRRD), among other measures, strive to transfer responsibility initially borne by taxpayers to the banks' main stakeholders and is a game changer for the strategy of financial institutions. The deleveraging of banks and the need to maintain more robust capital and liquidity ratios limits the profitability of the former with consequences over their entire operation and results.

The stabilisation of the banking system in various European countries posed and poses regulatory challenges to the ECB, which has acted with the flexibility necessary to come to the best solution at any given time. Examples thereof are the recapitalisation of Caixa Geral de Depósitos in Portugal and of Banca Monte dei Paschi di Siena in Italy.

2.2. Mail

2.2.1. Activity

The recurring revenues⁽¹⁸⁾ of the Mail business unit reached €533.6m in 2016, corresponding to a 3.8% fall relative to 2015. The evolution in revenues is connected to the drop in addressed mail volumes (-4.2%), together with the evolution of the product mix influenced by the 8.8% volume fall for mail of greater added-value, i.e. registered mail.

This business unit includes the Mail upstream and downstream businesses of postal services and corporate solutions, namely printing & finishing, mailmanager, video encoding, hybrid mail and other solutions complementary to the Mail business. 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. The above-mentioned services are provided by CTT S.A. (parent company), CTT Contacto and Mailtec Comunicação.

Mail

Addressed mail volumes fell by 4.2% in 2016, as itemised in the table below.

Mail Volumes (million items)

	1Q 2016	Δ 1Q 2015	2Q 2016	Δ 2Q 2015	3Q 2016	Δ 3Q 2015	4Q 2016	Δ 4Q 2015	2015	2016	Δ
Transactional mail	180.5	-4.4%	169.4	0.2%	155.0	-6.1%	157.9	-4.6%	688.3	662.8	-3.7%
Editorial mail	11.6	2.2%	11.0	-7.7%	9.3	-14.9%	11.3	-5.3%	46.2	43.3	-6.4%
Advertising mail	19.4	-7.1%	19.2	0.6%	16.0	11.5%	19.6	-24.4%	80.2	74.2	-7.5%
Total addressed mail	211.5	-4.3%	199.6	-0.2%	180.3	-5.3%	188.8	-7.2%	814.7	780.2	-4.2%
Unaddressed mail	108.5	-1.6%	126.2	9.9%	126.7	5.7%	136.3	6.1%	473.4	497.8	5.1%

⁽¹⁶⁾ PWC – Banking regulation: Understanding Basel III with the CRD IV navigator <http://www.pwc.com/gx/en/industries/financial-services/regulation/basel-iii/basel-iii-crdiv-navigator.html>

⁽¹⁷⁾ CFA Institute – Capital Requirements Directive (CRD) IV – Issue Brief https://www.cfainstitute.org/ethics/documents/crd_iv_issue_brief_final.pdf

⁽¹⁸⁾ Including internal services and intra-group transactions which are eliminated for consolidation purposes.

The decrease in addressed mail volumes was mainly impacted by less 4 business days in 2016 vis-à-vis 2015, due to the reintroduction of 4 national holidays and a lower consumption by large and mid-sized business customers, both by the normal digital substitution effect and by the change in the consumption pattern (campaigns or initiatives not carried out).

The average price change for the Universal Service in 2016 resulted in a year-on-year increase of 1.1%, thereby contributing, together with inbound international mail, to alleviate the effect of the volume fall on addressed mail revenues. This change was mainly the result of the price update for the basket of letter mail, editorial mail and parcel services that took place as of 1 February 2016 (as better detailed above in the section on the Regulatory Framework), changes to the discount policy and the volume structure itself in terms of the various product categories and weight steps.

Transactional mail volumes decreased by 3.7% in 2016. This evolution is the result of changes in the volumes of ordinary mail (-3.4%), registered mail (-8.8%), priority mail (-8.8%), green mail (-2.7%) and outbound international mail (-2.4%). In contrast, inbound international mail saw an increase in volume (+5.2%).

The decrease in **registered mail** (-8.8%) was due to a fall in demand by the State and Public Administration, especially the Tax Authorities, which have, since the third quarter of 2015, reduced their demand for this type of mail. Without the fall in volume for this type of mail caused by the Tax Authorities, which was -35% in 2016, registered mail volumes would have shown a year-on-year growth of 1.3%, thereby showing its resilience as a form of communication that has an added-value for users. The evolution of this type of volume actually showed signs of recovery throughout the year (year-on-year change of -12.5% in the 1st quarter and -0.9% in the 4th quarter).

The fall in **priority mail** volumes was very much influenced by a sharp drop in demand by one of the large customers in the contractual segment and the impact of aforementioned reduced business days on the non-contractual segment.

Ordinary mail volumes fell fundamentally due to a sharper fall in the demand of the main customers in the sectors of Telecommunications (-9.1%) and other utilities (-7.9%). Those drops were mainly due to the replacement of physical communications by digital ones, and also the as of yet unsubstantial use of other operators that have arrived in the marketplace.

Domestic **editorial mail** volumes continued to fall (-5.3% in the 4th quarter and -6.4% for the year) throughout the year, mainly due to a drop in demand by contractual clients, which is also affected

by the growing recourse to online editions. The price policy offset the drop in volume so that it did not affect this product's revenues, which grew by 6.3% in the 4th quarter and 1.4% in the year.

Addressed advertising mail volumes, which until the end of the first nine months of the year showed a small growth of 0.5%, fell sharply in the 4th quarter (-24.4%), thereby influencing the annual evolution (-7.5%). Behaviour in the 4th quarter was mainly due to the reduction in the number of campaigns carried out by two large customers in the retail sector.

The turnaround in **advertising mail** continues, however, to be an important focus for the future. The vision for advertising mail is to position CTT as the benchmark for direct marketing and relational marketing in Portugal, based on two strategic objectives: 1) growing the size of the market for advertising mail, increasing its weight in advertising investment in Portugal, and 2) gaining part of the digital marketing market with an integrated physical-digital offer that enhances increased sales for companies.

CTT launched a new integrated service of advertising solutions in January 2017 that allows micro-, small- and medium-sized companies to design, produce and procure advertising campaigns through the online solution - www.cttads.pt. This turnkey solution allows companies to manage their advertising campaigns with autonomy, simplicity and effectiveness. For that, the user needs only define the communication targets and create his/her campaign. CTT undertakes all the rest of the process, from printing (Mailtec) to distribution of the advertisements by mail, e-mail or SMS.

Business Solutions

CTT continues to focus on hybrid communication solutions, developing offers that combine physical with digital communication, such as: document production (through Mailtec Comunicação, the market leader in printing and enveloping), mail and document digitalisation, as well as information technologies for the postal sector, geographic and geo-referencing solutions, as well as ViaCTT, a secure e-mail with controlled access.

There is growing market demand from a wide variety of business sectors for **CTT's integrated solutions**, which include features tailored to the needs and goals of each client organisation, based on the portfolio and capabilities inherent to CTT's two capillary networks - delivery and retail (post offices) network. Among the integrated solutions offered, special note is made to growth in the proximity and de-materialised services, where document dematerialisation services showed significant growth rates.

New **geographic information services** are in the final stages of development. In 2017, these will endow CTT with new features based on its knowledge of the territory and population and will

allow clients to access services based on quality information, which allow them to be more operationally efficient and effective in their communications with clients from the domestic market.

In 2016, **Recibos Online** (online invoices) - a retail electronic invoice solution - doubled the number of processed invoices and tripled its user base. During the fourth quarter of 2016, Online Invoices established various partnerships for the distribution of this solution, namely with two companies whose clients operate in the retail invoice software market and will integrate the Online Invoice solution in their software in 2017 and later market it to their clients. This partnership strategy will be carried out together with other players in 2017, thereby fostering the national scale that Online Invoices intend to reach. Paper receipts delivered by retailers are generally not used by clients and do not enable the retailer to collect information on their clients' consumer profile.

In the last quarter of 2016, a project began for the integration of the Online Invoice solution in CTT post offices and is expected to be available in CTT post offices and postal agencies in the 2nd half of 2017.

Philately

The Philately business achieved €7.5m in revenue in 2016, resulting in a year-on-year drop of 6.8%. The reduced price of products in 2016 as compared to 2015 contributed to this evolution. In books, that fall was 4.5% in order to moderate prices and increase overall demand, and in stamps the fall was 2.5%, in order to comply with the good standards of not speculating on the face values of issues by Designated Postal Operators.

We highlight the following philatelic issues and themed books produced in 2016:

- the "Portuguese Canning Industry" philatelic issue, which was the first time ever in the world that 50,000 sets within this special issue were issued in cans.
- the sale of Sport Lisboa e Benfica (SLB) and "Historical Figures" philatelic products - 1st issue.
- the new issues of self-adhesive stamps: Madeira, the Southern Mainland and the meuselo (mystamp) "30-Year Anniversary of the Collector's Magazine".
- the publication of the book "Portuguese Cathedrals", which sold out in just a few months.

In 2016, CTT received four international awards for quality of design. CTT was distinguished for the eighth time in the International Prize of Philatelic Art in the Asiago municipality in the province of Vicenza, Italy. The winning philatelic issue in the "Ecology" category is the one honouring 2015 as the

"International Year of Light and International Year of the Soil". The stamp issue was deemed the most original in the entire world by the monthly magazine *L'Arte del Francobollo* in February 2016, because it addressed the United Nations decision to proclaim 2015 simultaneously the International Year of Light and the International Year of the Soil. Two stamps issued by CTT in 2015 were distinguished in the Nexofil grand prize gala. The "International Year of the Soil" stamp won 1st prize for final artwork design in the "Best Design" category and the "Madeira Embroidery" self-adhesive stamp was considered the 2nd best stamp in the "Innovation" competition. The Nexofil awards are granted by "El Eco" magazine, the oldest and most renowned philately and numismatic Spanish magazine.

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

Issues	
<ul style="list-style-type: none"> Historical and Cultural Figures Centenary Museums – Abade de Baçal Centenary Museums – Grão Vasco 50 Years of Lubrapex Joint Portugal-Vietnam Issue Joint Portugal-France Issue Joint Portugal-Phillipines Issue Centenary of the 1st Portuguese Military Flight 500 Years of Postal Services in Portugal 450 Years of the Publication of the Petri Nonni Salaciensis Opera Marian Shrines 	Historical and Cultural Figures
<ul style="list-style-type: none"> Launch of Banco CTT Jesuits – Builders of Globalisation Madeira – Christmas and New Year Festivities Portuguese Army Heraldry Historical Cafés (1st Group) Portuguese Canning Industry Treasures of Portuguese Museums (1st Group) Our Cities (1st Group) Radio Voices Congratulations Portugal! European Champions 2016 Southern Mainland (Self-Adhesive) Madeira (Self-Adhesive) 	Themes
<ul style="list-style-type: none"> 2016 – International Year of Global Understanding (automatic postage labels) 	International Projection
<ul style="list-style-type: none"> Cante Alentejano – Song of Alentejo Europe – Think Green Azores – Ecotourism Mammalian Predators Fish of the Mediterranean Old Vineyards of Portugal Sidewalks of Portugal Extreme Sports (3rd Group) – Base Issue Extreme Sports (3rd Group) – Self-Adhesive Portuguese Anti-Cancer League – 75th Anniversary (automatic postage labels) 	Environment and Sustainability

The following themed books have been launched with a high-level of success:

Editions
<ul style="list-style-type: none"> Portuguese Cathedrals Jesuits, Builders of Globalisation Step by Step Symmetry – Portuguese Sidewalks Old Vineyards of Portugal My Christmas Story – My Friend the Shadow My 2016 Stamp Album Portugal in Stamps 2016

2.2.2. Retail Network

The Retail Network is an increasingly important product and service sales channel in CTT’s revenue growth for all business units, in an increasingly digital economy where convenience and proximity serve an important role in the physical component of this new paradigm and where the consumer wants an array of interactive channels – the omnichannel concept – for the purchase and research process.

Although it is the capillary network for access to postal services throughout the country for both people and companies, its activity is much more far-reaching. It manages over-the-counter services and direct sales to final customers (private individuals and small enterprises) and is the largest commercial network at a national level with an offer marked by its amplitude, diversity and high proximity. The Company has increased the value of this asset, transforming it into a convenient multi-service platform (especially financial services and services of general interest to citizens), thereby boosting its sales volume, while fully and strictly complying with the universal service obligations in addition to other services the Portuguese State determined would be provided by CTT (postal money orders and public debt for the retail market). In 2016, the service and value of this convenient network was boosted for parcel pick-up and drop-off (“PuDo”), thereby providing a wider offer to the e-commerce segment with multiple options for place of delivery.

Management of business in the Retail Network is based on the following fundamental vectors:

- development of the Mail business, namely added-value mail;
- channel of proximity for the marketing of financial services as a pillar for creating and developing Banco CTT in particular and for the ongoing placement of public debt with the retail market through its network;
- businesses and services of convenience 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 order and parcel pick-up and drop-off in the solutions offered for e-commerce.

At the end of 2016, the Retail Network was made up of 4,297 contact points, with 615 post offices, 1,724 partnership branches (postal agencies) and 1,958 stamp sale points. The offer of services, under self-service and in some cases available 24 hours a day, is complemented by 217 automatic stamp vending machines and 15 automatic postal product vending machines.

During 2016, with the cost optimising and streamlining measures carried out under the Transformation Programme⁽¹⁹⁾, satellite post offices continued to be integrated into core post offices (a project

that entails placing smaller post offices under the management of core post offices), thereby enabling their joint management and greater integration of the local offer with the public.

Further under the Retail Network optimisation measures, a Customer Support Line was implemented in December 2015, thereby freeing post offices from daily telephone calls from customers (as contacts were funnelled to the call centre). Providing this service through a specialised line allows a more uniform and consistent message to be disseminated. With this initiative, post offices became free to spend more time on serving their customers and on commercial activities.

Following a historical analysis of post office funding needs, a more efficient model for the flow of funds was implemented in September 2016 that allows a better supply of funds to satisfy varying monthly, weekly and daily needs, while reducing costs with transport of valuables.

Also in September 2016, CTT launched the **Future Opens** competition, an initiative whose goal is to identify and select innovative products/services/businesses that are suitable for sale in the CTT Retail Network. Candidates will be selected based on originality and innovation and will be integrated in the stimulation strategy of CTT’s Retail Network. The opening of CTT’s delivery channels to the candidates will allow them to test their products and services in a national multi-brand retail network. 73 companies from various market segments participated in this initiative. The next step will be to make a pre-selection and final assessment to find the winners of this competition in 2017.

With this initiative, CTT, as a Portuguese company, is seeking to **promote innovation by supporting Portuguese entrepreneurs** and showcasing distinctive and innovative products/services in the market. Also under this outreach to Portuguese companies, arrangements have been made with 4 national start-ups to market their innovative products in CTT post offices.

Retail turnover was negatively affected in the last quarter of 2016 by difficulties faced by CTT’s partner in supplying post offices with lotteries.

The Retail network implemented an offer segmentation in 2016 by post office type to market third-party products and services. Thereunder, it reviewed their respective portfolio in order to free-up post office capacity to introduce Banco CTT, thereby optimising the potential of added-value products and services and making the post office’s image better suited to a banking institution.

(19) Transformation Programme: a set of projects selected annually as fundamental to implementing CTT’s strategy.

This segmentation allowed initiatives to be carried out in 2016 to stimulate other retail businesses, by (i) leasing out space, (ii) establishing partnerships with well-known reference brands in the national market (iii) providing the CTT ticket sales service, (iv) sales via catalogue and (v) providing services to citizens, such as the payment of the Mobility Social Subsidy in the Autonomous Regions of Madeira and the Azores, which in 2016 entailed 250 thousand operations in a total amount paid to beneficiaries greater than 47 million Euros. Of further note is the partnership with EDP Comercial that entails attracting customers for new contracts in all mainland post offices. Hereunder, nearly 1,000 contracts were registered in 2016. The intention is to expand this type of partnership to the telecommunications sector.

2.2.3. Operations

In 2016, the Transformation Programme⁽²⁰⁾ was heavily focused on improving operational efficiency not only by continually reorganising the production cycle through a wider set of initiatives aimed at streamlining the operational cycle (sorting, transport and delivery), but also by deepening integration and synergies between CTT delivery networks (Mail distribution network and the outsourced Express & Parcels network). In this regard, a plan to reinforce and later replace equipment and transport is under analysis for later implementation. Its goal is to increment the level of automated sorting of standard mail with non-standard mail and small parcels to face the efficiency challenges that the fall in mail and changes to the volume profile have brought with them.

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 44 automated mail sorting machines (of which 24 are mail sequencing machines and one Rest Mail machine) and 78 video encoding posts.

The new Rest Mail automated sorting equipment was put into operation in 2016, which maximised sorting automation capacity, with a special focus on medium-sized postal items (non-standard mail), in large extent from e-commerce, which did not benefit from automated sorting before. This initiative, concluded by the end of the 1st quarter, represented a very significant milestone among the transformation measures carried out in the operations area. The Rest Mail machine, the only one in Europe that sorts 6,000 non-standard items between 10g and 12kg per hour. In 2016, it sorted 14 million items. The sorting capacity of this new piece of equipment may double in the future to a maximum of 12,000 items per hour.

In 2016, 2.1 million items (flat ordinary mail) a day were automatically sorted by postal delivery route. Nearly 1.9 million (79% of total volume) were automatically sequenced (door-

to-door) for 4,698 postal delivery routes of 242 postal delivery offices (PDO), which is 88% of automated volumes of mail delivered daily on those routes.

Automation of the postal service continues to produce excellent results in address recognition, with flat letter mail achieving correct assignment rates of 95% for 7-digit postcodes and 68% for 10-digit postcodes.

It is worth noting that, this year, a study has begun on the evolution of automation associated with the strategy of concentrating all pre-delivery activities in the production and logistics centres. This study, to be implemented in coming years, forecasts automatic sequencing by mail delivery route for standard and non-standard items with recourse to new mail sorting equipment (mixed mail solutions and OCR driven solutions).

Under the Mailmanager service, 11.5 million images and 6.4 million complete documents were digitalised in 2016, which resulted in a 97% year-on-year increase in documents produced for new internal and external clients. It is worth noting that the Mailmanager's digitalisation capacity increased by 40% as compared to 2015 with the purchase of new equipment to support the verified growth in this business unit.

Under the Transformation Programme⁽²⁰⁾, we highlight:

- Implementation of the referenced Rest Mail machine, which eliminated medium-sized manual sorting in the Northern Production and Logistics Centre (PLC) and reduced activity in the manual bulk line in 3 PLCs.
- Conclusion of the insourcing of the video encoding activity, putting an end to the outsourcing in place until then (September 2016).
- Reinforcement of sorting activity in the Southern PLC (Cabo Ruivo) with the transfer of 2 automated sequencing machines that were installed in Pinheiro de Fora, thereby further concentrating this activity in the Southern PLC.

International mail processing underwent structural changes during this period. The entire operational activity of inbound international volume control was concentrated at the Airmail Unit (located at the Lisbon Airport). Here, the opening, control and monitoring of inbound dispatches are carried out, with the corresponding statistical control. This change enables the entire volume to enter the Southern PLC and be directly forwarded to its respective production lines.

As regards Customs, we highlight the following set of changes:

- insourcing customs clearance in July 2016, whereby CTT took on the role of customs agent via Indirect Representation;
- as regards verification, both space segregation and enhanced process automation;
- the boost in warehousing capacity by nearly 25%, together with the computerisation of warehouse management that ensures total and rapid control of inbound and outbound goods;
- the introduction of new services provided at the Cabo Ruivo Customs desk, associated with the update of the service price list, with a relevant impact on the rise in revenues.

The volume growth rate in customs had a year-on-year growth of 23% in 2016 due to the growth of the inbound international mail volume mentioned before. This increase is very much related to growth in e-commerce in markets such as China for small-sized and low-cost items.

Transport

The transport network operates with 255 vehicles, which travel approximately 48 thousand km/day. In 2016, the national transport network covered a total of nearly 12 million km, thanks to ever more efficient vehicles acquired under the fleet renovation that has been carried out over the last years.

The continuous reorganisation of the national transport network (made up of the "primary" and "secondary" networks) due to internal reorganisations, synergies with the express network and the insourcing of outsourced connections are among the initiatives carried out.

It is worth noting that, in line with the trend of recent years of change in volume type (fewer flat items and more bulk items), the fleet was adapted in order to increase volume capacity of the various axes by 318m³.

During 2016, a study was carried out that supports a New Architecture for the Production and Logistics Network (a project known as NARPEL). This project took into account:

- the analysis of the current logistics network, as regards the location of primary network nodes and routes between nodes; and
- the definition of optimised routes between the primary network nodes and secondary network nodes with recourse to optimal location optimisation software (associated with the least expensive solution).

The pursuit of a more efficient solution is due to the well-known evolution in road infrastructures in Portugal. These allow for more efficient routes, which may translate into less operational costs for the transport activity.

This optimisation also entails an adjustment to the operational processes associated with different network nodes, thereby enhancing an improvement in productivity and greater synergies per centralisation and activity.

This project is one of the main operation transformation initiatives in CTT for 2017 and is expected to be concluded by the end of the 1st quarter.

Delivery

The delivery network is made-up of 242 PDOs, including 69 delivery support offices (DSO) and 2 delivery support services (one in Lisbon and another in Coimbra), and 7 logistics and distribution centres organised into 4,698 delivery routes, which cover around 240 thousand km/day.

The fleet provided for delivery is primarily comprised of light vehicles, motorcycles and bicycles (mostly electric). It has been reinforced with more vehicles, mainly electric vehicles, in order to make routes faster with greater load capacity. This is in response to lower object density per home which leads to greater distance of delivery routes and in response to the mail distribution network's delivery of new types of items.

Under the Transformation Programme⁽²¹⁾, the continued reorganisation and optimisation of PDOs with the intervention and implementation of new more efficient organisations are worthy of note. In 2016, 114 PDO interventions took place entailing 41% of total volume. 11 operational units (DSO/PDO) were centralised, thereby contributing to the greater streamlining of producing infrastructures. This continuous demand for efficiency will continue for years to come, due to developments in the postal business and as a result of the permanent rise in automated sorting of upstream postal items in production and logistics centres. This allows PLCs to increasingly become operational units with no internal activity and places where post men and women receive mail and other postal items ready for the mail delivery routes straight away.

The MOGU project (Motorisation of Urban On Foot Delivery Routes) was implemented in September 2016 in the 1500 Lisbon PDO. This project intends to motorise urban on-foot postal delivery routes in order to reduce 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. The expansion of this project to other PDOs has been planned for 2017.

⁽²⁰⁾ Transformation Programme: a set of projects selected annually as fundamental to implementing CTT's strategy.

⁽²¹⁾ Transformation Programme: a set of projects selected annually as fundamental to implementing CTT's strategy.

Of note is the implementation, in April 2016, of water meter readings in the Municipality of Bombarral by the PDO of Bombarral, with a total of 7,200 bi-monthly readings. With this new service, the delivery network fosters and reinforces the service proximity with clients. This business shows the capacity and versatility of our network to make solutions and services available on a national and regional level where capillarity is a relevant factor.

2.3. Express & Parcels

The recurring revenues of this business unit reached €120.8m in 2016 (-8% than in 2015). This business unit encompasses the activities of CTT Expresso in Portugal, Tourline Express in Spain and CORRE in Mozambique.

In **Portugal** in 2016, CTT Expresso launched a solution for retail chains (especially for those present in shopping malls) – **the “Shopping Network” service** – that includes the logistics and transport associated to the daily restocking of clients’ retail networks (their own shops, franchises or partner shops), as well as exchanges between stores and returns from stores to central warehouses. This solution is particularly relevant in the fashion sector, where CTT Expresso intends to reinforce its competitive position, namely in the B2B segment. In the B2C segment, CTT Expresso already has a relevant position in this sector.

In 2016, the marketing of an **reverse logistics solution** began, especially for the telecommunications sector. This is one of the sectors that shows the most growth potential, namely in the collection of client equipment for refurbishment and reinjection in the market (*set-top-box* and *routers*). This is a critical operation for telecommunication operators and a new opportunity for CTT, since it can increase its involvement with clients in this sector.

A **partnership was set up with the retail specialist** Phonehouse, in order to reinforce CTT’s network, already offering more than 1,000 parcel pick-up and drop-off points. This partner will enable access to nearly 100 highly convenient points, due both to their location (mainly in shopping malls) and their extended opening hours, during the evenings and weekends. The bet on online services and on quality of service are two critical axes for the two companies, whereby points of access to CTT’s network continue to provide the most adequate offer for varying market needs – location, convenience and service. This network will also be expanded with the model’s extension to a number of selected Payshop agents in order to further reinforce its convenience and proximity.

The main project implemented in 2016 was the launch of a new offer called **CTT e-segue** (meaning, e-follow). This required profound technological adjustments to the information systems that support the business and is based on an essential vector: transfer of control of the delivery process to the final client, i.e. the recipient. It was designed with the B2C / e-commerce segment

in mind. It seeks to give the market convenience, flexibility and predictability based on fast information suitable to the participants therein (mainly the recipient) and the possibility of interacting by changing delivery conditions (address, date and time slot). Because returns are a critical concern for online shoppers and retailers, returns are also addressed with CTT e-segue. The launch was initially planned for the end of the 1st semester, but was only launched on 11 November 2016. For this reason, the impact on revenues was minimal despite the positive intake by B2C clients.

With the offer of CTT e-segue, CTT believes it has addressed the main needs of the B2C segment, especially those of the final consumer (recipient). This makes CTT the reference player in this segment, which will continue to have a critical role in the growth of the CEP market.

In the 4th quarter of 2016, following the launch of the new offer, a new price and commercial autonomy policy was put in place, with three main goals: to reduce potential revenue leakage, streamline processes and simultaneously endow commercial teams (throughout the various levels of hierarchy) with ability to apply commercial discounts to the reference price of each volume segment.

Despite these and other commercial and marketing initiatives, **revenues in Portugal** fell -4.5% albeit with signs of recovery in the last 3 months of the year, with a growth in the activity, measured in terms of +8.6% volume particularly based on the performance of the e-commerce, retail, cosmetic and telecommunications sectors. This behaviour includes both the entry of new clients gained in 2016 and the rise in share of wallet for certain clients, as well as the growth in the activity of important clients, namely in e-commerce and cosmetics. The annual growth in volume as compared to the previous year was +1.1%.

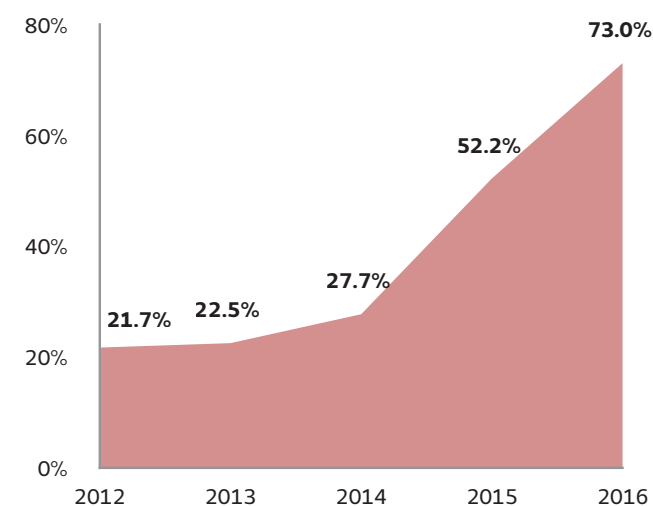
The fall in revenue was particularly affected (i) by the continued erosion of the Banking business (38% of the drop), by the fall in activity associated with fewer branches and the rise in competition in this segment, (ii) by the behaviour in the inbound and outbound international volume (32% of the drop) due to more aggressive competition from integrators in this international segment and (iii) in domestic express, by the exit of an important client. Without this effect, revenues in the domestic segment would be growing at a rate of about 2%.

On an operational level and in order to improve profitability of operations in Portugal, we highlight the progress made with the **integration of the Mail and Express & Parcels delivery networks** (previously outsourced) that began in 2014. In 2015, a profound integration of the networks was carried out, with the goal of increasing the use of the network of postmen and women for last-mile delivery of date-specific parcels and packages, using the

installed capacity and high capillarity of the network. This process allowed existing company resources to replace outsourced delivery.

In 2016, a new phase in the network optimisation project began, with the gradual insourcing of the delivery of EMS19 Múltiplo in CTT’s mail distribution network in a total of 30 PDOs, thereby drawing the insourcing potential of EMS delivery in mail distribution network to a close. Arising therefrom, during 2016 nearly 73% of the entire EMS volume was delivered by the mail distribution network (compared to 52.2% in 2015), increasing to 77% in the 4th quarter of the year.

Evolution of the integration process (CTT Expresso volume % distributed through the mail distribution network)



In 2016, postal parcel sorting of the Universal Service was transferred from the Lisbon production and logistics centre (in Cabo Ruivo) to CTT Expresso’s Lisbon operational centre, thereby reducing sorting costs in the former and enhancing the installed automated capacity in the latter. In this regard, it also enhanced automated sorting for parcels.

Given e-commerce’s growing importance, which is a fundamental driver for the growth of the parcels business (with a year-on-year growth in delivered volume in Portugal – last mile – of 14% in 2016), CTT highlights the following initiatives undertaken to develop this business:

- holding CTT’s 1st **“E-commerce Day”** on 11 November, with a conference on opportunities and outlooks to develop e-commerce in Portugal, bringing together therein CTT’s main partners and clients. It also included the public launch of the new CTT e-segue offer mentioned above and the publication of an “e-commerce report” prepared by CTT on the e-commerce market in Portugal.

- launching **CTT’s London ETOE** (Extra Territorial Office of Exchange) and operational testing of a line-haul (end-to-end solution) for e-commerce products between China and Brazil, using CTT’s London ETOE.
- launching the basis for offering “Special Cross-Border Solutions”, based on line-hauls for e-sellers that intend to ship items to Portugal, either as a final destination or as a gateway (with or without recourse to the ETOE) to other geographies (eg. Brazil).
- pursuing contacts and negotiations with potential partners in order to develop the e-commerce business, with note to the Singpost e-commerce partnership (SPEC) and the partnership with AmenWorld in Portugal and the delivery services agreement entered into with Amazon Spain through the CTT subsidiary Tourline Express, which will begin with the Spanish market but with prospects of later covering the Portuguese market where CTT has clear competitive advantages as regards price and service.
- launching a new service in the last week of December – **Express2Me** – that allows Portuguese consumers to access online shopping on U.S.-based websites by attributing a 1st-mile virtual address.
- conclusion of a market survey to carry out a pilot of automated lockers for parcel delivery (parcel lockers), located in places with a large affluence of people and whose launch is expected to take place in 2017.

In **Spain**, the year of 2016, was of strong transformation in Tourline Express. In addition to the 2015 reduction of staff costs and reductions of certain large customers with loss-inducing conditions at the end of 1st quarter of 2016, commercial capacity was reinforced, which reignited strong growth in volume and revenues in the last quarter. This outcome is the first symptom of a new focus on growth, the reinforcement of the number of franchised areas (with the goal of boosting sales and lowering delivery costs) and the creation of an Iberian operator carrying out the necessary changes to processes and systems therefor.

In commercial terms, we highlight:

- the **launch of a product for the e-commerce segment**, characterised by reduced issue and delivery fees in order to address customer needs.
- the evolution of the **Official Fee, which will be applied to franchisees in 2017**, thereby ensuring greater alignment between operational costs and prices in force.
- the creation of a **new discount policy** for franchisees that is both clearer and more uniform.

- **beginning activity with Amazon Spain** as of November 2016. This client's arrival and the reinforcement of others at the year-end only were not sufficient to offset the reduction during most of the year and therefore the annual volume fell by 12.3%.

In **Mozambique**, CTT is active in the Express & Parcels business since October 2010 through the company CORRE – Correio Expresso de Moçambique, whose share capital is 50% held by CTT and 50% by Empresa Nacional de Correios de Moçambique.

The company covers most provinces and owns an operations centre, two own branches and an Airport Mail Unit in Maputo. CORRE products and services are also available at all post offices of Correios de Moçambique, thus achieving national coverage, which has contributed to the rapid expansion of the business.

Mozambique is currently going through turbulent times. The IMF and main donors closely oversaw the external audit begun at the end of 2016 of the so called "Hidden Debts", which resulted in the suspended delivery of funds to Mozambique, and which is expected to draw to a conclusion at the end of the 1st quarter of 2017. The Central Bank of Mozambique implemented a number of measures in the last quarter that led to a slight recovery of the Metical as compared to the Dollar/Euro, after which it stabilised.

Although peace talks were suspended by international mediators, the truce agreed at the end of the year and that was extended for 2 more months at the beginning of the year, is cause for some optimism as regards the odds of finding a solution to the political/military conflict. The impact on Corre's activity is immediate, given that road circulation ceases to be affected by military blockades, thereby reducing costs and strains on circulation throughout the country.

Despite these adversities, CORRE continues to consolidate its position as the biggest service provider in the banking sector in Mozambique. Its numbers in Euros were significantly affected by the sharp depreciation of the Metical.

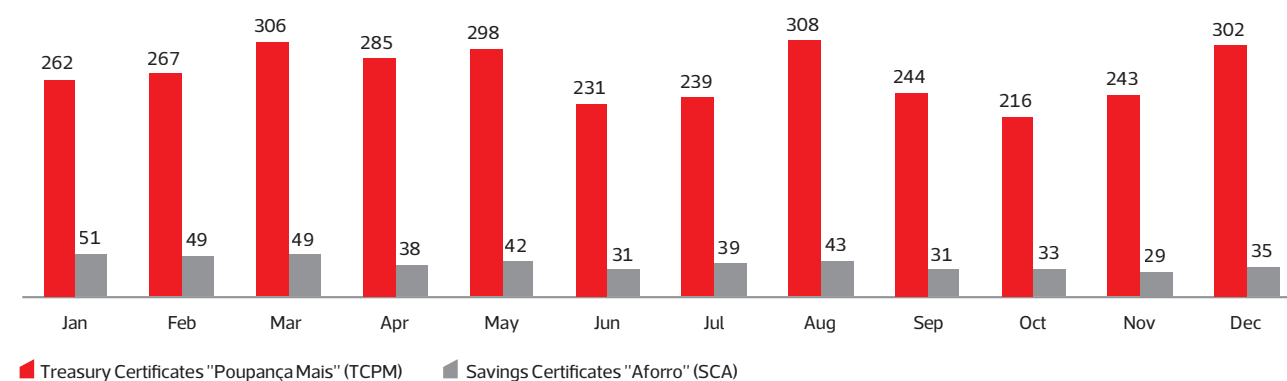
2.4. Financial Services

This business unit includes 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, in order to reach the largest possible number of users. The recurring revenues⁽²²⁾ of this business unit reached €70.8m in 2016, -6% than in 2015.

Savings placements reached 3.8 billion euros, the vast majority of which in the form of subscribed Public Debt Certificates, which made up nearly 97% of that amount, with the strong placement of Treasury Certificates *Poupança Mais* in particular, which continue to stand out as the main savings product in the domestic market, given their unique conditions of profitability and perceived risk. Throughout the period, CTT continued to sell capitalization insurance and retirement savings plans, in line with the diversification strategy that has been consistently pursued over the last years. The available offer of these products by our business partners was, however, very limited as a result of capital markets and interest rate conditions that hindered the creation of products appealing to consumers and profitable from the insurer's point of view.

Therefore, in 2016, revenues for the savings segment essentially originated from the placement of Public Debt Certificates.

Public Debt Placement – 2016 (million euros)



Source: CTT/IGCP

⁽²²⁾ Including internal services and intra-group transactions which are eliminated for consolidation purposes.

In the **payments** business, the year of 2016 was marked by the repositioning of the Payshop brand as CTT's unique payment brand, in order to streamline the message and service for the user. Payshop is the largest assisted on-site payment network in the country, with more than 6,500 points of payment including those found in CTT post offices, postal agencies and the 4,202 Payshop agents. Throughout 2016 and for the first time, Payshop surpassed the threshold of 4,000 agents.

Repositioning of the Payshop brand and expanding the network will form the basis for this business' transformation plan designed in 2016 and pending implementation in the 2017-2019 period. It will bring new services to clients, agents and users. The bet is on diversification, innovation and excellence of service leveraged on the potential of new technologies in the payment segment and maximising the value of the network of agents, for the latter and for users.

Despite the dip in revenues that was still felt in 2016, the payment business as a whole generated revenues greater than 23 million euros. On a positive note, we highlight:

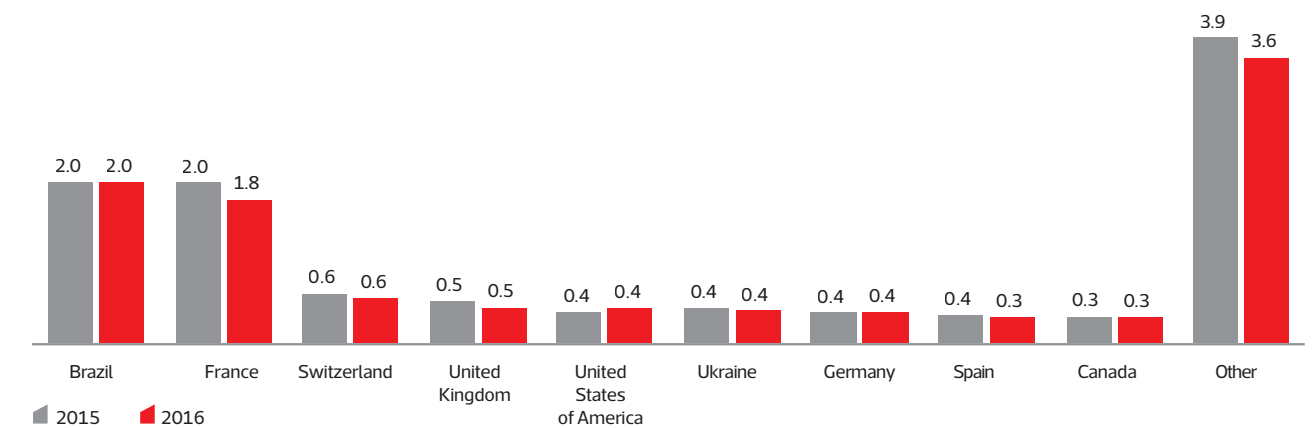
- the growth in integrated payment services that allow corporate clients to have all of their payment solutions concentrated in the same provider, thereby enabling the integrated management of collections from clients;

- the toll payment service, whose completely digital campaign over the Summer months resulted in the significant growth of this business, by taking advantage of the economy's upswing; and
- the turnaround trend in the sale of pre-paid products for online shopping in the last quarter of the year with the launch of the new *PaySafecard Direct* service and advertising campaigns for users and agents.

A project was developed to create a network of parcel pick-up and drop-off ("PuDo") for the Express business area, in order to add value to Payshop agents and improve capillarity and convenience to users of this business. A partnership was also established with Western Union to make the transfer service available in a number of agents, thereby boosting this offer within CTT.

The **money orders and transfers** business evolved in line with its main service, pension payments, which fell in 2016, due to a loss of clients by this service as a result of the aging pensioner population. The international transfers business, showed a lower transaction volume than in 2015 (-4.1%) with a fall in revenues due to a drop in prices in the Western Union network, in order to make the offer more competitive *vis-à-vis* the competition. Worthy of note is the gradual expansion of the international transfer service as of the end of 2016, in partnership with Western Union, to some postal agencies under a strategy aligned with the referenced Payshop strategy.

International Transfers – Main outbound corridors (million euros)



Source: CTT

2.5. Banco CTT

Banco CTT is born from the natural evolution of the financial services already rendered by CTT and brings with it a history and experience in excess of 500 years. It was launched to the market on 18 March 2016 with a proposal based on values such as trust, solidity, proximity, simplicity and innovation.

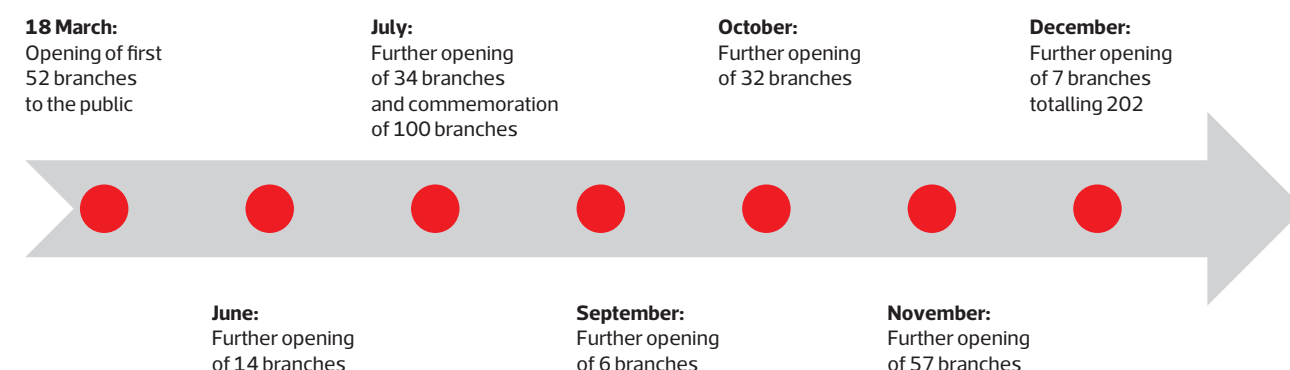
The recurring revenues⁽²³⁾ of this business unit reached €961.7 thousand in 2016, in which the focus was on attracting clients by opening accounts. The results obtained until now prove Banco CTT was a project the market was anxious for and is already a brand widely recognised by the Portuguese, associated to trust and solidity, in addition to proximity.

The year of 2016 marked the launch of Banco CTT's operations, with enormous challenges, namely the opening of branches at an unprecedented pace, attracting clients, developing and optimising processes, gradually reinforcing the offer of products and solutions to clients and focusing on quality dissemination of the Banco CTT brand and identity to the Portuguese public. These hurdles have been overcome, as shown by the revenues generated by the end of the year as compared to the main stipulated goals for the launch year.

After only 9 months, Banco CTT is present in the entire country with more than 200 branches open to the public and has earned the trust of 105 thousand clients, through the opening of 74 thousand current accounts. Those clients established a relationship of trust and proximity with the Bank, values that are the root of its activity, and that have driven its growth, of which we highlight the more than 250 million euros worth of deposits. This accelerated growth was only possible because Banco CTT was created based on CTT's strategic assets, in this case its Retail Network (post offices) and strong brand and also allowing it to be created with tight cost control.

Banco CTT provides its clients with excellent service and makes many account-related advantages available to them, as well as simple unique products and solutions that fit their profile and needs. The competitive offer made available by Banco CTT has caught the public's attention and contributed to the high level of recognition the Banco CTT brand has already gained.

The fourth quarter of 2016 marked the opening of more 96 Banco CTT branches, thereby reinforcing its presence to a total of 202 branches. It has, therefore, remained true to its roll-out plan and the year-end goal it had set for itself.



The last quarter of the year was also marked by the Bank's increased offer of credit solutions. Media coverage was given to "New Zero" (*Novo Zero*), "Fourth Zero" (*Quarto Zero*) and Banco CTT's annuity-free Credit Card, alongside other advantages, and more than 10 thousand of those cards have been placed. This product, in partnership with BNP Paribas Personal Finance, in addition to Consumer Credit and Car Loan products, reinforced the Bank's offer, which is in line with its ambition of increasingly addressing clients' needs with the best products and solutions.

In 2017, the Bank intends to continue to grow in terms of activity, clients, credit, branches and resources, while expanding its offer. It will do so by launching and preparing new products, namely by

competitively positioning itself in the mortgage loans segment, which will allow the Bank to increase and diversify its current client portfolio and increment cross-selling.

Digitalisation via user-friendly solutions that are both convenient and secure will be a priority, together with a strong physical presence in CTT's network of post offices, as the Bank continues to grow and gain client loyalty. A robust presence in the various channels (omnichannel) will allow client relationships to be carried out on various platforms according to the client's convenience or product specifications.

⁽²³⁾ Including internal services and intra-group transactions which are eliminated for consolidation purposes.





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Campanha Cashback
Receba 5% do valor das suas compras
Válido para compras superiores a 100€
Limite do cashback de 30€
Válido entre 01-01-03-03

Move-nos quem quer
zero euros na anuidade do cartão de crédito



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*The offer
is driving
us forward*

We're driven by a wide portfolio that operates in four main business areas: mail, advertising communication solutions, financial services, express & parcels. The opening of Banco CTT represents a crucial step in the process of complementing and expanding the financial services business offer.

Economic and Financial Review and CTT Share Performance

3.1. Banking and financing transactions

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 31 December 2016. This section should be read in conjunction with the consolidated financial statements and the accompanying notes, which have more detailed information. The present analysis includes the consolidation of the activities of the parent company and its subsidiaries as included in note 8 of the consolidated financial statements, and an analysis excluding the consolidation of Banco CTT by CTT, where Banco was treated as a financial investment (merely to facilitate the analysis of the impact of Banco CTT on CTT accounts).

During 2016, it is important to highlight the following aspects for a better understanding of the company accounts:

- Banco CTT opened up to the public on 18 March 2016, currently having 201 CTT branches in post offices and a head branch. During this period over 74 thousand accounts were opened for 105 thousand clients, having been captured over €253.9m in deposits. The share capital in December was €85m.
- The company recognised revenues of €9.6m regarding the memorandum of understanding with Altice (€3.2m in the mail segment, €3.2m in the Financial Services segment and €3.2m in the Express & Parcels segment).
- The long-term lease agreement for a vacant building (Conde Redondo) was terminated, generating an effect on EBITDA of +€1.7m.
- Total reversal of the provision for onerous contracts (€6.5m):
 - €2.9m concerning the termination of the long-term lease agreement for a vacant building (Conde Redondo);
 - €3.4m for Casal Ribeiro and Restauradores buildings. Following the restructuring of the CTT Retail network and the new sub-lease agreements, the profitability of these spaces began to exceed the amount of rents paid under the lease agreements in force, thus no longer being considered as onerous contracts.
- As part of the networks integration process in Portugal, CTT Expresso sold, on March 2016, to CTT, S.A. 100% of its share in the subsidiary Tourline. This transaction had no impact on the consolidated accounts.

- The improvements made in the direct allocation method (VAT deduction) had a positive impact of €4.0m in other operating revenues (€3.0m in the Mail segment and €1.0m in the Financial Services segment).
- Staff costs include €4.0m regarding the optimisation programme in CTT, S.A..
- The other long-term employee benefits liabilities decreased by €4.3m, of which should be highlighted the reduction of €2.4m in the benefit “Telephone subscription fee”, as a result of the historical analysis of the average costs per beneficiary and the number of beneficiaries.
- Reversal of labour provisions (€7.0m):
 - €4.9m in CTT, S.A., as a result of the calculation method review, concerning the retributive differences that could be claimed by workers, incorporating more historical data, namely information regarding the outcome of legal proceedings;
 - €2.1m in CTTEpresso concerning the lawsuits following the extinction of the assiduity premium, having the probability of its occurrence been reviewed due to the favourable outcome for CTT in court. Accordingly, the entire provision has been cancelled.
- The post-employment benefits / healthcare liabilities increased by €12.3m, due to the reduction of the discount rate from 2.5% to 2%, and the implementation of the healthcare plan in the scope of the optimisation programme, partially offset by the medical expenses decrease.

In the full year 2016, CTT achieved a consolidated net profit of €62.2m, -13.7% (-€9.9m) than that of the previous year, corresponding to a consolidated net profit per share of €0.42, compared to €0.48 in 2015.

For this fall it is important to consider that Banco CTT project impacted the 2016 result by -€23.3m, when it had only had an impact of -€8.8m in the same period of the previous year. Therefore, excluding the Banco CTT project, the consolidated net profit of CTT would have been €85.5m, corresponding to a growth of €4.5m (+5.6%) in relation to the full year 2015.

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, depreciation and amortisation (recurring EBITDA) of €119.5m, -17.0% (-€24.5m) than those obtained in the same period of the previous year, with an EBITDA margin of 17.2% compared to 19.8% in 2015.

These results reflect a decrease of 4.4% (–€32.1m) in the recurring revenues, resulting mainly from the fall in revenues registered on the Mail and Express & Parcels segments, amount that was not offset by the decrease of 1.3% (–€7.6m) in recurring operating costs (excluding impairments, provisions, depreciation/ amortisation and non-recurring costs). The cost reduction was less due to the costs already incurred with Banco CTT.

The recurring EBITDA of 2016, excluding the recurring expenses incurred with Banco CTT and the expenses at CTT, S.A. associated with Banco CTT, amounted to €139.6m, –€9.6m (–6.3%) regarding the same period of the previous year also excluding Banco CTT costs.

In 2016 the non-recurring results affecting CTT results were –€3.8m. This amount results mainly from costs associated with studies and strategic projects, especially those related to the launch of Banco CTT, the early termination of the long-term lease contract of Conde Redondo building, the onerous contracts provision reversal and the review of the labour contingencies provision, as well as the continuation of the initiatives on structural matters, namely the human resource optimisation programme and the compensations resulting from the 2015 Company Agreement.

The reported earnings before interest and taxes reached €90.9m, €19.0m (–17.3%) below those recorded in 2015. Excluding the effect of Banco CTT this result would have reached €120.5m, i.e. a decrease of €1.1m (–0.9%) regarding the same period of the previous year, also excluding Banco CTT.

The financial results amounted to –€5.6m, 5.9% (–€0.3m) below those of the same period of the previous year. Financial costs incurred reached €6.5m, resulting mainly from financial costs with employee benefits, which represented 96.7% of the total. Interest income decreased by 54.7% (–€0.8m) vs 2015, as it was affected by the decline in the rates of return on term deposits, by the reduction of liquidity levels resulting from the investment in Banco CTT and by CTT maintaining a very conservative liquidity management policy.

Earnings before taxes and non-controlling interests (EBT) reached €85.2m, 18.5% lower (–€19.4m) than in 2015. Excluding the effect of Banco CTT, this result would have been €114.8m, representing a decrease of 1.2% (–€1.4m) compared to the same period of the previous year, also excluding Banco CTT.

In the full year 2016 the effective income tax rate was 27.39%, vs 31.11% in 2015, mainly from the reduction of €8.3m in the current tax, as a result of different balance sheet optimisation initiatives carried out throughout 2016.

Consolidated income statement

Thousand Euros	2016	2015	Δ% 16/15	2016 Excluding Banco CTT project*	2015 Excluding Banco CTT project*	Δ% 16/15
Revenues	695,060	727,180	-4.4	693,805	727,178	-4.6
Sales and services rendered	669,669	705,169	-5.0	669,646	705,169	-5.0
Sales	20,082	23,807	-15.6	20,082	23,807	-15.6
Services rendered	649,586	681,361	-4.7	649,564	681,361	-4.7
Financial margin	26	-	n.a.	0	-	n.a.
Other operating income	25,365	22,011	15.2	24,159	22,009	9.8
Operating costs excluding impairments, provisions, depreciation/amortisation and non-recurring costs	575,561	583,205	-1.3	554,239	578,157	-4.1
Cost of sales	13,904	16,316	-14.8	13,904	16,316	-14.8
External supplies and services	223,258	224,687	-0.6	211,372	221,973	-4.8
Staff costs	328,394	331,738	-1.0	319,296	329,485	-3.1
Other operating costs	10,005	10,463	-4.4	9,667	10,381	-6.9
Earnings before depreciation/amortisation, impairments and provisions, non-recurring results, interest and taxes (recurring EBITDA)	119,499	143,975	-17.0	139,566	149,021	-6.3
Impairment of accounts receivable, net	549	(233)	-335.6	549	(233)	-335.6
Provisions, net	1,251	(240)	-621.3	1,272	(240)	-630.0
Impairment of other financial banking assets	-	-	n.a.	-	-	n.a.
Impairment of non-depreciable assets	-	0	n.a.	-	0	n.a.
Depreciation/amortisation and impairment of investments, net	(26,611)	(23,740)	12.1	(24,862)	(23,570)	5.5
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	94,687	119,762	-20.9	116,525	124,979	-6.8
Company restructuring	(10,588)	(1,562)	577.8	(10,588)	(1,562)	577.8
Costs associated to studies and advice services for strategic projects	(9,676)	(8,397)	15.2	(1,934)	(1,987)	-2.7
Other non-recurring income and costs	16,459	130	12,560.8	16,459	130	12,560.8
Earnings before interest and taxes	90,883	109,932	-17.3	120,463	121,559	-0.9
Financial results, net	(5,869)	(5,376)	-9.2	(5,869)	(5,394)	-8.8
Gains/losses in associated companies	230	54	325.9	230	54	325.9
Earnings before taxes (EBT)	85,245	104,610	-18.5	114,825	116,219	-1.2
Income tax for the period	(23,348)	(32,539)	-28.2	(29,625)	(35,301)	-16.1
Net profit before non-controlling interests	61,897	72,071	-14.1	85,199	80,919	5.3
Non-controlling interests	(263)	5	5,360.0	(263)	5	5,360.0
Net profit for the period attributable to equity holders	62,160	72,065	-13.7%	85,463	80,913	5.6

Note: Revenues exclude non-recurring values.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in CTT, S.A..

3.1.1. Revenues

Thousand Euros	2016	2015	Δ% 16/15	2016 Excluding Banco CTT project*	2015 Excluding Banco CTT project*	Δ% 16/15
Sales and services rendered	669,669	705,169	-5.0	669,646	705,169	-5.0
Sales	20,082	23,807	-15.6	20,082	23,807	-15.6
Services rendered	649,586	681,361	-4.7	649,564	681,361	-4.7
Financial margin	26	0	n.a.	0	0	n.a.
Other operating income	25,365	22,011	15.2	24,159	22,009	9.8
Revenues	695,060	727,180	-4.4	693,805	727,178	-4.6

Note: Revenues exclude non-recurring items.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in CTT, S.A..

The business of CTT is organised in the following segments:

- Mail – CTT, S.A. excluding Financial Services, but including the retail network, business solutions, corporate and support areas, CTTContacto, Mailtec Comunicação and Escrita Inteligente, S.A.;
- Express & Parcels – includes CTT Expresso, Tourline and CORRE;
- Financial Services – PayShop and CTT, S.A. Financial Services; and
- Banco CTT – Banco CTT, S.A..

2016 – Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Revenues
Sales and services rendered	490,838	115,956	65,944	-	11	(3,081)	669,669
Sales	19,248	838	-	-	-	(3)	20,082
Services rendered	471,590	115,119	65,944	-	11	(3,078)	649,586
Financial Margin	-	-	-	26	-	-	26
Other operating revenues	42,713	4,854	4,817	936	55,986	(83,940)	25,365
Allocation to CTT central structure	-	-	-	-	44,104	(44,104)	-
Revenues	533,551	120,810	70,761	962	100,101	(131,125)	695,060

Note: Revenues exclude non-recurring items.

2015 – Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Revenues
Sales and services rendered	511,167	127,014	70,854	-	-	(3,867)	705,169
Sales	22,893	916	-	-	-	(1)	23,807
Services rendered	488,274	126,098	70,854	-	-	(3,865)	681,361
Other operating revenues	43,470	4,242	4,460	2	72,595	(102,759)	22,011
Allocation to CTT central structure	-	-	-	-	36,000	(36,000)	-
Revenues	554,637	131,256	75,315	2	108,595	(142,625)	727,180

Note: Revenues exclude non-recurring items.

The **Mail segment**, which includes the postal service revenues of CTT, including USO (Universal Service Obligation), represents the greatest weight in terms of revenues, amounting to €533.6m, with a decrease of 3.8% (–€21.1m) in comparison to the previous year.

Services rendered decreased by €16.7m (–3.4%) as a result of the decrease of €14.7m (–3.2%) in addressed mail affected by the 4.2% fall in volumes, despite the 1.1% average increase in the prices of the USO services in 2016. This evolution was also penalized by the fall in the mail with higher added value, i.e. registered mail (–8.8%).

Sales decreased by €3.6m (–15.9%), mainly due to the decrease in retail products – merchandising by –€1.2m (–21.6%) and lottery by –€1.9m (–24.2%) – but also in philatelic products by –€0.6m (–7.2%).

Conversely, foreign operators increased by €2.8m (+15.2%). This growth is concentrated in the terminal dues (remuneration for the distribution in Portugal of mail originating abroad), mainly due to the growth in volumes originating in Asian countries, with particular emphasis on China, which grew by 38% (+189 tonnes of incoming mail), severely influenced by e-commerce. It should be noted that small items coming mainly from e-commerce are treated as inbound mail, under international agreements between postal operators, and do not belong to the express and parcel business.

The other operating revenues of the Mail segment decreased by €0.8m (–1.7%), mainly caused by the reduction of €0.7m (–5.6%) in internal services provided by the Retail Network to other segments. There are also some favourable and unfavourable changes in 2016 vs 2015:

- –€0.6m from revenues resulting from the improvements made in the direct allocation method (VAT deduction), allowing a lower VAT cost;
- –€1.1m (–68.0%) in the exchange rate differences of SDR (*Special Drawing Rights*) reflecting a reduction of the exchange rate (*appreciation of SDR vs euro*) in 2016 (–0.2% vs December 2015), which contrasts with the devaluation of SDR (*growth in exchange rate*) registered in the same period of 2015 (+6.7% vs December 2014). This situation also impacts the decrease of other costs.
- +€1.4m in earnings resulting from the memorandum of understanding with Altice⁽²⁴⁾.

The **Express & Parcels segment**, with €120.8m of revenues, posted a decrease of 8.0% (–€10.4m) in comparison to the same period of the previous year.

The revenues in Spain decreased by €6.1m (–12.5%) with a volume reduction of 12.3% as a result of the strategy implemented in the first quarter of the year and in Portugal the decrease was €4.3m (–5.7%) despite the 1.1% growth in volume.

Mozambique recorded a decrease of €0.6m (–29.6%) in revenues, due to the evolution of the exchange rate, which in MZN translates into an increase in revenues of 11.6%, +11.4 MZN million, mainly due to the banking business growth and the price increase.

Additionally, it is important to mention the €1.4m positive impact on revenues of the memorandum of understanding with Altice in comparison to the same period of the previous year.

The **Financial Services segment**, with €70.8m of revenues, registered a 6.0% (–€4.6m) decrease in contrast to 2015. Services rendered decreased by €4.9m (–6.9%) influenced by the decreases in insurance products (–€2.3m; –48.6%), in invoice and tax collection (–€2.9m; –22.0%) and in mobile phone top-ups (–€1.0m; –21.8%).

Conversely, there was a growth of €1.7m (+6.3%) in public debt treasury certificates commission income and the integrated payment solutions business grew by €1.2m (+123.3%).

Other operating income increased by €0.4m (+8.0%), justified by the recognised earnings resulting from the memorandum of understanding with Altice of +€1.4m compared to the same period of last year, which was partially offset by the decrease of €0.7m from the improvements made in the direct allocation method of VAT deduction.

Banco CTT reached revenues of €1.0m, of which €0.5m concern transactions processing and services provided through different means of payment which are available for customers and €0.2m are related to commissions received from the collection of personal credit agreements and credit cards in Banco branches.

In **CTT Central Structure** there was a decline of €16.6m (–22.9%) in other operating revenues, due to the decrease of €12.5m in internal services provided by human resources services and of €2.4m in IT systems, due to the optimisation carried out during recent years.

3.1.2. Operating Costs⁽²⁵⁾

Thousand Euros	2016	2015	Δ% 16/15	2016 Excluding Banco CTT project*	2015 Excluding Banco CTT project*	Δ% 16/15
Cost of sales	13,904	16,316	–14.8	13,904	16,316	–14.8
External supplies and services	223,258	224,687	–0.6	211,372	221,973	–4.8
Staff costs	328,394	331,738	–1.0	319,296	329,485	–3.1
Other operating costs	10,005	10,463	–4.4	9,667	10,381	–6.9
Operating costs	575,561	583,205	–1.3	554,239	578,157	–4.1

Note: Excluding non-recurring items.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in CTT, S.A..

⁽²⁴⁾ The memorandum of understanding with Altice affected three segments (Mail, Express & Parcels and Financial Services).

⁽²⁵⁾ Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

The recurring operating costs amounted to €575.6m, -1.3% (-€7.6m) in comparison to the last year, despite the €21.3m recurring costs from Banco CTT and with the project to set up Banco CTT in the retail network recorded in CTT, S.A., especially:

- a) The recurring **cost of sales** decreased by 14.8% (-€2.4m) following the sales evolution, namely in what concerns lottery and merchandising products.
- b) The recurring **external supplies and services** costs decreased by 0.6% (-€1.4m) when compared to the same period of 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, allowed to absorb the recurring external supplies and services of Banco CTT which amounted to €11.8m (+€9.5m than in 2015).
- c) The recurring **staff costs** reached €328.4m, decreasing €3.3m (-1.0%) when compared to the same period of the previous year, mainly due to the following reductions:
 - (i) -€8.6m resulting from the remuneration policy, emphasising the variable component, as profit sharing;

- (ii) -€2.4m in the “telephone subscription fee” benefit resulting from the analysis of the historical average monthly costs per beneficiary as well as the number of associated beneficiaries associated with this benefit;
- (iii) -€2.9m in staff costs of Tourline, as a result of the restructuring measures implemented in 2015.

To be noticed is also the effect of the 2015 Company Agreement review, which began to have positive impacts in the second half of 2016, due to the cancellation of some supplements.

These favourable changes were partly absorbed by the increase of Banco CTT staff costs (+€7.4m), by the extension of the coverage of work accidents insurance of “*Caixa Geral de Aposentações*” workers (+€1.3m) and by an increase of €1.4m in sales incentives, particularly in financial services.

- d) The other costs decreased €0.5m (-4.4%). The reduction of €1.3m (-65.5%) in the SDR exchange rate differences, has been absorbed by the +€1.0m of banking services expenses.

The operating costs by segment are as follows:

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: excludes non-recurring items.

2015 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Operating Costs
External supplies and services	103,439	99,995	11,087	2,359	41,262	(33,454)	224,687
Staff costs	239,164	24,666	3,497	2,252	62,159	-	331,738
Other costs	73,610	2,573	18,515	78	5,175	(73,171)	26,780
Allocation to CTT central structure	35,718	-	282	-	-	(36,000)	-
Operating costs	451,931	127,233	33,381	4,689	108,595	(142,625)	583,205

Note: Excluding non-recurring items.

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

In the full year 2016 the Mail segment booked €435.7m of recurring operating costs, a reduction of €16.2m (-3.6%) relative to the previous year, mainly from the decrease in internal services provided by human resources (-€12.2m) and night work (-€1.4m), information systems (-€2.4m), in exchange rate differences (-€1.4m) and maintenance and repair expenses with vehicles, buildings and IT (-€2.6m).

The **Express & Parcels segment** recorded a decrease of €11.1m (-8.7%) in recurring operating costs, of which it is worth mentioning the reduction in Spain of Tourline’s staff, transport and delivery costs as a result of the restructuring measures and, in Portugal, the decline in the EMS delivery subcontracting costs due to the ongoing process of the network integration and optimisation.

The **Financial Services segment** reported a decrease of €0.5m (-1.4%) in recurring operating costs, mainly due to the increase of €1.0m in sales incentives and the reduction of internal services by €1.1m, essentially those provided by the Retail Network, due to the significant fall in the segments of money orders and payments.

Banco CTT posted €21.8m of recurring costs in 2016, namely staff costs (€9.6m) and external supplies and services costs (€11.8m), the latter mainly in IT and transactionality costs (interbank commissions for transaction services rendered to clients).

The **Central Structure** shows a favourable variance of €8.5m (-7.8%), to which contributed the decrease in staff costs by €8.3m (-13.3%), resulting from the remuneration policy and from the adjustment to the “telephone subscription fee” employee benefit.

3.1.3. Recurring EBITDA

The recurring EBITDA⁽²⁶⁾ amounted to €119.5m, 17.0% (-€24.5m) lower than the 2015 value, as a result of the revenue decline (-4.4%) that exceeded the decline in operating recurring costs (-1.3%), largely justified by the ramp-up period of Banco CTT which represented an increase over 2015.

The recurring EBITDA in 2016, excluding the recurring revenues and expenses with Banco CTT project (both in Banco CTT and CTT, S.A.) amounted to €139.6m, -€9.5m (-6.3%) in comparison to the same adjusted period of the previous year, excluding Banco CTT costs. Without considering the impact of Banco CTT, the company was able to almost achieve a reduction of expenses (-4.1%), comparable to the reduction in revenues (-4.6%).

Thousand Euros	2016	2015	Δ% 16/15	2016 Excluding Banco CTT project*	2015 Excluding Banco CTT project*	Δ% 16/15
Recurring revenues	695,060	727,180	-4.4	693,805	727,178	-4.6
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	575,561	583,205	-1.3	554,239	578,157	-4.1
Recurring EBITDA	119,499	143,975	-17.0	139,566	149,021	-6.3
Recurring EBITDA margin	17.2%	19.8%	-2.6 p.p.	20.1%	20.5%	-0.4 p.p.

* Excluding Banco CTT business unit revenues/costs and Banco CTT project revenues/costs booked in CTT, S.A..

⁽²⁶⁾ Recurring EBITDA = Operating results + amortisation and depreciation + net change of provisions and impairment losses (does not include non-recurring revenues and expenses, such as company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies).

2016 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT
Revenues	533,551	120,810	70,761	962
Operating costs	435,726	116,171	32,900	21,788
Recurring EBITDA	97,825	4,639	37,861	(20,826)
Recurring EBITDA margin	18.3%	3.8%	53.5%	n.a.

2015 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT
Revenues	554,637	131,256	75,315	2
Operating costs	451,931	127,233	33,381	4,689
Recurring EBITDA	102,706	4,023	41,934	(4,688)
Recurring EBITDA margin	18.5%	3.1%	55.7%	n.a.

3.1.4. Non-recurring results

In the full year 2016, CTT recorded negative non-recurring results of €3.8m, which include:

(i) Other operating income:

- +€1.8m, of which €1.7m regarding the recognition of deferred gains related to Conde Redondo building lease contract early termination.

(ii) External supplies and services:

- €8.8m of costs associated with studies and strategic projects especially those related to the launch of Banco CTT (-€6.8m) and also with the management information improvement plan (-€0.3m) and other consulting matters (-€1.6m).

(iii) Staff costs:

- €8.4m of staff costs in the scope of the transformation programme, including: -€2.8m concerning compensations following the 2015 Company Agreement; -€0.7m related to the termination of employment contracts by mutual agreement; -€0.9m of indemnities for Suspension Agreements (net of the reversal of their liability) and €4.0m related to the human resources optimisation programme in CTT, S.A. implemented in the fourth quarter of the year.

- €1.6m net of the reduction of the discount rate in other post-retirement employee benefits, the decrease of medical expenses and the implementation of the healthcare plan in the scope of the optimisation programme.

(iv) Other costs:

- €0.4m, of which -€0.01m are related to Banco CTT project and -€0.4m refer to the protocol signed with "Nova School of Business and Economics" university.

(v) Net depreciations/amortisations, impairments and provisions, with a net reversal of increased values by €13.6m, related to:

- €0.9m in depreciations/amortisations regarding the Banco CTT project and impairment of investments.
- €0.6m of net impairments increase recorded in the scope of the Express & Parcels segment optimisation, due to the restructuring of the Tourline network.
- +€15.1m in reversals of provisions, of which +€6.5m concerning the reversal of the provision for onerous contracts and +€8.6m of net reversal from labour provisions (€6.5m in CTT, S.A. and €2.1m in CTT Expresso).

2016 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	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)

2015 - Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	-	-	-	-
External supplies and services	-	140	3,703	2,707	1,847	-	-	8,397
Staff Costs	2,811	2,131	58	-	(4,965)	-	-	35
Other costs	-	973	-	-	-	-	-	973
Non-recurring results that affect EBITDA	(2,811)	(3,244)	(3,761)	(2,707)	3,118	-	-	(9,405)
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	-	(167)	(167)
Impairment of accounts receivable, net	-	1,237	-	-	(59)	-	-	1,177
Impairment of non-depreciable assets	-	(623)	-	-	-	-	-	(623)
Provisions net	-	223	-	-	(185)	-	-	38
Non-recurring results that affect EBIT	(2,811)	(4,080)	(3,761)	(2,707)	3,362	-	167	(9,830)

3.1.5. Financial results

The consolidated financial results reached a negative amount of €5.6m, representing a decrease of 5.9% (-€0.3m) in relation to 2015.

The interest income and financial revenues decreased by 54.7% (-€0.8m) when compared to the same period of the previous year, directly influenced by the decline in interest rates offered on term deposits, by the reduction of liquidity levels resulting from the investment in Banco CTT and by the maintenance of a very conservative policy regarding liquidity applications by CTT.

Interest expenses incurred reached €6.5m, which include mainly financial costs associated with employee benefits in the amount of €6.3m and also, but of less relevance, interest related to financial leases and bank loans (€0.2m).

Financial results

Thousand Euros	2016	2015	Δ% 16/15
Interest income	672	1,485	-54.7
Interest expenses	(6,540)	(6,861)	-4.7
Interest expenses (financial)	(217)	(137)	58.4
Interest costs with employee benefits (accounting)	(6,323)	(6,724)	-6.0
Gains/losses in associated companies	230	54	325.9
Financial results	(5,638)	(5,322)	-5.9

3.1.6. Net profit and profitability and Gross Added Value

In 2016 CTT achieved a consolidated net profit attributable to equity holders of €62.2m, 13.7% lower than the one obtained in the same period of last year, corresponding to consolidated

earnings of €0.42 per share and a net margin of 8.9% (9.9% in 2015). If the non-recurring effects in both years were excluded, the net profit would have decreased by 21.6%.

The reported and recurring consolidated income statement for the full years 2016 and 2015 is summarised below:

Thousand Euros	Reported			Recurring*		
	2016	2015	Δ% 16/15	2016	2015	Δ% 16/15
Revenues	696,822	727,180	-4.2	695,060	727,180	-4.4
Operating costs	594,769	592,610	0.4	575,561	583,205	-1.3
EBITDA	102,053	134,570	-24.2	119,499	143,975	-17.0
EBITDA margin	14.6%	18.5%	-4.0 p.p.	17.2%	19.8%	-2.6 p.p.
EBIT	90,883	109,932	-17.3	94,687	119,762	-20.9
EBIT margin	13.0%	15.1%	-2.1 p.p.	13.6%	16.5%	-2.8 p.p.
Earnings Before taxes	85,245	104,610	-18.5	89,049	114,440	-22.2
Income tax for the period	23,348	32,539	-28.2	25,375	32,865	-22.8
Non-controlling interests	(263)	5	5,360.0	(263)	5	5,360.0
Net profit for the period	62,160	72,065	-13.7	63,938	81,570	-0.2

Note: operating costs = cost of sales + external supplies and services + staff costs + other operating costs.

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

Return on Equity (ROE) decreased by 3.1 p.p., from 28.8% in 2015 to 25.6% in 2016, as a result of the reduction in net profit of 13.7%.

The Return on Invested Capital (ROIC) of 13.0% and the Return on Capital Employed (ROCE) of 18.1% decreased by 8.3 p.p. and 2.1 p.p., respectively, in relation to 2015, primarily due to the 17.3% decrease in earnings before interest and taxes, severely influenced by the ramp-up of Banco CTT.

Returns on Capital

	2016	2015	Δ% 16/15
Return on Equity (ROE) ⁽¹⁾	25.6%	28.8%	-3.1 p.p.
Return on Invested Capital (ROIC) ⁽²⁾	13.0%	21.3%	-8.3 p.p.
Return on Capital Employed (ROCE) ⁽³⁾	18.1%	20.2%	-2.1 p.p.

⁽¹⁾ Net profit/average Equity
Average Equity = (EQ year n + EQ year n-1)/2

⁽²⁾ Earnings before financial income and taxes/(Net assets-Cash)

⁽³⁾ Earnings before financial income and taxes (Net assets-ST Liabilities)

The gross added value amounted to €419.8m corresponding to a GAV/average number of employees of about of 33.9 thousand euros, 4.6% lower than that of the previous year, due

to the reduction of the net profit and income tax for the period. This indicator highlights the effort to optimise operations and maximise the productivity of resources.

Gross Added Value (GAV)

	2016	2015	Δ% 16/15
GAV - € thousand	419,771	441,719	-5.0
Average Staff	12,401	12,445	-0.4
GAV/Average Staff (euros)	33,850	35,494	-4.6

3.1.7. Capex

Capex amounted to €42.2m, 30.4% (+€9.8m) above the one in the same period of last year, mainly due to the launch of Banco CTT (€19.0m) specifically in IT systems and, in CTT, the renovation work in order to adapt the post offices for implementation of Banco CTT, in 202 post offices.

3.1.8. Financial position and Cash flow

Consolidated statement of financial position

Thousand Euros	31.12.2016	31.12.2015	Δ% 16/15
Non-current assets	452,618	354,906	27,5
Current assets	864,080	764,566	13,0
Total assets	1,316,697	1,119,472	17,6
Equity	233,327	251,835	-7,3
Total liabilities	1,083,370	867,637	24,9
Non-current liabilities	269,533	292,668	-7,9
Current liabilities	813,837	574,970	41,5
Total equity and liabilities	1,316,697	1,119,472	17,6

Total assets recorded an increase of €197.2m (+17.6%) vs 31.12.2015, including €167.7m of financial assets held by Banco CTT, as follows:

- €101.5m concerning investments held to maturity and financial assets available for sale, of which 79.2% refer to public debt securities;
- €59.1m of other banking financial assets, mainly investments in credit institutions and the interbank market; and
- €7.1m of credit to bank clients, factoring operations.

Total assets also include the increase in cash and cash equivalents by €15.2m and the increase in other current assets by €7.1m.

Equity decreased by €18.5m (-7.3%) in relation to 31 December 2015, as a result of a €9.9m decrease in net profit and €8.5m in other changes in equity, due to a negative net actuarial gains/losses associated with post-employment benefits (-€11.8M) and the corresponding deferred taxes (+€3.3m), essentially due to the reduction of the discount rate.

Additionally, the purchase of own shares (400,354 shares) for the amount of €3.2m took place in 2016, totalling €5.1m (600,531 shares).

The liabilities increased by €215.7m (+24.9%), with the following main changes:

- Deposits from Banco CTT clients of €253.9m;
- Increase in short-term debt of €2.6m, mainly due to the funding obtained by Tourline via cash pooling;
- Decrease of €9.6m in current deferrals, reflecting the amount booked in the 2016 results concerning the agreement with Altice;
- Reduction of €4.7m in non-current deferrals, of which €1.7m refer to the recognition of deferred capital gains of Conde de Redondo building lease contract early termination; and

- Reduction of €26.6m in provisions, of which €9.0m refer to the early termination of the Conde de Redondo building lease contract, €4.4m concerning Casal Ribeiro and Restauradores buildings and €7.0m related to labour provisions.

The employee benefits liabilities in 2016 amounted to €272.3m, an increase of 3.6% when compared to December 2015, largely related to the reduction of the discount rate of these liabilities from 2.5% to 2.0%, which will have a positive impact on financial results in 2017.

Liabilities with post-retirement employee benefits

Thousand Euros	31.12.2016	31.12.2015	Δ% 16/15
Liabilities	272,317	262,832	3.6
Healthcare	249,110	236,806	5.2
Staff (suspension agreements)	5,495	8,234	-33.3
Other benefits	13,231	14,805	-10.6
Share plan	4,481	2,987	50.0

3.1.9. Cash flow

The net change in cash and cash equivalents amounted to +€15.2m, which is mainly the result of:

- +€225.8m in Banco CTT cash flow;
- +€43.6m in cash flows from operating activities (excluding financial services and Banco CTT flows);

- €29.5m in payments concerning investments in tangible fixed assets and intangible assets;
- €164.8m in Banco CTT financial assets (includes available-for-sale financial assets, held-to-maturity investments and investments in credit institutions held by Banco CTT);

- €70.3m in payment of dividends.

Excluding the changes in the financial services receivables/payables (-€1.1m), the CTT change in cash would be +€16.3m.

Cash Flow

Thousand Euros	Reported			Adjusted*		
	2016	2015	Δ% 16/15	2016	2015	Δ% 16/15
Cash flow from operating activities	268,217	32,832	716.9	269,363	93,860	187.0
Cash flow CTT excluding FS and Banco CTT				43,598	97,054	-55.1
Banco CTT cash flow				225,764	(3,193)	7,170.6
Cash flow from investment activities	(185,602)	(25,539)	-626.7	(185,602)	(25,539)	-626.7
Capex	(29,514)	(28,362)	-4.1	(29,514)	(28,362)	-4.1
of which Banco CTT				(9,977)	(9,904)	-0.7
Banco CTT financial assets**	(164,767)	-	n.a.	(164,767)	-	n.a.
Other	8,679	2,823	207.4	8,679	2,823	207.4
Operating free cash flow	82,616	7,294	1,032.7	83,761	68,322	22.6
Cash flow from financing activities	(72,420)	(68,230)	-6.1	(72,420)	(68,230)	-6.1
of which dividends	(70,265)	(69,750)	-0.7	(70,265)	(69,750)	-0.7
Change in consolidation perimeter	4,966	17	29,111.8	4,966	17	29,111.8
Net change in cash and cash equivalents	15,161	(60,920)	124.9	16,306	108	14,998.1

* Cash flow from operating activities excluding changes in financial services receivables/payables.

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

3.1.10. Financing

Financing is mainly related to financial leasing operations concerning operating facilities and the acquisition of basic equipment, a non-current bank loan in Corre in order to fund operating activities and the cash pooling system used within CTT scope, particularly by Tourline in Spain.

Net debt amounted to €90.3m in 2016, after net financial debt and net liabilities with employee benefits.

Net debt

Thousand Euros	31.12.2016	31.12.2015	Δ% 16/15
Financial debt	9,807	8,114	20.9
Bank loans and other loans	8,813	6,123	43.9
Financial leasings	994	1,990	-50.1
Net cash	295,306	278,999	5.8
Net financial debt	(285,499)	(270,885)	5.4
Liabilities with employee benefits *	272,317	262,832	3.6
Deferred tax assets related to employee benefits	(77,093)	(74,537)	3.4
Net debt (incl. Liabilities with employee benefits)	(90,275)	(82,590)	9.3

* Includes share plan recorded in equity.

Net cash

Thousand Euros	31.12.2016	31.12.2015	Δ% 16/15
Net cash			
(+) Cash and cash equivalents	618,811	603,650	2.5
(-) Net Financial Services payables	(323,506)	(324,651)	-0.4
Net cash	295,306	278,999	5.8

3.1.11. Financial indicators

Financial indicators

	31.12.2016	31.12.2015	Δ% 16/15
Current liquidity ratio ⁽¹⁾	106.2%	133.0%	-26.8 p.p.
Solvency ratio ⁽²⁾	21.5%	29.0%	-7.5 p.p.
Adjusted solvency ratio ⁽³⁾	30.7%	46.4%	-15.7 p.p.
Net debt (Cm)	(90,275)	(82,590)	9.3
Net debt/EBITDA ⁽⁴⁾	-0.8 x	-0.6 x	0.2 x
Tangible fixed asset coverage ⁽⁵⁾	230.4%	237.0%	-6.6 p.p.
Dividend/Net profit ⁽⁶⁾	115.8%	97.8%	18.0 p.p.
Dividend/ Adjusted operating free cash flows ⁽⁶⁾	86.0%	103.2%	-17.2 p.p.

⁽¹⁾ Current assets/Current liabilities

⁽²⁾ Equity/Total liabilities

⁽³⁾ Equity/(Total liabilities - net Financial Services payables)

⁽⁴⁾ If negative indicates positive net cash situation

⁽⁵⁾ (Non-current liabilities+Equity)/Tangible fixed assets (includes investment properties)

⁽⁶⁾ €72.0m dividends in 2016 and €70.5m dividends in 2015.

3.1.12. Impact of Banco CTT results on the consolidated results

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

Consolidated income statement

Thousand Euros	2016	2015	Δ% 16/15
Revenues	696,470	727,366	0.0
Operating costs	(578,582)	(609,902)	-0.1
Earnings before financial income and taxes	117,887	117,464	0.0
Financial results	(27,077)	(11,261)	1.4
Gains/losses in associated companies	(21,208)	(5,866)	2.6
Earnings before taxes	90,811	106,203	-0.1
Income tax for the period	(28,914)	(34,133)	-0.2
Net profit for the period	61,897	72,071	-0.1
Non-controlling interests	(263)	5	-50.2
Net profit for the period attributable to equity holders	62,160	72,065	-0.1
EBITDA	127,495	141,965	-0.1

Consolidated statement of financial position

Thousand Euros	31.12.2016	31.12.2015	Δ% 16/15
Non-current assets	393,226	373,202	5.4
Current assets	669,901	744,944	-10.1
Total assets	1,063,127	1,118,147	-4.9
Equity	233,327	251,835	-7.3
Total liabilities	829,800	866,312	-4.2
Non-current liabilities	269,512	292,668	-7.9
Current liabilities	560,288	573,644	-2.3
Total equity and liabilities	1,063,127	1,118,147	-4.9

Impact of the exclusion of Banco CTT from the consolidation perimeter on the economic position (Profit & Losses) in 2016:

- +€27.0m of operating income;
- -€21.4m 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 2016:

- -€253.6m on assets;
- -€124.5m concerning cash and cash equivalents.

The impacts mentioned above would change the 2016 ratios, namely:

- The return on capital ratios would improve and ROIC increase to 20.7% (vs 13.0%) and ROCE to 23.4% (vs 18.1%).
- Financial indicators would also reflect a more positive performance, with current liquidity standing at 119.6% (vs 106.2%), solvency at 28.1% (vs 21.5%) and adjusted solvency at 46.1% (vs 30.7%).

Returns on Capital

	2016	2015	Δ% 16/15
Return on Invested Capital (ROIC) ⁽¹⁾	20.7%	22.0%	-1.3 p.p.
Return on Capital Employed (ROCE) ⁽²⁾	23.4%	21.6%	1.9 p.p.

⁽¹⁾ Earnings before financial income and taxes / (Net assets-Cash)

⁽²⁾ Earnings before financial income and taxes (Net assets-ST Liabilities)

Financial indicators

	31.12.2016	31.12.2015	Δ% 16/15
Current liquidity ratio ⁽¹⁾	119.6%	129.9%	-10.3 p.p.
Solvency ratio ⁽²⁾	28.1%	29.1%	-1.0 p.p.
Adjusted solvency ratio ⁽³⁾	46.1%	46.5%	-0.4 p.p.

⁽¹⁾ Current assets / Current liabilities

⁽²⁾ Equity / Total liabilities

⁽³⁾ Equity / (Total liabilities - net Financial Services payables)

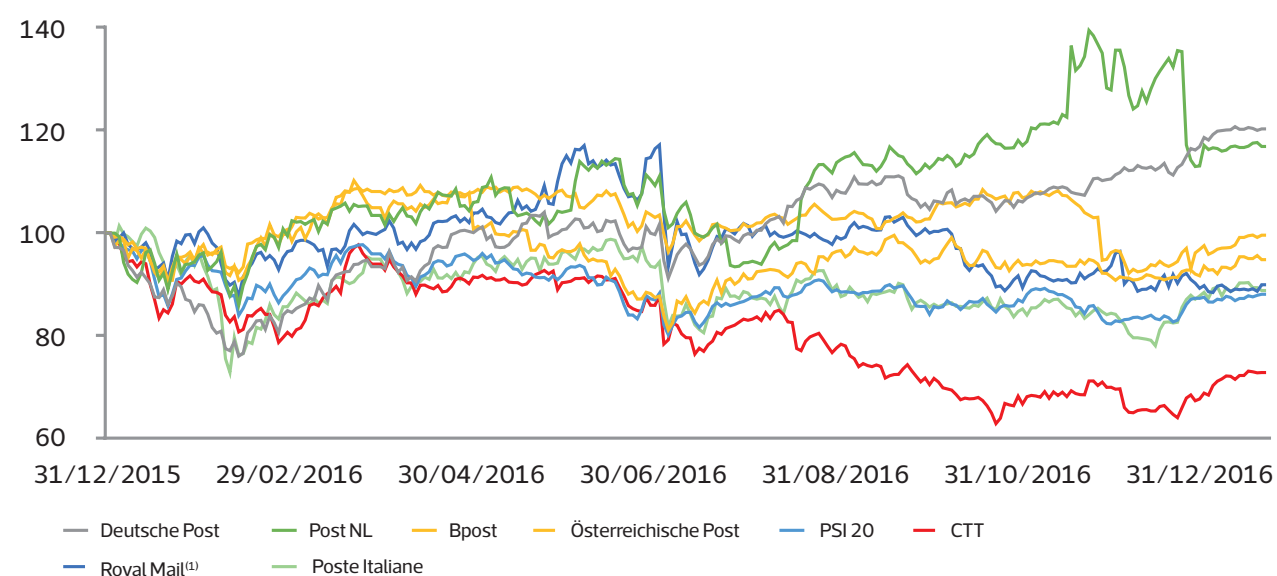
3.2. CTT share performance

In 2016, CTT paid a dividend of €0.47 per share and the CTT share price depreciated by 27.21%. Hence, the total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2015) was 22.86%. During the period, the PSI 20 also had a negative total shareholder return of -9.04%.

From the date of CTT IPO until the end of 2016, the company shares gave a total shareholder return of 37.10%, the second best performing among EU postal sector peers, second only to bpost with 80.53% but above the PSI20 which was negative by 19.90%.

In terms of share price appreciation, the best performer of the EU postal sector in 2016 was Deutsche Post, whose shares appreciated by 20.34%. On the same basis, the PSI 20 index depreciated by 11.93% in the year 2016, which was influenced by the strong increase in yield of Portuguese 10-year sovereign debt (+49.6% from 2.50% to 3.75%) relative to 31 December 2015.

CTT share price performance vs PSI 20 & sector (Year 2016 - rebased at 100 as at 31 Dec 2015)



⁽¹⁾ Royal Mail share price in euros.

Throughout the year 2016, circa 150 million CTT shares were traded, corresponding to a daily average of 582 thousand shares, which translates into an annualised turnover ratio of around 100% of the share capital, which is a strong indicator of share liquidity. As at 31 December 2016 market close, the CTT share price was €6.445.

Delivery is driving us forward

We're driven by the efficiency and security in the delivery of mail.
To its delivery capacity, based on a unique network and proximity
to the populations, CTT adds tools that link the physical
and the digital worlds.
That's what we do every day.
We're driven by the flexibility and convenience
in the express & parcels deliveries.
We're driven by constant improvement and innovation in delivery.



Human Resources

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

Current activity

As at 31 December 2016, CTT has 12,149 employees, 92 (0.8%) more than at 31 December 2015. The increase of 97 employees in Banco CTT is also reflected in this number.

Permanent staff was reduced by 118 and employees on fixed-term contracts rose by 210. The reduction of employees in the Express & Parcels business unit had a particular effect on this evolution, as a result of the delivery network integration process, the optimisation of the integrated networks in Portugal and the downsizing of employees at CTT, S.A.'s central services as a result of the human resources optimisation programme. On the contrary, Banco CTT increased its number of employees inherent in the project life cycle.

The increased number of employees on fixed-term contracts was centred around the Mail business unit (i) in the operational area due to greater absenteeism during the period and the need to adapt processes and reinforce support for the integration of networks, with the opposite effect on the Express & Parcels business unit and (ii) in the Retail Network as a result of the necessary reorganisation in hosting banking operations in the post offices in response to the high affluence of clients to open bank accounts.

No. of Employees

	31.12.2016	31.12.2015	Δ 2016/2015	
Mail	9,774	9,651	123	1.3%
Express & Parcels	1,027	1,074	-47	-4.4%
Financial Services	96	102	-6	-5.9%
Banco CTT	162	65	97	149.2%
Other	1,090	1,165	-75	-6.4%
Total, of which:	12,149	12,057	92	0.8%
Permanent	11,247	11,365	-118	-1.0%
Fixed-term contracts	902	692	210	30.3%
Total in Portugal	11,702	11,600	102	0.9%

The number of employees includes 6,685 employees in the areas of operations and mail delivery, including 4,687 letter-carrier postmen, and 2,745 employees in the Retail Network. The majority of the latter also have the necessary skills to provide services to Banco CTT.

In 2016, 140 employees were hired (106 in Portugal, 59 of which in Banco CTT, and 34 abroad, namely in Tourline Express), while 2 employees returned from unpaid leave and 260 left the company. Of these, 58 employees retired, 186 terminated their contracts or were on unpaid leave or other similar situations, and 16 deceased.

On 23 March 2016, effective January 2016, a **Revision Agreement for CTT's 2015 Company Agreement** was signed with ten Trade Unions. Under it, the parties agreed to review fixed remuneration up to €2,753/month in 2016, extendable to subsidiary employees. This revision of fixed remuneration was an important adjustment for lower levels of remuneration. This 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. The agreement seeks to value work, substantially via the performance-indexed variable remuneration policy.

Development of human capital

Under the reinforcement and development of the human capital needed for CTT's growth, as well as the consolidation of **CTT's Employer Brand**, measures have been implemented to promote the entry of staff with new skills and resources, thereby reinforcing the units undergoing growth.

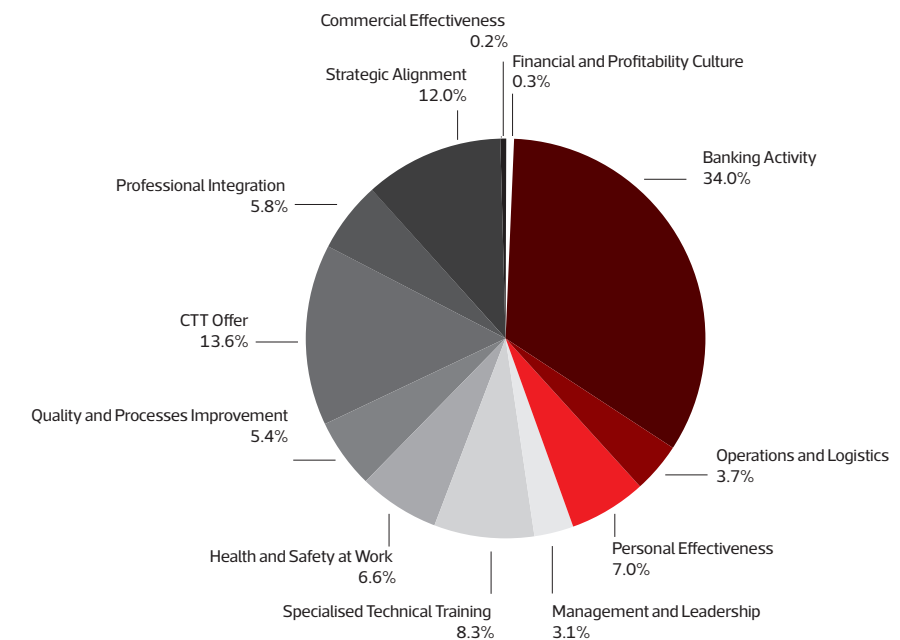
In this regard, the selection process for the **2nd edition of the Trainee Programme** was launched with a view to attract and retain young people of high-potential, promote their development within a structured overall programme, contribute to the **rejuvenation of staff**, foster a **mobility culture** and position CTT as an "employer of first choice". The "Summer Internship 2016" programme was also carried out, wherein 17 university students developed technical skills and relationships in a work environment over the course of two months.

Performance assessment regarding performance in 2015 was carried out for the first time based on a new performance management model that is aligned with the management cycle and based on the assessment of behaviour and goals, established for all employees and taking into account the various activities and functional groups. In this regard and as one of the pillars of the remuneration policy and for the second year since CTT's privatisation, **annual variable remuneration** was granted in the approximate amount of €7.5 million in light of the company's results and performance in the 2015 financial year. This extraordinary bonus was allocated on a differentiated individual basis, in light of that assessment process.

Under CTT's ongoing transformation efforts to adopt new practices that contribute to the organisational efficiency, motivation and alinement of its teams, **CTT VOX**, an organisational diagnostic questionnaire intended to collect the opinions of all employees, was carried out during the month of September. The questionnaire also seeks to identify strong spots and those needing improvement and, consequently, increase staff satisfaction and motivation.

In terms of **training**, 2016 saw a strong investment in training that sought to bolster and promote skills geared toward i) attaining the stipulated goals and addressing new challenges, ii) gaining or developing knowledge in the new areas of growth, as is the case in 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



311 thousand hours of training took place for 12 thousand employees. Training programmes to prepare teams working in the post offices where Banco CTT operates were of strategic importance, as well as programmes preparing post offices to launch the offer of healthcare insurance and the ongoing preparation of staff in post offices, postal agencies, operations and service providers for the commercial and operational changes to the Express & Parcels offer.

Special note to the significant efficiency gains obtained through the sharp growth in e-learning as compared to the previous year, which already represented more than 20% of the total hours of training carried out and encompassed 4,909 employees (+36% than in 2015).

Talent Management Plan

In 2016, a talent management programme was set-up. Activities for 2017 were stipulated for each of the five programme axes, as follows: (i) attract new employees; (ii) clarify their responsibilities, expectations, opportunities and modus operandi in CTT; (iii) engage employees with business, team and individual goals and results; (iv) empower employees for current challenges and prepare them for the future; and (v) make CTT grow by making employees grow.

The goals of the Talent Management Plan are to:

- guide employees towards the main business challenges and desired culture;
- provide CTT with the best market practices in terms of Talent Management;
- reinforce the Value Proposal for employees, positioning CTT as one of the best and most attractive companies to work for;
- ensure business sustainability through the development of Talent, dissemination of Knowledge and Enthusiasm of the employees;
- put the Customer at the centre of the organisation, strengthening the innovation variable in CTT's Excellence formula;
- place Talent Management in the strategic agenda and in the daily lives of CTT leaders.



Innovation is driving us forward

We're driven by the capacity to innovate and diversify our businesses. Within our genetic code runs the algorithm of quality, efficiency and value creation in a fully liberalised and competitive market.

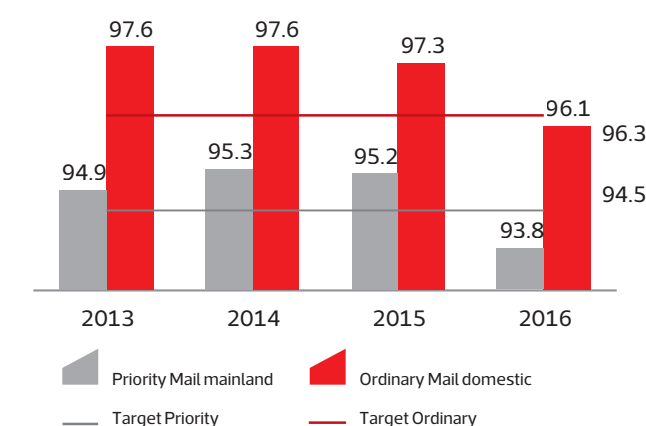
Quality, Innovation and Sustainability in CTT's Activities

5.1. Quality of Service

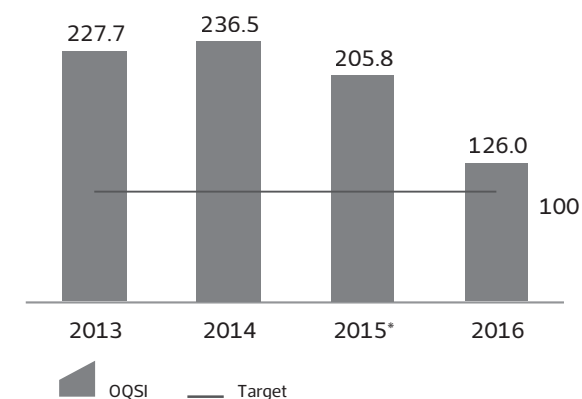
In 2016, the QOSI stood at 126 points compared to a target of 100. The year of 2016 was marked by the transition to an external entity (PricewaterhouseCoopers (PwC)), which initiated on 1 October 2016, measurement of the universal service quality of service indicators.

In 2016, all quality indicators for the Universal Postal Service performed above the stipulated minimum targets.

Quality Indicators Domestic Mail



Overall Quality of Service Indicator



* The 2015 QOSI figure published in the Annual Report (206.4) was recalculated considering the items sent (instead of delivered) in the year 2015.

Quality levels	Minimum	Target	Score
Priority Mail			
% Delivered on the following day (Mainland)	93.50	94.50	93.80
% Delivered within two days (Azores and Madeira)	84.00	87.00	89.40
% Delivered within ten days	99.75	99.85	99.87 ⁽¹⁾
Ordinary Mail			
% Delivered within three days	95.50	96.30	96.10
% Delivered within fifteen days	99.77	99.86	99.82 ⁽¹⁾
Newspapers and Periodicals			
% Delivered within three days	95.50	96.30	98.30
International Mail			
% Delivered within three days	85.00	88.00	86.00 ⁽²⁾
% Delivered within five days	95.00	97.00	97.10 ⁽²⁾
Parcels			
% Delivered within three days	90.50	92.00	90.70
Waiting time at post offices			
% Customers assisted within 10 minutes	75.00	85.00	86.40
Registered Mail			
% Delivered on the following day	89.00	91.00	92.00

Notes:

⁽¹⁾ Calculated based on the sum of the samples from CTT (until the 3rd quarter) and PwC (in the 4th quarter).

⁽²⁾ Ratios calculated by IPC - International Post Corporation based on the weighted average of the 4Q15 and the 9M16.

Other indicators were calculated based on the weighted average of the results obtained by CTT (until the 3rd quarter) and PwC (in the 4th quarter).

The variation in the QSI for 2016 as compared to the previous year was due to certain operational disruptions in the months of February and March that had a negative effect on the overall indicator. Notwithstanding the recovery in service levels throughout the rest of the year, overall quality of service levels for Priority Mail in mainland Portugal (with next-day delivery) and Parcels (with 3-day delivery) recorded service levels higher than the minimum stipulated target, but slightly below the target (-0.7 p.p. and -1.3 p.p. respectively). In Parcels, further note should be made to the limits arising from air transport to the islands and inter-island operations (in the Azores Archipelago) as a result of irregular and sometimes insufficient flight cargo capacity, as well as certain seasonal weather.

The operational disruptions mentioned above were promptly resolved and led mainly to the installation of a new Rest Mail machine at the beginning of the year, which entailed important initial adjustments affecting the entire operational cycle. Despite the low levels of participation, a general strike on 28 March, extended the recovery period and delayed the return to stable normal activity.

CTT client perception of the overall quality of service provided remains relatively high, with 86.1% of clients considering the service provided to be good or very good (Source: Customer satisfaction surveys).

In 2016, there were continued efforts to keep management systems certified. In February 2016, a successful external audit was carried out to maintain the Control Systems Quality Certification for the stipulation of the Quality of Service Indicators, in relation to QSI 1 to 5 (Transit time for ordinary mail and priority mail), QSI 6 (Transit time for newspapers and periodicals), QSI 9 (Transit time for national parcels) and QSI 10 (Time waiting in queues).

The external audit to maintain CTT Expresso's and Mailtec's certification took place in April with positive results. In July, the audit to maintain certification for the production and logistics centre also took place with very positive results. The quality and environment certification of the subsidiary CTT Contacto was also maintained, through an external audit carried out in December.

For the first time in CTT, in December 2016, the adoption of the SMETA (4 Pillars) methodology obtained by CTT Expresso was acknowledged. The SMETA audit (*Sedex Members Ethical Trade Audit*) is a methodology that assesses good corporate, technical and ethical practices and takes four management pillars into account: human resources, occupational health and safety, respect for the environment and ethics in corporate relationships.

The Service Certification process was maintained in all post offices, postal delivery offices and expanded to 100 more postal agencies, making up a total of 200 certified postal agencies.

In terms of the quality of the Universal Postal Service and in the aftermath of the new Postal Law, a new quality measurement and control system was implemented throughout 2016, which will be carried out by an independent external entity. Following the pre-qualified international tender, the external entity entrusted with the measurement of quality levels was selected. This entity is an international company that carried out the works necessary to implement the measurement system for quality of service indicators as of 1 October 2016.

Contact Centre

Telephone calls (58%) and e-mails (42%) to the Contact Centre were the communication methods most used by clients when contacting the company, with the latter growing to the detriment of the former.

In 2016, there were 1.3 million answered telephone calls, which represents a year-on-year increase of 12%. This evolution was mainly due to an increase in contacts related to customs clearance (in e-commerce) and with the toll payment service.

As for e-mails, 955 thousand contacts were received by the contact centre, which represents a year-on-year increase of 32%. Growth is associated with the client's need to obtain information on item location and customs clearance and to file complaints.

CTT App

The CTT application (CTT App) for smartphones facilitates customer contact with CTT's offer of postal, payment and other services. It allows users to locate the closest point of access, search and pay tolls through the vehicle's license plate and monitor the delivery of parcels, all in a simple and intuitive format. In 2016, the CTT App was accessed 23.3 million times, a monthly average of 1.9 million, representing a year-on-year growth of 22%. A number of updates and improvements are planned for 2017, not only to its usability, but also in adding new services.

5.2. Innovation and development

CTT's mission and values put the spotlight on innovation as both an assured way of fulfilling the mission – today and in the future – and as a bet on the ongoing pursuit of new ideas, processes and solutions that contribute to CTT's future. Innovation is a goal in itself for CTT.

In the context of innovation and development and as previously referenced in earlier sections concerning the business units, the highlights in 2016 are:

- launching **Banco CTT** in 202 CTT post offices and reinforcing the **Financial Services** business as regards Payshop services by launching *PaySafecard Direct*, a pre-paid product for online shopping, and
- boosting the **Express & Parcels** business by developing a new offer throughout 2016 called **CTT e-segue**, launched in the 4th quarter.

Development of solutions, products and services

- Regarding **e-commerce** (already addressed in section 2.3 Express & Parcels) and, as a driver of that business, we highlight the following:
 - 1st operational testing for the flow of e-commerce products between China and Brazil, using CTT's London Extra Territorial Office of Exchange with the support of its partnerships in these geographies,
 - launching the “Express2Me” service that allows Portuguese consumers to access online shopping on U.S.-based websites by attributing a 1st-mile virtual address,
 - implementation of the InterConnect programme (IPC), involving more than 30 postal operators in order to create a postal network with an integrated offer of cross-border e-commerce service,
 - holding CTT's 1st “E-commerce Day” on 11 November.
- Reinforcement of the **Mail** business:
 - developing the self-service Cttads.pt platform to create advertising campaigns,
 - analysis of potential opportunities that the IOPT (*Internet of Postal Things*) may come to offer CTT,
 - availability of the Postage Stamp Digital Platform, with information on all issues since 1853.
- Optimising the **Mail business from an operational standpoint** (and also the Parcels business by operationally integrating the delivery networks), through innovative initiatives / services, of which we highlight:
 - conclusion of the RMS (Rest Mail Sorting) automated item sorting project,
 - development of new automated sorting algorithm for CTT Expresso's parcel sorting equipment,

- operation of a new Shopping Network service that enables simultaneous in-store delivery and collection in Tiffosi stores located in Shopping Malls,
- carrying out a survey of the citizens of the municipality of Vizela that are not connected to the public water and sewage system.

Corporate initiatives

- **Carrying out activities under several of the pillars that make-up the “+Innovation by CTT” – CTT's Innovation & Development Management System –, namely:**
 - regarding Idea Management, the inauguration, in March, of “Inov + by CTT” (a web platform that more than 1,200 company employees have accessed and that has hosted 3 cycles of challenges),
 - regarding the External CTT Observatory, start-ups aligned with CTT's goals and strategies were contacted and 2 specific partnerships were set up in 2016.
 - regarding Exploratory Innovation, the internal analysis and debate of technological and/or social trends that may influence CTT's future offer.
- **Organising and hosting** the 2nd edition of CTT Innovation Day (22 September 2016) and the 9th edition of the PostEurop AES / Innovation Forum in November 2016 (in Larnaca, Cyprus and chaired by CTT since 2007) on “Smart Cities & IOT”.
- **Production of the *Postal 360* (monthly) newsletter** with information on both the latest technological advances in strictly postal technologies or other Information and Communication Technologies and on the main merger & acquisition events for postal / logistic / delivery companies, in the entire world, whose monitoring is of interest to CTT.

5.3. Sustainability

The year was marked by the successful launch of Banco CTT, present in 202 branches, thereby expanding its offer and creating value.

CTT's sustainability strategy was reviewed, based on a stakeholder consultation that resulted in the update of the relevance analysis, mapping of interested parties and key topics. The **Sustainability Committee** was created under the governance structure review and is chaired by the CEO and made up of the remaining Executive Committee members, entrusted with defining, monitoring and developing the company's sustainability policy.

Company and Employees

At the beginning of the year, a **Revision Agreement for CTT's 2015 Company Agreement** was signed, wherein the parties agreed to review fixed remuneration up to €2,753 per month, which was an important adjustment for lower levels of remuneration. The Agreement values the climate of social stability and peace within the Company, which is based on a variable remuneration policy indexed to performance.

Nearly 311 thousand hours (-1.5% than in 2015) of **training** were provided and absenteeism was 6.5%. The 2nd edition of the Driver's Challenge took place, a system that assesses and recognises eco-efficient performance, covering 4,700 company drivers. As regards work safety, there were 979 work-related accidents (none fatal), a year-on-year growth of 3.2%.

As regards **diversity**, the female presence within the Board of Directors rose to 25%. CTT renewed its membership to the Forum of Companies for Equality (*IGEN – Fórum Empresas para a Igualdade*), undertaking commitments regarding equality, non-discrimination, parenting rights and others. CTT received awards in the “Best health and well-being policy” and “Gender Equality” from the publication *Human Resources*.

Society and the environment

Social and environmental initiatives received CTT's support in the amount of 1.2 million Euros. More than 160 volunteers and family members joined in on environmental and social volunteering initiatives, in a total of 2,184 hours. From among the **charitable programmes**, we highlight the Fight Against Poverty Project.

In fighting climate change, CTT launched the 3rd edition of the “**A Tree for the Forest**” project to plant trees in critical areas of the country. The communication impact of the project was outstanding, with an outreach of almost 2 million people. It received a “Green Projects Award” and a “CSR Coups de Coeur” of PostEurop.

The **green portfolio** (Green Mail and DM Eco) continued to gain importance, with an overall increase therein of 2.4% in volume and 3.9% in revenue. The weight of ecological purchases in overall procurement was 99.4%. For the third consecutive year, CTT was nominated as an “**Environmentally Trusted Brand**”, by the Reader's Digest Selections.

The use of 100% green electricity as of 2015, caused scope 1 and 2 emissions to fall by approximately 15 ktons of CO₂ a year. The insourcing of outsourced routes, and the launch of Banco CTT's operations caused fuel consumption to rise by 2.8%. Electricity consumption stabilised (-0.3%), the falls in gas and air conditioning contained the overall rise in energy to 1.0% (+1.0%

emissions). The use of 43 electric vehicles and the delivery of another 28 expanded the **electric fleet, the largest in the country**, to 320 vehicles.

CTT recorded the largest drop in emissions in the worldwide postal sector: -70% in scopes 1 and 2 (2015, 2008 baseline) and again improved its position in the IPC's EMMS **carbon proficiency rating**, earning 3rd place from among the 20 main international operators. In the stock market rating of the CDP – Carbon Disclosure Project, CTT rose in the ranks to become co-world leader in its sector.

Customers and consumers

Quality attained 126 points, relative to the 100-point target set by the Regulator; 86.1% of customers claimed to be satisfied or very satisfied with the services rendered by CTT.

In 2016, 213,197 customer inquiries and claims (CTT, S.A. and CTT Expresso) were received regarding marketed services and products, a year-on-year increase of 17%. The breakdown of processed entries was 54% for domestic services, 40% for international services and 6% for financial services.

Two **Mystery Client surveys** were carried out in 2016 with the main goal of measuring the quality of service perceived by the customer. In the first survey, carried out in February and March, 619 post offices were assessed with an overall result of 99.6% favourable opinions; the second survey, held in July and August, covered 617 post offices with an overall result of 99.0% favourable opinions. Several variables were assessed, including the way the customer is served, the presentation of CTT employees, their product knowledge, the information available and the presentation of the space.

Additionally, in order to obtain in-depth knowledge and improve satisfaction with the services provided, CTT periodically carries out studies and questionnaires with its customers from both the Retail Segment (customers going to CTT post offices) and the Business Segment (Contractual Customers).

Retail Customers

The last survey was carried out by Pitagórica (from June to July 2016) in 68 CTT post offices, on a national level. The sample was collected from 2,053 interviews. The overall satisfaction average for on-site post office customers is 4.40 (on a scale from 1 to 5, where 1 is “not at all satisfied” and 5 is “very satisfied”).

The features that earned greater levels of satisfaction were:

	Average
Cleanliness/presentation of the post office	4.70
Friendliness of service	4.70
Effectiveness of service	4.70
Ability to resolve problems/provided information	4.60
Concern with resolving the customer's problems	4.60
Post office location	4.60
Opening hours	4.50
Basis: 2,053 individuals	

Business Customers

The analysis of this market segment reflects the results of the Customer Satisfaction Surveys addressed to customers, broken down as Large Customers, CTT Business Customers and CTT Expresso Customers.

- Large Customers (carried out by Equação Lógica, in January 2016) obtained an Overall Satisfaction Average of 8.42 (on a scale from 1 to 10, where 1 is “Not at All Satisfied” and 10 is “Very Satisfied”).
- CTT Business Customers (carried out by Spirituc, in November/December 2016) with an Overall Satisfaction Average of 7.61 (on a scale from 1 to 10, where 1 is “Not at All Satisfied” and 10 is “Very Satisfied”).
- CTT Expresso Customers (carried out by Ipsos/Apeme, in August/September 2016) with an Overall Satisfaction Average of 7.80 (on a scale from 1 to 10, where 1 is “Not at All Satisfied” and 10 is “Very Satisfied”).

Shareholders and investors

Throughout the year, CTT spent 28 days in external meetings with investors (21.5 days in 2015), 16 of which in 15 conferences (organised by 12 different brokers in 6 different cities) and 12 days in 13 roadshows (organised by 9 different brokers in 9 different cities). In 2016, the Chairman and CEO of the Company spent 8 days abroad on investor-related activities and the CFO spent 21 days on similar activities. Banco CTT's CEO participated in one roadshow. Furthermore, the Investor Relations Department organised a corporate governance roadshow for the first time with the Vice-Chairman/Lead Independent Director, in which corporate governance issues were debated with roughly ten major Company shareholders.

CTT received visits from 10 investors in Lisbon. Over the course of the year, the Company met with 333 investors. Also, conference calls were held with 37 investors, 20 meetings and 12 scheduled conference calls with research analysts, as well as many unscheduled calls.

As at 31 December 2016, coverage of CTT's shares was provided by 16 research analysts (15 at the end of 2015) from 5 Portuguese brokers (Caixa BI, BPI, Haitong, Intermoney and Banco BIG), 5 from North America (JP Morgan, Morgan Stanley, Goldman Sachs, Jefferies and Royal Bank of Canada), 3 from Spain (BBVA, Santander and Fidentiis), 1 from Germany (MainFirst), 1 from the United Kingdom (Barclays) and 1 from South Africa (Investec).



Trust is driving us forward

We're driven by the commitment, the dedication and the professionalism of all the employees who mirror the satisfaction of our customers.

We proudly boast the recognition of our services as a "Trusted Brand" acknowledged by the Portuguese people - one of the most valuable national Brands, based on proximity and trust.

Subsequent Events and Future Perspectives

Subsequent events

Postal service price update

Complying with the pricing criteria for the Universal Postal Service defined by ANACOM - Autoridade Nacional de Comunicações within the scope of article 14 (3) of the Law 17/2012 of 26 April, as published in the Decree-Law 160/2013 of 19 November, CTT has submitted to ANACOM the proposal for price update of the universal service for 2017, which is expected to enter into force only in the 2nd quarter of 2017.

Acquisition of Transporta

On 15 December 2016, CTT and the Barraqueiro Group entered into an agreement for the purchase of the entire share capital of "Transporta - Transportes Porta a Porta S.A." ("Transporta"), for the price of €1.5m, due with the transaction closing and subject to adjustments, in particular, throughout the 3 years following that closing. There may be an increase in the price depending on the synergies created and operating revenues.

Following the announcement dated 15 December 2016, regarding the purchase and sale agreement for the total share capital of Transporta - Transportes Porta a Porta, S.A. ("Transporta"), on 2 March 2017, CTT was notified of the decision of non-opposition by the Competition Authority, without imposing any conditions to the referred acquisition. The acquisition is yet subject to the verification of other suspensive conditions agreed between the parties

CTT operates in a liberalised competitive market, which has seen a significant drop in physical mail due to the competition from new communication media, especially the e-mail. CTT has therefore been developing a strategy of expansion and diversification, promoting and launching new services and businesses in adjacent markets with potential synergies, broadening its offer to clients ("one stop shop"). The acquisition of Transporta falls under this strategy, because, as a fractional cargo transport operator and integrated logistics service provider, it will allow CTT to add a new >30kg item delivery offer to its portfolio and create a new expansion platform for the Group in the logistics and last-mile cargo value chain, adding further value to its customers.

The cargo/logistics last mile trend is already followed by i) CTT Expresso competitors and ii) other international postal operators that have benefitted thereof in terms of growth and customer loyalty. In addition, it will allow CTT to offer 3PL logistic solutions, where Transporta already operates. This new business is supplementary to CEP and creating this new offer will allow CTT to offer its clients an integrated solution for their various logistic and delivery needs with the distribution of all types of items (<30 kg and >30 kg), as well as storage and added-value solutions.

Beyond the increased service offering, Transporta's integration in CTT will allow the Company to benefit from the group economies of scale and create operational synergies by reducing consolidated costs.

Share award

In execution of the Remuneration Committee's approved remuneration policy for the 2014/2016 term of office and the Company's Executive Director Share Award Plan approved by the General Meeting held on 5 May 2015, on 31 January 2017 CTT awarded a total of 600,530 registered, book-entry, own shares, with a value of €0.50 each, representing 0.400% of the share capital to the Company's Executive Directors, as long-term variable remuneration.

The attribution of those shares was performed outside a trading venue by way of the transfer of CTT own shares, which had been acquired in advance for that purpose, in accordance with the assessment of the compliance with the Total Shareholder Return objective set out in said remuneration policy, conducted by an independent entity and confirmed by the company's Auditor.

Following the attribution with reference to 31 January 2017 and as at this date, CTT is the holder of 1 own share, which represents 0.000% of its share capital, the voting right inherent to this share being suspended pursuant to article 324 of the Portuguese Companies Code.

Proposal to the Annual General Meeting for the decrease and increase of share capital

On 9 March 2017 the Board of Directors decided to submit to the General Meeting's approval a proposal for the decrease of share capital, to free excess capital, from €75m to €25.5m, transferring the amount of €49.5m to free reserves and an increase of share capital, also in the amount of €49.5m, by way of incorporation of reserves available therefor and resulting mainly from retained earnings arising from revaluations of fixed tangible assets (which, until the adoption of the Accounting Standardisation System, fell under the "revaluation reserves" heading and as at 31 December 2016 amounted to approximately €44m).

Taking into account on this date the actual conditions for carrying out the referenced transactions and the various interests of the Company and its Stakeholders, said transactions will:

- (i) free up share capital, with such amount being transferred to free reserves, in line with the Company's, its Shareholders' and creditors' interests from both a corporate-accounting and management perspective;

- (ii) create conditions to execute an adequate dividend policy that reconciles shareholder interest in stable remuneration with the Company's interest in its own sustained development;
- (iii) make the share capital decrease neutral to the interests safeguarded by the Concessionaire, by combining it with a capital increase carried out mainly by way of "revaluation reserves" whose incorporation into share capital is deemed admissible from a legal and accounting standpoint. (the approval by the Concessionaire was obtained previously to the decision, since any deliberation regarding a potential share capital decrease is subject to its prior authorisation).

Following these mutually conditional transactions subject to the approval of the 2016 accounts and appropriation of results, the nominal value and number of the shares representing CTT's share capital shall remain unchanged and, as the due legal reserve is €15m, it is also proposed to the General Meeting the transfer of the amount of €3m to free reserves. The decrease and increase of share capital are subject to the General Meeting approval and to the commercial registry.

CTT's dividend policy is one of the relevant pillars of the shareholder remuneration strategy. It should be balanced with the development of the new CTT growth levers, such as Banco CTT. This operation allows for greater flexibility in the Company's management during investment periods such as the current one.

Future Perspectives

The Transformation Programme⁽²⁷⁾ initiatives implemented between 2013 and 2016, allow CTT to face the year 2017 with the expectation of continuing to pursue the defined strategy, namely to achieve growth in the consolidated revenues based on the growth levers and the unique networks of CTT, as means to sustain the generation of value for the shareholders.

Expected GDP growth for Portugal will continue to be heavily influenced by growth in exports and investment, along with an accelerating domestic consumption, the main consumer driver for CTT's products and services, mainly in the Mail business. In this framework, the drop in demand for mail will continue to be affected not only by the structural trend toward electronic substitution, but also by macroeconomic factors. It should remain close to the natural long-term trend, although it may vary depending on the behaviour of internal consumption. CTT may also be affected by the increase in competition, both in terms of penetration and price pressure, specifically in some market segments.

Growth in electronic commerce will continue to be the main driver of growth in the parcels business for the B2C segment (business to consumer) while internal economic activity promotes the growth of the parcels market for the B2B segment (business

to business), both in Portugal and Spain. Iberian retailers are expected to migrate or adopt online sales platforms in greater numbers, along with a change in consumer habits. E-commerce originated in local retailers will have more weight as is the case in northern European countries. For this purpose, CTT is undertaking various initiatives to increasingly become the leader in logistic solutions offered to this market and that include (i) the modular offer in the parcels business tailored for this segment with various levels of service, features and flexibility, (ii) the integration and now optimisation of the delivery networks in Portugal and also Spain, allowing greater competitiveness in the offer geared toward this market where capillarity and convenience are key factors and (iii) the development of a new technological platform to support this type of ever changing and increasingly sophisticated flexible modular offer.

CTT's Financial Services unit will focus on business customers while Banco CTT will focus on the individuals segment, covering the entire market with financial solutions leveraged on CTT's unique skills and assets.

For Banco CTT, 2017 will be a year for the consolidation of the customer base and to start monetising the activity with new products and services, focusing especially on the offer of mortgage loans and consumer credit. CTT will proceed its winning bet as one of the main players in the placement of savings solutions, particularly with public debt products for the retail in partnership with IGCP.

Banco CTT relies on an organic project supported by CTT's strategic assets (its Retail Network and Brand), while also considering acquisition opportunities (small-sized, inorganic and complementary) of entities and/or portfolios which are compatible with the strategy and the business plan of Banco CTT. The aim is to on one hand maintain the focus on a strong cost discipline and, on the other, to develop potential opportunities to cut time-to-market and alternative applications for customer resources, thus promoting an acceleration of the launch and growth of Banco CTT.

As regards Payshop, initiatives will be carried out to maximise its competitive advantages in this market: (i) the vast portfolio of clients that covers almost all service providers, with a wider offer that also covers remote channels (digital) and (ii) the network of over 4,000 agents spread throughout the country, by presenting new services to their users.

The Balance sheet optimisation measures shall proceed, such as the optimisation of working capital and the optimisation of the use of vacant buildings. CTT shall continue to manage employee benefits, with a view to a good management of this responsibility and reducing its impact on the Balance Sheet and cash flow of the Company.

Following a difficult year in 2016, the company's goal is to achieve growing and sustainable revenues in the future. This goal is based on the expectation that the growing businesses (Financial Services and Express & Parcels) compensate the expected drop in revenue from Mail, as a result of the drop in volume that is not fully offset by price increases. For that purpose, the organic growth initiatives implemented in 2016 will be deepened and, depending on the Company's strategy and market opportunity, inorganic growth alternatives will be pursued, which are consistent with the strategy and markets where the Company operates.

⁽²⁷⁾ Transformation Programme: a set of projects selected annually as fundamental to implementing CTT's strategy.



Partnership is driving us forward

We're driven by going arm in arm with entrepreneurship. Being a driving force for value projects and being present at the time of major decisions. We are for an active and ever-changing Portugal. Every day, we strive to invest in value partnerships.

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 minimum of 5% will be transferred to the legal reserve, until the required amount is reached;
- a percentage will be distributed to the shareholders as dividends and as decided by the General Meeting;
- 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 2016 exceeds 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 $\frac{3}{4}$ 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 profits after the constitution or increase of the legal reserve and after negative retained earnings have been covered, if applicable. As at 31 December 2016, the legal reserve is fully constituted and retained earnings are positive. For the financial year ended on 31 December 2016, net profits for the year, in the individual accounts, amounted to €62,160,395.00.

Given the accounting rules in force, the amount of €3,046,676.00 is already reflected in the stated net profits regarding profit sharing with CTT employees and Executive Directors, as proposed. Under the terms of said article 23 of the Articles of Association of the Company, a variable remuneration may be added to the Executive Directors' fixed remuneration which may consist of a percentage of the Company's consolidated profits. In such case, the overall percentage of profits allocated to the variable remuneration may not exceed, every year, an amount corresponding to 5% of the consolidated profit for the financial year.

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

- the net profit for the financial year of 2016, totalling €62,160,395.00, as per the individual financial statements, is allocated as follows:

Dividends* €60,805,324.00

Reserves ** €1,355,071.00

- distributable reserves in the amount of €11,194,676.00 that are booked as retained earnings are appropriated in the form of dividends*.

- the allocation of a maximum amount of €3,046,676.00 (already assumed in the individual financial statements) to CTT employees and Executive Directors as bonuses.

* distribution of €72,000,000.00 in dividends, which corresponds to €0.48 per share.

** resulting from the fiscal re-assessment of tangible fixed assets as per Decree-Law 66/2016 of 3 November.

Lisbon, 9 March 2017

The Board of Directors,

Tomorrow is driving us forward

We're driven by a sustainable growth.
We focus on achieving a sustainable future
and improve the profitability of each business segment.
We are improving in the present so that tomorrow
is the continuation of what we are best at today.



Declaration of Conformity

For the purposes of article 245(1)(c) of the Portuguese Securities Code, the members of the Board of Directors and the members of the Audit Committee of CTT - Correios de Portugal, S.A. ("CTT") hereby declare that, to their best knowledge, the management report, the annual consolidated and individual 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 the 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, 9 March 2017

The Board of Directors

The Chairman & CEO

Francisco José Queiroz de Barros de Lacerda

The Vice-Chairman of the Board of Directors and Chairman of the Audit Committee

António Sarmiento Gomes Mota

The Vice-Chairman of the Board of Directors and Member of the Executive Committee

Manuel Cabral de Abreu Castelo-Branco

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

André Manuel Pereira Gorjão de Andrade Costa

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

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

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

Dionízia Maria Ribeiro Farinha Ferreira

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

Nuno de Carvalho Fernandes Thomaz

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

Diogo José Paredes Leite de Campos

The Member of the Board of Directors

Rui Manuel de Oliveira Horta e Costa

The Member of the Board of Directors

José Manuel Baptista Fino

The Member of the Board of Directors

Manuel Carlos de Melo Champalimaud

The Member of the Board of Directors

Céline Dora Judith Abecassis-Moedas



Audit Report
and Report of the
Supervisory Body



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STATUTORY AUDITOR’S REPORT AND AUDITOR’S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(This report is a free translation to English from the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will 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 Entity), which comprise the consolidated statement of financial position as at 31 December 2016 (showing a total of 1,316,697,213 euros and shareholders’ equity of 233,326,782 euros, including negative non-controlling interests of 79,135 euros and a net profit attributable to the shareholders of the Entity of 62,160,395 euros), the consolidated income statement by natures, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements that include a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at 31 December 2016 and its consolidated financial performance and its consolidated 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 (ISA) and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors (“Ordem dos Revisores Oficiais de Contas”). Our responsibilities under those standards are further described under “Auditor’s 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 our other ethical responsibilities in accordance with the Code of Ethics for Professional Accountants of the Portuguese Institute of Statutory Auditors.

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 period. 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 ISAs assume that there is an increased risk of fraud related to revenue when there is pressure over management to present budgeted results.</p> <p>Additionally, the CTT Group is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different as mentioned in notes 2.22 and 4.</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We tested the operating effectiveness of controls related with the revenue recognition process;▪ We performed tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;▪ We also performed substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and eventual override of the implemented controls; and▪ We evaluated the adequacy of the disclosures made by the Group 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>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We evaluated the reasonableness of the assumptions and estimates utilized and the methodology for the actuarial calculation of the responsibility;▪ We compared the information provided by management to the independent actuaries for the calculation of the responsibility;▪ We evaluated the competence, independence and integrity of the actuary hired by management; and▪ We evaluated the adequacy of the disclosures made by the Group 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 its settlement, using assumption that require judgment, as referred to in notes 2.21, 2.28 and 33.	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We analyzed the lawsuits brought against the Group by third parties and the contingencies identified by the Group, namely supporting information and the replies to our confirmation requests from lawyers on the status of the lawsuits where the Group is involved; ▪ We considered the provisions and we challenged the assumptions that support the estimates of the Board of Directors; and ▪ We evaluated the adequacy of the disclosures made by the Group in relation to 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 opened to the public in March 2016 continuing during the year with its strategy of investment and increase in the number of branches.</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>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We analyzed the evolution of the activity of the Bank during 2016 as well as the revised budget for 2017 and assessed the variances vis a vis the initial plan; and ▪ We discussed with management the future expectations, namely in relation to the start of the activity of credit concession, forms of financing and expected profitability.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for:

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

Those charged with governance are 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 a report comprising our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with the 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 and 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 auditor's 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 auditor's report. However, events or future 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 to those charged with governance, including the oversight body, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiency in the internal control identified during our audit;
- from the matters communicated with those charged with governance, including the oversight body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter; and
- we state to the oversight body, that we have complied with relevant ethical requirements regarding independence, and communicate to them 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 of the consistency of the information included in the management report with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the management report

In compliance with article 451, nr. 3, e) of the Portuguese Companies Code, we are of the opinion that the management report has been prepared in accordance with the applicable legal and regulatory requirements, the information contained therein is consistent with the audited consolidated financial statements and, taking into account the knowledge and appreciation of the Group, we have not identified material inaccuracies.



About the corporate governance report

In compliance with article 451, nr. 4, of the Portuguese Companies Code, we are of the opinion that the corporate governance report includes the elements required to the Entity pursuant to article 245 – A of the Securities Code, and no material inaccuracies have been identified in the information disclosed therein, complying with the provisions of paragraphs c), d) , f), h), i) and m) of that article.

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

In compliance with Article nr. 10 of 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 appointed auditors of CTT – Correios de Portugal, S.A. for the first time at the shareholders' meeting 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;
- The Executive Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Group's oversight body on 6 March 2017; and
- We declare that we have not provided any prohibited services pursuant to article nr. 77, nr. 8 of the Statute of the Statutory Auditors Institute and that we have maintained our independence from the Group during the performance of the audit.

Lisbon, 9 March 2017

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Maria Cristina Santos Ferreira (ROC nr. 1010)



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STATUTORY AUDITOR'S REPORT AND AUDITOR'S REPORT

**(This report is a free translation to English from the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will 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 2016 (showing a total of 1,036,438,537 euros and shareholders' equity of 233,405,918 euros, including a net profit of 62,160,395 euros), the income statement by natures, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the accompanying notes to the financial statements that include a summary of the significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CTT – Correios de Portugal, S.A. as at 31 December 2016 and 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 (ISA) and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described under "Auditor's 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 our other ethical responsibilities in accordance with the Code of Ethics for Professional Accountants of the Portuguese Institute of Statutory Auditors.

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 period. 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 ISAs assume that there is an increased risk of fraud related to revenue when there is pressure over management to present 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 as mentioned in notes 2.22 and 40.</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We tested the operating effectiveness of controls related with the revenue recognition process;▪ We performed tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition;▪ We also performed substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and eventual override of the implemented controls; and▪ We evaluated the adequacy of the 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>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We evaluated the reasonableness of the assumptions and estimates utilized and the methodology for the actuarial calculation of the responsibility;▪ We compared the information provided by management to the independent actuaries for the calculation of the responsibility;▪ We evaluated the competence, independence and integrity of the actuary hired by management; and▪ We evaluated the adequacy of the 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 its settlement, using assumption that require judgment, as referred to in notes 2.21, 2.28 and 33.	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We analyzed the lawsuits brought against CTT by third parties and the contingencies identified by CTT, namely supporting information and the replies to our confirmation requests from lawyers on the status of the lawsuits where CTT is involved;▪ We considered the provisions and we challenged the assumptions that support the estimates of the Board of Directors; and▪ We evaluated the adequacy of the disclosures made by CTT in relation to 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 opened to the public in March 2016 continuing during the year with its strategy of investment and increase in the number of branches.</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>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none">▪ We analyzed the evolution of the activity of the Bank during 2016 as well as the revised budget for 2017 and assessed the variances vis a vis the initial plan; and▪ We discussed with management the future expectations, namely in relation to the start of the activity of credit concession, forms of financing and expected profitability.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the financial position, the financial performance and the cash flows of the Entity, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report, including the corporate governance report, in accordance with the applicable legal and regulatory requirements;
- the implementation and maintenance of 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 criteria adequate to the circumstances; and
- the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, the matters that may cast significant doubt on the going concern of the operations.

Those charged with governance are 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 a report comprising our opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with the 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 and 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 auditor's 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 auditor's report. However, events or future 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 to those charged with governance, including the oversight body, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiency in the internal control identified during our audit;
- from the matters communicated with those charged with governance, including the oversight body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter; and
- we state to the oversight body, that we have complied with relevant ethical requirements regarding independence, and communicate to them 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 of the consistency of the information included in the management report with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the management report

In compliance with article 451, nr. 3, e) of the Portuguese Companies Code, we are of the opinion that the management report has been prepared in accordance with the applicable legal and regulatory requirements, the information contained therein is consistent with the audited financial statements and, taking into account the knowledge and appreciation of the Entity, we have not identified material inaccuracies.

About the corporate governance report

In compliance with article 451, nr. 4, of the Portuguese Companies Code, we are of the opinion that the corporate governance report includes the elements required to the Entity pursuant to article 245 – A of the Securities Code, and no material inaccuracies have been identified in the information disclosed therein, complying with the provisions of paragraphs c), d) , f), h), i) and m) of that article.



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

In compliance with Article nr. 10 of 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 appointed auditors of CTT – Correios de Portugal, S.A. for the first time at the shareholders' meeting 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;
- The Executive Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Entity's oversight body on 6 March 2017; and
- We declare that we have not provided any prohibited services pursuant to article nr. 77, nr. 8 of the Statute of the Statutory Auditors Institute and that we have maintained our independence from the Entity during the performance of the audit.

Lisbon, 9 March 2017

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Maria Cristina Santos Ferreira (ROC nr. 1010)

AUDIT COMMITTEE

Report and Opinion on the 2016 Annual Report of Individual and Consolidated Accounts

1. Introduction

In compliance with the provisions of Article 423-F(g) of the Portuguese Companies Code, the Audit Committee (“AUC” or “Committee”) of CTT–Correios de Portugal, S.A. (“CTT” or “Company”) is hereby submitting its report of the supervisory and oversight activities carried out and giving its opinion on the CTT 2016 Annual Report of individual and consolidated Accounts as well as on the Proposal for the Appropriation of Results for the financial year ended on 31 December 2016, both submitted by the Board of Directors.

2. Company Supervision

Within the framework of its duties as supervisory body of the corporate activity of CTT, the AUC has monitored CTT and its subsidiaries’ main business management and evolution aspects during the 2016 financial year, particularly by:

- Monitoring compliance with the law, the regulations and the articles of association;
- Verifying that the accounting policies and the valuation criteria adopted lead to a correct assessment of the assets and results of CTT;
- Supervising the quality and integrity of the information in the financial statements, as well as the statutory audit and external auditing activity; and
- Overseeing the efficiency of the management systems and risk management, internal control and internal audit.

The AUC’s supervisory activity was carried out namely through: *i)* the participation of its members in the Board of Directors meetings; *ii)* the contacts with the Executive Committee, especially by attending the meetings of approval of accounts and reading the corresponding minutes; *iii)* the analysis of the operating and financial information provided, and *iv)* other contacts the AUC deemed necessary and timely with Directors, especially the Chief Financial Officer, and other senior officers of the Company, especially the Heads of Accounting & Treasury, Management Planning & Control, Audit & Quality and Finance & Risk.

AUDIT COMMITTEE

The AUC met regularly with the Statutory Auditor, who also performs the duties of External Auditor, to follow up the issues raised during the work carried out throughout the 2016 financial year, as well as to analyse and assess their impacts.

With regard to the Statutory Auditor / External Auditor, the AUC: **i)** carried out its duties by analysing its activity, namely reviewing its audit plans and its reports, monitoring its work of auditing and review of accounts, and assessing its recommendations; **ii)** followed up the statutory audits on the individual and consolidated accounts, especially their execution; **iii)** assessed the adequacy and gave its prior approval to the provision of audit-related services to the Company and its subsidiaries; and **iv)** assessed and monitored its independence and exemption.

Within this framework and with regard to the provision of non-audit services during the 2016 financial year, the AUC did not give its prior approval to the contracting of any services other than audit services to the Statutory Auditor / External Auditor.

Throughout the 2016 financial year this Committee monitored the effectiveness of the risk management and internal control systems of the Company, and assessed the adequacy of the action taken to comply with the policies set by the Board of Directors.

The AUC also closely followed up the work of the Audit & Quality Department on internal audit and compliance issues by monitoring its annual activity plan for 2016, the conclusions of the reports on the work carried out, as well as the actions implemented by the Company as a result of the recommendations issued. It monitored with special attention the preparation of the Report on the Prevention of Money Laundering and Terrorism Financing for the Bank of Portugal.

With reference to the period ended on 31 December 2016, the AUC met with the Audit Committee of Banco CTT to analyse the topics with greater impact on the Financial Statements of CTT.

With regard to accounting policies, the Audit Committee monitored the preparation of quarterly, half-yearly and annual financial information disclosed in accordance with legal provisions, focusing on the implementation of the accounting principles and standards in force, the definition of accounting policies, the elaboration of estimates, assessments and relevant disclosures, and their consistent enforcement. The Committee followed with particular attention the adoption of the International Financial Reporting Standards ("IFRS")

AUDIT COMMITTEE

in the individual accounts of CTT and of its subsidiary companies with headquarters in national territory, as well as the unification of the Annex to the consolidated and individual financial statements.

The Audit Committee was not notified of any transactions between CTT and related parties which required the prior opinion of this Committee.

With regard to irregularities communicated to the Audit Committee, the reception, retention and handling procedures laid down in the Regulation on Whistleblowing Procedures were applied.

The AUC also ensured that the 2016 Corporate Governance Report includes the data mentioned in article 245-A of the Portuguese Securities Code and in CMVM Regulation no. 4/2013.

In the course of its action, the AUC did not face any constraints or limitations to its activity.

3. Declaration of Conformity

Under the provisions of article 245(1) of the Portuguese Securities Code, the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they were assigned with, state that, to the best of their knowledge and based on the information they were provided with within the Audit Committee's scope, the information in the Management Report, the annual individual and consolidated Financial Statements, the Legal Certification and Audit Report of individual and consolidated accounts and other individual and consolidated financial statements related documents required by law or regulation, regarding the financial year ended on 31 December 2016:

- i. was prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, giving a true and fair view of assets and liabilities, the financial situation and the results of CTT and the companies included in its consolidation perimeter; and
- ii. 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 2016 Annual Report of Individual and Consolidated Accounts

The AUC has reviewed the Management Report and the individual and consolidated Financial Statements for the financial year ended on 31 December 2016, including the Balance Sheet, the Income Statements, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement, as well as the respective attached notes, all of which deserve its approval.

The individual and consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union on 31 December 2016.

The AUC appraised with special attention the terms of the Legal Certification of Accounts and of the Audit Reports on **i)** the auditing of the individual and consolidated financial statements approved by the Board of Directors and issued on 9 March 2017 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, including the corporate governance report, which express compliance with said requirements in force. The AUC further noted that the Legal Certification of Accounts and the Audit Reports also include the additional information provided for in Article 10 of Regulation (EU) No 537/2014.

Given this mentioned data and the action carried out, as well as in compliance with the provisions of article 420(5) and (6) of the Portuguese Companies Code, applicable by reference to the provisions of article 423-F(2) of same Code, the Audit Committee hereby states that, to the best of its knowledge:

- The CTT Management Report and the individual and consolidated Financial Statements for the financial year ended on 31 December 2016, as well as the Proposal for the Appropriation of Results included in the Management Report were prepared pursuant to the applicable accounting standards and in accordance with accounting and legal rules and the Articles of Association;
- The Corporate Governance Report of the financial year ended on 31 December 2016 includes the data mentioned in article 245-A of the Portuguese Securities Code.

Accordingly, the Audit Committee recommends that the General Meeting of CTT approves the CTT Annual Report including the individual and consolidated accounts, as well as the Proposal for the Appropriation of Results for the financial year ended on 31 December 2016.

Lisbon, 9 March 2017

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

António Sarmento Gomes Mota (Chairman)

Diogo José Paredes Leite de Campos (Member)

Nuno de Carvalho Fernandes Thomaz (Member)



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