Consolidated Results

9 Months of 2016

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CTT – CORREIOS DE PORTUGAL, S.A. – PUBLIC COMPANY
9 MONTHS OF 2016 CONSOLIDATED RESULTS

TOTAL EBITDA MARGIN STAYS AT 18% AND MAIL AND EXPRESS & PARCELS EBITDAS GROW DESPITE THE EXPECTED IMPACT OF THE LAUNCH OF BANCO CTT
DIVIDEND POLICY REAFFIRMED WITH A DIVIDEND OF **€0.48** PER SHARE TO BE PROPOSED

- Total recurring revenues amounted to €517.1m (-€21.0m; -3.9%) mostly due to the decline of registered mail volumes (impact in volumes and price mix), the extraordinary effect of the placement of public debt certificates in January 2015 and, within the Express & Parcels business unit, the loss of large customers with negative contribution to profitability, particularly in Spain, which should be offset by entry of new customers in the next quarters.

- Decline of addressed mail volumes stood at -3.1%, above that of the 1st half 2016 (-2.2%), but still within expected (-3% to -4%). Large customers' reduction in consumption, especially of registered mail, is the main reason for this evolution.

- Operating costs[1] decrease by 1.6%, totalling €426.1m, mainly as a result of a reduction in the main captions: staff costs (-€3.6m; -1.4%), ES&S (-€1.9m; -1.1%) and in other operating costs (-€1.7m; -8.7%).

- Recurring EBITDA stood at €91.0m (-13.2%) and EBITDA margin reached 17.6%. The recurring EBITDA excluding Banco CTT[2] was €105.1m (-2.3%) – with Mail contributing 70%, Financial Services 27% and Express & Parcels 3%.

- Net profit of €46.0m, corresponding to a 9.1% year-on-year decrease, with an 8.9% net margin on revenues. The net profit excluding Banco CTT[2] was €62.5m (+11.1%).

- In Portugal – launch of the Parcels Modular Offer at the beginning of October aimed particularly at the B2C segment and which will allow to accelerate the recovery of former customers and the capture of new ones, a process which begun in 2016 but still with little expression in volumes. In the Spanish market, launch of a product for the e-commerce segment and strengthening of the management team.

- Start of the implementation of a strategy of integrated management of the payments business at CTT based on the repositioning of the Payshop brand as an offer for the overall payments market.

- Opening of the 100th branch of Banco CTT on 22 July 2016 within a CTT post office. By the end of September, when already 106 branches were functioning, over 45 thousand accounts had been opened by circa 60 thousand clients, corresponding to a capture of more than **€18**0m in customer deposits.

- Strong levels of financial standing and good liquidity are maintained with an adjusted cash position at the end of September 2016 amounting to €227.5m, -18.5% than at the end of 2015 as a result of the strong investment of the first 9 months of 2016, the costs with the launch of Banco CTT and the dividend and employee profit participation paid in the period.

[1] Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.

[2] Includes Banco CTT business unit and Banco CTT project (booked in CTT S.A.).

SUMMARY OF CONSOLIDATED RESULTS

The summarised consolidated results of CTT – Correios de Portugal, S.A. are as follows:

Consolidated Results

€ Million

	Reported			Recurring(*)		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	518.8	538.1	-3.6%	517.1	538.1	-3.9%
Sales and services rendered	497.3	527.0	-5.6%	497.3	527.0	-5.6%
Net interest income	-0.03	-	-	-0.03	-	-
Other operating income	21.6	11.1	94.3%	19.9	11.1	78.8%
Operating costs	436.0	440.7	-1.1%	426.1	433.3	-1.6%
EBITDA	82.9	97.4	-14.9%	91.0	104.8	-13.2%
Amortisation, depreciation, provisions and impairments	12.5	17.7	-29.2%	19.5	17.3	12.8%
EBIT	70.4	79.8	-11.8%	71.4	87.5	-18.3%
Financial income, net	-4.2	-3.9	-6.8%	-4.2	-3.9	-6.8%
Gains / (losses) in associated companies	0.2	0.03	»	0.2	0.03	»
Earnings before taxes (EBT)	66.4	75.8	-12.5%	67.5	83.6	-19.3%
Income tax for the period	20.6	25.2	-18.3%	19.0	23.8	-20.0%
Non-controlling interests	-0.24	0.01	<<	-0.24	0.01	<<
Net profit attributable to equity holders	46.0	50.6	-9.1%	48.7	59.8	-18.6%

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

Consolidated Results excluding Banco CTT (**)

	Reported			Recurring (*)		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	518.4	538.1	-3.7%	516.6	538.1	-4.0%
Sales and services rendered	497.3	527.0	-5.6%	497.3	527.0	-5.6%
Other operating income	21.1	11.1	89.9%	19.4	11.1	74.4%
Operating costs	416.0	433.1	-3.9%	411.5	430.5	-4.4%
EBITDA	102.4	105.0	-2.5%	105.1	107.6	-2.3%
Amortisation, depreciation, provisions and impairments	11.1	17.6	-36.9%	18.4	17.2	7.0%
EBIT	91.3	87.4	4.4%	86.7	90.4	-4.1%
Financial income, net	-4.2	-4.0	-6.6%	-4.2	-4.0	-6.6%
Gains / (losses) in associated companies	0.2	0.03	»	0.2	0.03	»
Earnings before taxes (EBT)	87.3	83.5	4.5%	82.7	86.4	-4.3%
Income tax for the period	25.0	27.2	-8.0%	23.5	24.6	-4.5%
Non-controlling interests	-0.24	0.01	<<	-0.24	0.01	<<
Net profit attributable to equity holders	62.5	56.3	11.1%	59.4	61.8	-3.9%

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

(**) Excluding revenues/costs of Banco CTT BU and Banco CTT project reported in CTT S.A..

1. Operating Activity

Mail

In the 9 months of 2016 the decline of addressed mail volumes stood at -3.1%, slightly over that of the 1st half of 2016 (-2.2%).

Mail Volumes

Million items

	1H16	1H15	Δ	3Q16	3Q15	Δ	9M16	9M15	Δ
Transactional Mail	350.6	357.8	-2.0%	155.1	165.0	-6.0%	505.7	522.8	-3.3%
Editorial Mail	22.6	23.3	-2.9%	9.3	11.0	-15.0%	31.9	34.3	-6.8%
Advertising Mail	38.6	39.9	-3.4%	16.0	14.3	11.9%	54.6	54.3	0.6%
Addressed Mail	411.8	421.0	-2.2%	180.4	190.3	-5.2%	592.2	611.4	-3.1%
Unaddressed Mail	234.7	225.1	4.3%	126.7	119.8	5.7%	361.4	345.0	4.8%

Transactional mail volumes decreased by 3.3% in the 9 months of 2016. This evolution is the result of changes in the volumes of ordinary mail (-2.7%), registered mail (-11.3%), priority mail (-7.8%), "green mail" / correio verde (-2.9%) and international outbound mail (-3.6%). On the contrary, international inbound mail had a positive evolution (+7.7%).

The decrease in registered mail was due to the Government and the Public Administration's reduced consumption, particularly the Tax Authority, which has been reducing its use of this type of mail since the 3rd quarter of 2015 to levels more consistent with the past. Excluding the effect of this customer's behaviour in the 9 months of 2016, registered mail volumes would have grown by 1.0% when compared with the same period of the previous year.

Priority mail volumes have been recovering. Change in the 9 months of 2016 was -7.8%, corresponding to an improvement vis-à-vis the 1st half of the year (-8.7%), but it is still influenced by the sharp fall (-13.3%) of the 1st quarter of 2016, mainly in the occasional segment, related to the sale of pre-paid items at the CTT post offices, since the significant growth that took place in the 1st quarter of 2015 as a reaction of the customers to the anticipated mail price increase did not have the same expression in 2016 due to a lower price increase.

Ordinary mail volumes decreased in the 3rd quarter of 2016 (-5.8%) due to the reduction in mail sent by some of the large and medium customers of the telecommunications, banking and utilities sectors. The change in the 9 months (-2.7%) was favourably influenced by the 2nd quarter of 2016 recovery in volumes (+0.8%).

Addressed advertising mail volumes recovered in the 3rd quarter (+11.9%) due to the increasing number of campaigns of the customers which are carried out at irregular intervals throughout the year. Change in the 9 months of 2016 (+0.6%) is also influenced by the fall in volumes of the 1st quarter of 2016 (-7.1%). A positive evolution of the advertising mail is expected in the next quarters as a consequence of the initiatives and tools being developed for the advertising medium (described below in the section "Transformation Programme[3]"), the trials of which will be carried out in 2016 and the market launch in 2017.

Domestic editorial mail volumes decreased in the 3rd quarter of 2016 due to a downturn in the volumes of the main newspaper and periodicals publishers during the period, associated with dispatches made at irregular intervals.

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

Mail Business Unit Revenues, Costs and EBITDA

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	398.0	411.1	-3.2%	398.0	411.1	-3.2%
Sales and services rendered	365.6	381.0	-4.0%	365.6	381.0	-4.0%
Other operating income	32.4	30.1	7.6%	32.4	30.1	7.6%
Operating costs (*)	328.2	337.7	-2.8%	324.1	338.4	-4.2%
External supplies and services	75.5	76.5	-1.2%	74.1	76.5	-3.0%
Staff costs	181.0	179.9	0.6%	178.1	177.8	0.1%
Other costs	40.4	54.7	-26.1%	40.3	54.7	-26.2%
Allocation to CTT central structure	31.3	26.6	17.6%	31.6	29.5	7.1%
EBITDA	69.7	73.4	-4.9%	73.9	72.7	1.6%
EBITDA MARGIN	17.5%	17.9%	-0.4 p.p.	18.6%	17.7%	0.9 p.p.

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

The revenues of the Mail business unit stood at €398.0m, a 3.2% decrease vis-à-vis the same period of 2015. The reduction on the revenues occurred mainly in the provision of services (-13.6%) and is connected to the fall in addressed mail volumes (-3.1%) and more specifically registered mail (-11.3%), which as a more expensive service levelled the effect in revenues of the price increase effective as of 1 February 2016 and the growth of the international inbound mail.

In the 9 months of 2016 the average change of the prices of the Universal Service compared to the same period of the previous year was +1.4% and stemmed mainly from the update of the basket of letter mail, editorial mail and parcels services that entered into force as of 1 February, from the changes in the discounts policy and from the volume structure in terms of the different mail products and weight levels.

Additionally, the revenues from foreign operators through terminal dues (remuneration paid to CTT for the delivery in Portugal of mail originated abroad) increased by €2.2m (+17.5%) mainly as a result of the growth in mail volumes from Asian countries, particularly China. In January 2016, CTT's accession to the IRAE Agreement (Interconnect Remuneration Agreement – Europe), which laid down the terminal dues rates between some of the main postal partners, also contributed to the increase of these revenues, although to a lesser degree.

Other operating income increased by €2.3m (+7.6%), mainly due to the improvements implemented in the actual allocation methodology for VAT deduction (+€2.4m) and the revenues resulting from the Memorandum of Understanding with Altice (+€1.5m). Conversely, there was a €1.2m reduction of the SDR (Special Drawing Rights) exchange rate differences which resulted from the reduction of the exchange rate (appreciation of the SDR against the Euro) in the 9 months of 2016 (-2.1% compared to December 2015) vs 2015 when the exchange rate variation was highly favourable.

Recurring operating costs (further explained in section 2 "Economic and Financial Analysis – Evolution of Operating Costs") decreased significantly by €14.3m (-4.2%) in the Mail business unit as a result of (i) the continuation of the measures taken within the Transformation Programme[3] where the networks integration and the optimisation of the integrated networks continued to have a relevant role, (ii) the reduction of staff costs resulting from the 2015 Company Agreement, (iii) the decrease in rents resulting from moving services from rented buildings to vacant CTT-owned buildings, (iv) the decrease in the unfavourable exchange rate differences (included in Other Costs) and (v) the reduction of intragroup costs.

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

Consequently, the recurring EBITDA of this business unit reached €73.9m and a recurring EBITDA margin of 18.6%, +0.9 p.p. than in the same period of the previous year.

On 19 September 2016, CTT launched the challenge Future Opens, an initiative that aims at identifying and selecting innovative products/services/other businesses which prove to be eligible to be sold at the CTT Retail Network. The main features of this challenge is to allow the applicants to test their products in a countrywide multi-brand retail network, identify and select candidates promoting originality and innovation, integrating them in the strategy to boost the CTT Retail Network, while opening the CTT distribution channels to the applicants. As a Portuguese company, CTT intends with this initiative to promote innovation by fostering entrepreneurship in Portugal, while being a showcase for differentiating products/services. The final selection will take place after the deadline for receiving applications which occurs on 20 November.

At the end of the 3rd quarter of 2016, CTT managed the most capillary network of the country: (i) retail network with 2,329 branches, of which 616 post offices and 1,713 partnership branches (postal agencies), and (ii) distribution network with 243 postal delivery offices and (iii) a transport network operating 3,627 vehicles.

Express & Parcels

The Express & Parcels volumes decreased by 7.2% in the 9 months of 2016 mainly as a consequence of the impact of the loss in the 1st quarter of some large customers in Spain in the framework of the accelerated restructuring strategy adopted in 2016. This strategy aims now to attract new customers with high volumes presenting a volume profile and service standard consistent with Tourline's capacity in Spain.

During the period, CTT posted in Portugal a volume of 10.5 million items (-2.1% than in the same period of 2015). The volume decrease occurred only in large customers for various reasons among which is the strategy to focus on B2C with the new modular offer launched in the month of October.

While a large customer left at the end of 2015, lower-size customers have been increasing and new customers have been attracted, focused mainly on the B2C offer. However, the growth based on these customers is not yet enough to offset the above-mentioned decrease.

In the 3rd quarter, the new shipping tool Postal CTT Expresso was launched, which addresses the SoHo and SME segments as well as the large customers needing to ship from several different locations (e.g. major retailers) and e-sellers' customer services.

Also in the 3rd quarter the work leading to the launch of two offers was carried through – the new Express offer, especially designed for the B2C segment, on 3 October, and on 4 October a reverse logistics solution specifically for the telecommunications sector to collect customers equipment to be updated and reinserted in the market.

As far as e-commerce initiatives are concerned, it is worth highlighting:

- Further contact and/or start of the negotiations with potential partners aiming to develop the e-commerce business or capture of global accounts for the Iberian market;
- Trial launch for CTT employees of a new service – Express2Me, which allows the Portuguese consumers to have access to online sales from websites situated in selected geographies (e.g. USA) by using a virtual address for the 1st mile. This service will be launched to the market still during the 4th quarter of 2016.

In Spain, volumes in the 9 months of 2016 reached 8.7 million items, representing a 12.7% decrease compared to the same period of 2015, mainly due to the loss of 3 large customers in the 1st quarter of 2016 whose volumes, given their considerable size, were not offset by the shipments of the remaining customers of the portfolio but will allow to create capacity and attract large e-commerce customers with a distribution model adapted to our existing capacity (lowering the "cost to serve" allowing for very competitive prices).

During the 3rd quarter of 2016 the following events are to be highlighted within Tourline Express: (i) the launch of a product in the franchisee network for the e-commerce segment, having as main features lower shipping and delivery rates in order to allow the network to meet the customers' demands with a more competitive offer, (ii) the communication of the official franchisee rates for 2017 which underwent some changes to ensure a better alignment with costs and were generally welcomed by the franchisees; (iii) the significant improvement of the collection indicators reflected in the reduction of 11 days in the average period of accounts receivable from 88 days in June 2016 to 77 days in September, and in the reduction of provisions; (iv) the change in the top management, with the entry of a new member who will take the responsibilities of Managing Director and will reside in Spain, thus ensuring greater proximity to the Company and much more flexibility in decision-making and strategy implementation.

Following the restructuring of human resources conducted in late 2015 and the restructuring of the franchisee network, the company experienced operational improvements during the 9 months of 2016. These improvements resulted in the reduction of staff costs, transport and delivery routes costs, and also hire and rental costs, while maintaining the quality standards that differentiate the company in the Spanish market.

In Mozambique, the 9 months of 2016 were marked by the continued and worsening depreciation of the local currency (metical), the lack of foreign currency (dollar/euro/rand) in a country strongly depending from imports, the suspension of donations from Western countries (Great Britain, European Union, Canada, etc.) and grants from the IMF and the World Bank, associated to the political and military instability in the country's central region and strongly contributing to the weakening economy of the country. The exposure of the companies to these factors has led to their closure and to the search of solutions to mitigate that effect which, without exception, imply the services/products price increase. Despite these conditions, CORRE stabilised volumes in the 9 months of 2016 and continued to consolidate its position as the largest service provider in the banking sector in Mozambique.

Express & Parcels Business Unit Revenues, Costs and EBITDA

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	88.1	96.0	-8.3%	88.1	96.0	-8.3%
Sales and services rendered	84.5	93.2	-9.4%	84.5	93.2	-9.4%
Other operating income	3.6	2.8	29.6%	3.6	2.8	29.6%
Operating costs (*)	85.3	97.8	-12.8%	85.2	94.6	-9.9%
External supplies and services	67.4	73.6	-8.4%	67.4	73.6	-8.4%
Staff costs	16.0	21.4	-24.9%	16.0	19.1	-16.3%
Other costs	1.8	2.9	-36.0%	1.8	1.9	-3.2%
EBITDA	2.8	-1.8	259.0%	2.9	1.5	93.3%
EBITDA MARGIN	3.2%	-1.8%	5.0 p.p.	3.2%	1.5%	1.7 p.p.

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

The Express & Parcels business unit posted revenues of €88.1m, corresponding to a €7.9m (-8.3%) year-on-year decline resulting from the €5.1m (-14.4%) decrease in the provision of services in Spain and €2.5m in Portugal (-4.6%), with a volume downturn which is relevant in Spain (-12.7%) and residual in Portugal (-2.1%). To be mentioned is also the positive impact of the recognition of the income resulting from the memorandum of understanding with Altice (+€1.5m year-on-year).

To be emphasised is the €9.3m reduction in recurring operating costs (-9.9%), which resulted mainly from a reduction in Staff costs in Spain and Portugal (-€3.1m), and in External Supplies and Services costs (-€6.2m), as a consequence of the distribution networks integration process in Portugal and the reduced costs from transport and delivery routes following the elimination of routes dedicated to some large customers, and fixed costs in Spain.

The measures of the Transformation Programme[3] under implementation in Portugal (networks integration) and in Spain (company governance, aggressive growth of large e-commerce customers offering a reduced "cost to serve", optimisation process of human resources in 2015 and of the transport and distribution network in 2016) are expected to be decisive for the future evolution of this business unit.

Financial Services

In the 9 months of 2016, the Financial Services business unit recorded total revenues amounting to €53.4m, -7.8% than in the same period of 2015, as it has not yet been possible to match the revenues of the placement of public debt that took place in the same period of last year as a result of the change in the remuneration rate of January 2015 when almost 2 billion euros were placed.

Savings placements reached 2.9 billion euros, corresponding mostly to subscriptions of public debt certificates that totalled 96% of that amount; especially the placement of Treasury Certificates Poupança Mais which continue to stand out as one of the most popular savings products in the domestic market given their attractive profitability vs risk conditions. Over the period, CTT continued to offer capitalisation insurance and Retirement Savings Plans (PPR) in line with the diversification strategy consistently pursued in recent years.

The 3rd quarter is marked by the start of an integrated management strategy in the payments business, the repositioning of the Payshop brand as the only CTT payments brand and the start of the work to consolidate the services, technology and commercial areas. These are the first steps towards the implementation of the 2017-2019 transformation plan, following innovative strategies to enhance the offer within the network and the services to customers and users.

The Payments business recorded a decline compared to the same period of the previous year. This was due both to the decrease of the average prices – ensuring competitiveness vis-à-vis other payment instruments and/or solutions – and the reduction of the number of operations. During this quarter some of the relevant positive events include:

- Payshop services are present in over 6,500 proximity and convenience points for users, including CTT post offices and postal agencies, as well as in the more than 4,070 Payshop agents;
- The first fully digital campaign in the field of toll payments, which resulted in growth of this business;
- The completion of the process of customer migration from the integrated payments platform (both face-to-face and remote);
- The stabilisation of the internet-related segment income after a period of sharp fall due to the new online gambling laws implemented during the 2nd half of 2015.

The Money Orders and Transfers business evolved in line with its main service, pension payments, which recorded a decrease in the 9 months of 2016. The international transfers business, despite presenting a similar volume of transactions as in the same period of 2015, posted a decrease in revenues due to the reduction of prices in the Western Union network.

In the remaining business segments, the consumer credit segment should be highlighted as it has recorded significant growth throughout the year, as well as the launch of health insurance at the end of the 3rd quarter.

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

Following this trend, revenues from these new products will grow as early as in 2017. This dynamic approach to expand the financial services portfolio clearly shows the capacity and potential of the CTT Retail Network.

Financial Services Business Unit Revenues, Costs and EBITDA[4]

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	53.4	57.9	-7.8%	53.4	57.9	-7.8%
Sales and services rendered	49.4	56.3	-12.2%	49.4	56.3	-12.2%
Other operating income	4.0	1.6	>>	4.0	1.6	>>
Operating costs (*)	24.6	32.1	-23.4%	24.6	27.2	-9.9%
External supplies and services	7.3	14.5	-49.6%	7.3	9.7	-24.7%
Staff costs	3.5	3.6	-4.9%	3.5	3.6	-3.4%
Other costs	13.5	13.7	-1.1%	13.5	13.7	-1.1%
Allocation to CTT central structure	0.2	0.2	3.2%	0.2	0.2	-6.0%
EBITDA	28.8	25.8	11.7%	28.8	30.6	-5.9%
EBITDA MARGIN	54.0%	44.6%	9.4 p.p.	54.0%	52.9%	1.1 p.p.

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

The reduction in the revenues of this business unit was recorded in the services rendered (-€6.9m) and mainly due to the fall in the income from the Public Debt certificates (-€2.2m; -9.3%), the insurance and PPR (-€1.3m; -38.8%), tax collection (-€1.2m; -51.0%) and invoice billing (-€1.4m; -17.8%). Other operating income increased by €2.4m mainly due to the income resulting from the memorandum of understanding entered into with Altice.

Recurring operating costs decreased €2.7m (-9.9%), essentially due to the recurring costs associated with the Banco CTT project in the 9 months of 2015 (€2.7m) which were then booked in this business unit. To be mentioned is the €0.9m increase in sales incentives and the €0.7m reduction in internal services rendered, essentially services rendered by the Retail Network.

The Financial Services business unit recurring EBITDA stood at €28.8m in the 9 months of 2016, equivalent to an EBITDA margin of 54.0% impacted by the above-mentioned effect of the costs associated with the Banco CTT project of the previous year.

Banco CTT

The Banco CTT relevant milestone of the 3rd quarter of 2016 was the opening of its 100th branch on 22 July at the post office of Torres Novas, as a follow-up of the rollout plan. It is expected that by the end of the year, 200 branches within CTT post offices will be opened to the public. The results achieved so far prove that Banco CTT is already a brand recognised by the Portuguese population. Until the end of September 2016, over 45 thousand accounts of more than 60 thousand clients had been opened, through which over 180 million euros of deposits were captured.

In order to meet the increasingly demanding needs of the public, Banco CTT has been focusing on innovation, being the opening of accounts via tablet an example of that, which makes the process simpler and faster and allows for a remote process that can be expanded to the whole branch network. Clients can also access easily mobile applications and home banking services which allow for a convenient and accessible account management. Banco CTT intends to stand out for its simple and competitive offer, based on day-to-day accounts at zero euro: zero euro

[4] In 2016, the amounts include the Financial Services of CTT, S.A. and Payshop. In 2015, the amounts include also the operating costs of Banco CTT (€4.0m reported and €2.7m recurring operating costs).

for maintenance commission, zero euro for the debit card annual fee, zero euro for transfers in digital channels, a basic basket of services that can be extended to other services at a cost.

In September 2016, one more campaign was carried out in the various media to promote the launch of new products, particularly consumer credit, car loans and credit cards. These new products will be the first catalysts of the value monetisation of the portfolio of customers and future customers and will trigger a new stage of the project, both attracting customers and achieving profitability. It will be boosted by the offer of mortgage loans at the beginning of 2017, at a time when the market is clearly recovering. This campaign has statements such as "We're moved by a trusted, flexible and transparent credit" which emphasise the increase of the basic offer on the one hand and, on the other, the status of a trusted bank.

In the 4th and last quarter of 2016, the bank's objective is to keep the scheduled opening of branches to maximise the process of quick capture of clients and create a significant portfolio of customers by the end of the year, continuing the growth of resources which will allow the launch and preparation of new products such as mortgage loans.

Banco CTT Business Unit Revenues, Costs and EBITDA

€ Thousand

	Reported	Recurring
	9M16	9M16
Revenues	271	271
Net interest income	-31	-31
Other operating income	302	302
Operating costs (*)	18,803	14,870
External supplies and services	11,593	7,660
Staff costs	6,994	6,994
Other costs	216	216
EBITDA	-18,532	-14,599

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

In the 9 months of 2016, the Banco CTT business unit posted revenues of €0.3m, partly due to the non-migration of financial products and services to Banco CTT, which allowed the focus to be maintained on the capture of clients. The persistence of an environment of low interest rates and the current market context bring additional challenges to Banco CTT, as it has to look for alternative ways to generate profitability from its clients, a challenge that it shares with the remaining banks in the European markets, given that those other banks have much higher costs due to their legacy and retail network model.

The recurring operating costs of the 9 months of 2016 totalled €14.9m, namely external supplies and services costs of €7.7m related mostly to IT systems and transactionality (€4.2m) and hires and rentals (€0.7m) and staff costs of €7.0m.

This business unit posted an EBITDA of -€18.5m which includes a non-recurring component of -€3.9m, generally in line with the business plan.

2. ECONOMIC AND FINANCIAL ANALYSIS

REVENUES

Recurring revenues amounted to €517.1m, a year-on-year decrease of €21.0m (-3.9%).

Revenues

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
Revenues	518.8	538.1	-3.6%	517.1	538.1	-3.9%
Business Units	539.7	565.0	-4.5%	539.8	565.0	-4.5%
Mail	398.0	411.1	-3.2%	398.0	411.1	-3.2%
Express & Parcels	88.1	96.0	-8.3%	88.1	96.0	-8.3%
Financial Services	53.4	57.9	-7.8%	53.4	57.9	-7.8%
Banco CTT	0.3	-	-	0.3	-	-
Central Structure and intragroup eliminations	-20.9	-26.9	22.3%	-22.7	-26.9	15.8%

This negative variance reflects the decrease in the revenues of the business units: Mail (-€13.1m; -3.2%); Express & Parcels (-€7.9m; -8.3%); and Financial Services (-€4.5m; -7.8%), with the latter showing the expected recovery throughout the year as the decrease is now much lower than that of the 1st half of 2016 vis-à-vis 2015, commented above in section 1 "Operating Activity".

OPERATING COSTS[1]

The evolution of the recurring operating costs in the 9 months of 2016 continued to depend mostly on the implementation of the Transformation Programme[3]. The consolidated costs were reduced by 1.6% (-€7.1m) vis-à-vis the same period of 2015, despite the €14.6m recurring costs (ES&S of €7.7m, Staff costs of €6.7m and Other operating costs of €0.2m) from Banco CTT business unit (€14.9m) and Banco CTT project (-€0.3m) booked in CTT,S.A., which were not relevant in 2015.

Operating costs

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
Operating costs (*)	436.0	440.7	-1.1%	426.1	433.3	-1.6%
External supplies & services	170.1	170.7	-0.4%	163.7	165.6	-1.1%
Staff costs	247.4	249.0	-0.7%	244.2	247.7	-1.4%
Other operating costs	18.5	20.9	-11.5%	18.2	20.0	-8.7%

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

Recurring external supplies & services (ES&S) costs decreased by 1.1% (-€1.9m) year-on-year, mainly due to the cost reductions resulting from the optimisation and rationalisation of the operations and the distribution networks

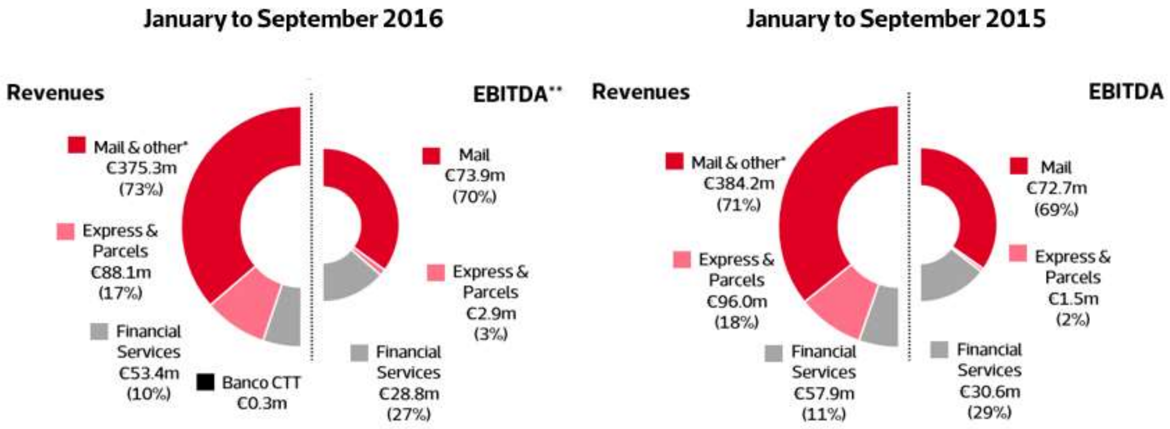
[1] Excluding depreciation / amortisation, impairments, provisions and non-recurring costs.

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

integration, as well as the efficiency measures taken in recent years in areas such as information systems, which offset the costs from Banco CTT (€7.7m).

As far as staff costs are concerned, the €3.6m (-1.4%) decrease in recurring costs is mainly due to the following reductions: (i) -€6.2m resulting from the remuneration policy implemented that emphasises the variable component; (ii) -€2.8m from Tourline's staff costs following the personnel restructuring measures undertaken in 2015; and (iii) -€1.8m from the change in the methodology used to calculate the liability with the telephone subscription fee employee benefit. These favourable changes were partly absorbed by the increase of Banco CTT staff costs (€5.9m: €7.0m in 2016 vs €1.1m booked in the Financial Services business unit in 2015), by the extension of the coverage of the work accidents insurance of the CGA (*Caixa Geral de Aposentações*) workers (€0.9m) and by the €0.3m in active staff health costs.

RECURRING EBITDA



* Including CTT Central Structure revenues and intragroup eliminations amounting to -€22.7m in 9M16 and -€26.9m in 9M15.

** The weight of each business unit is calculated excluding -€14.6m related to Banco CTT's EBITDA.

The operating activity generated a €91.0m recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results), -13.2% (-€13.8m) below that of the 9 months of 2015, with an EBITDA margin of 17.6% (-1.9 p.p. vs the same period of 2015).

These results reflect the evolution described above: a €21.0m (-3.9%) decline in revenues combined with a lower decrease of €7.1m (-1.6%) in operating costs (excluding depreciation and amortisation, impairments, provisions and non-recurring costs), including Banco CTT's recurring costs.

It is important to mention that the recurring EBITDA of the 9 months of 2016, excluding the costs from Banco CTT and including those incurred by CTT at its Retail Network, would have been €105.1m, only -€2.5m (-2.3%) than in the same period of 2015. The resilience of the CTT business model, as well as the capacity to match costs and revenue performance, are clearly demonstrated.

CTT's recurring EBITDA performance resulted from the EBITDA performance of the Mail business unit (+€1.2m; +1.6%), Express & Parcels business unit (+€1.4m; +93.3%), Financial Services business unit (-€1.8m; -5.9%) and Banco CTT business unit. Despite declining, the performance of these two latter business units is in line with expectations.

Consolidated EBITDA by Business Unit

€ Million

	Reported			Recurring		
	9M16	9M15	Δ	9M16	9M15	Δ
EBITDA	82.9	97.4	-14.9%	91.0	104.8	-13.2%
Mail	69.7	73.4	-4.9%	73.9	72.7	1.6%
Express & Parcels	2.8	- 1.8	>>	2.9	1.5	93.3%
Financial Services	28.8	25.8	11.7%	28.8	30.6	-5.9%
Banco CTT	- 18.5	-	-	- 14.6	-	-

RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax, and non-recurring results) stood at €71.4m (-18.3% than in the same period of the previous year). The EBIT margin stood at 13.8% (-2.5 p.p. vs that of last year).

Consolidated financial results reached -€4.0m, which represents a 1.7% (-€0.1m) decrease vis-à-vis the 9 months of 2015. Financial costs incurred amounted to €4.8m, including financial costs associated with employee benefits of €4.7m and interest related to financial leasing and bank loans operations (€0.06m). Interest and other financial income decreased by 51.0% (-€0.6m) year-on-year affected by the fall in the rates of return on term deposits and by the continued policy of very conservative treasury management by CTT.

In the 9 months of 2016, CTT obtained a €46.0m consolidated net profit attributable to shareholders, which is 9.1% below that of the same period of 2015 and corresponds to a result of €0.31 per share and an 8.9% net profit margin on the consolidated revenues (9.4% in the 9 months of 2015). Excluding the non-recurring effects in both financial years, the net profit would have decreased by 18.6%.

NON-RECURRING COSTS AND REVENUES

In the 9 months of 2016, CTT recorded a -€1.1m non-recurring impact on EBIT, which includes, under Other operating income, €1.7m relative to the recognition of the deferred capital gain for the early termination of the Conde Redondo building lease contract; this is a decision made within the balance sheet optimisation measures underway which aim at improving the efficiency of the capital employed and maximise the cash flow generated, thus releasing the company of an annual non-productive cost.

€6.4m of the non-recurring ES&S costs include costs incurred with studies and consulting on strategic projects, especially those related to the Banco CTT implementation project (€5.3m), the management information improvement project (€0.3m) and consulting on other projects (€0.8m).

Non-recurring costs and revenues

€ Million

	9M16	9M15
Total	-1.1	-7.7
affecting EBITDA	-8.1	-7.4
. Other operating income	1.7	-
. External supplies & services and other costs	-6.7	-6.1
. Staff costs	-3.2	-1.2
affecting only EBIT	7.0	-0.4
. Provisions (reinforcements / reductions)	7.6	0.1
. Impairments (losses / reductions)	-0.6	-0.5

Non-recurring staff costs of €3.2m include €2.4m in compensations resulting from the 2015 Company Agreement and €0.8m regarding costs from termination of employment contracts by mutual agreement. These measures will result in a reduction of staff costs in the future.

Depreciation/amortisation, impairments and net provisions recorded a €7.0m net reversal resulting from: (i) the reversal of provisions (€7.6m); (ii) the cost increase from net impairments regarding the Tourline network restructuring (€0.3m) within the optimisation of the Express & Parcels business unit; and (iii) the depreciation/amortisation of Banco CTT project (€0.3m).

The reversal of provisions relate to: (i) the net reversal of the provision for labour contingencies (€1.1m) and (ii) the reversal of the provision for onerous contracts (€6.5m) due on the one hand to the early termination of the Conde Redondo building lease contract (€2.9m) and, on the other hand, to the fact that the contracts of the Casal Ribeiro and Restauradores buildings in Lisbon ceased to be considered onerous contracts (€3.4m). This change is a result of the current policy of making a return on these buildings profitable, as the restructuring of the CTT Retail Network, the implementation of Banco CTT in these buildings and their new sub-lease contracts have outmatched the amount of the rentals paid within the current lease contracts.

INVESTMENT

Capex amounted to €19.1m, which is 23.3% above that of the same period of last year (+€3.6m). With higher weight in this amount are investments made in (i) the implementation of Banco CTT (€13.0m), essentially in IT systems, particularly the Core Banking System, and works to adapt the CTT post offices, (ii) IT projects in the remaining areas of the Company (€4.3m), (iii) maintenance and resettlement works (€1.2m), and (iv) acquisition of postal equipment (€0.4m).

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased from €72.1m in the 9 months of 2015 to €171.7m in the 9 months of 2016. The adjusted operating free cash flow (excluding the change in net financial services payables) amounted to €18.3m.

The net change in cash amounted to -€10.9m, a year-on-year positive change of +€23.6m. Excluding the change in the financial services receivables/payables (+€40.6m), the change in CTT's cash was -€51.5m.

This situation results mostly from: (i) €8.4m of cash flow from the operating activities (excluding the financial services flows); (ii) €40.6m regarding the change in net financial services payables/receivables; (iii) €163.3m in

Banco CTT operating flows; (iv) -€25.1m relative to payments regarding tangible and intangible fixed assets; (v) -€70.3m for the payment of dividends (excluding own shares); and (vi) -€134.3m of Banco CTT financial assets.

Cash flow

€ Million

	Reported			Adjusted (*)		
	9M16	9M15	Δ	9M16	9M15	Δ
Cash flow from operating activities	212.4	52.2	»	171.7	72.1	138.2%
Cash flow without Banco CTT				8.4	74.9	-88.8%
Cash flow Banco CTT				163.3	-2.8	>>
Cash flow from investment activities	-153.5	-20.6	«	-153.5	-20.6	«
Capex	-25.1	-22.9	-9.3%	-25.1	-22.9	-9.3%
Of which cash flow Banco CTT				-9.1	-7.9	-15.1%
Financial assets Banco CTT (**)	-134.3			-134.3		
Other	5.9	2.4	148.8%	5.9	2.4	148.8%
Operating Free cash flow	58.9	31.6	86.4%	18.3	51.5	-64.6%
Cash flow from financing activities	-71.8	-66.1	-8.7%	-71.8	-66.1	-8.7%
Dividends	-70.3	-69.8	-0.7%	-70.3	-69.8	-0.7%
Other	2.1	-	-	2.1	-	-
Net change in cash	-10.9	-34.5	68.5%	-51.5	-14.5	«

	30.09.2016	31.12.2015	Δ	30.09.2016	31.12.2015	Δ
Cash and equivalents at the end of the period	592.8	603.6	-1.8%	227.5	279.0	-18.5%

(*) Cash flow excluding change in Net Financial Services payables (€40.6m in 9M16 and -€19.9m in 9M15).
Cash and equivalents at the end of the period excluding Net Financial Services payables (€365.3m in September 2016 and €324.7m in December 2015).
(**) Includes financial assets available for sale, investments held to maturity and other banking financial assets of Banco CTT.

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 30.09.2016 and that at the end of the 2015 financial year are:

Total assets increased by €132.2m (+11.8%) reflecting (i) the€136.3m increase in financial assets held by Banco CTT, (ii) the €22.8m increase in other current assets, (iii) the €10.9m decrease in current assets, and (iv) the €7.1m reduction in deferred tax assets (of which €3.0m relate to the early termination of the Conde de Redondo building lease contract).

Equity decreased by €26.5m (-10.5%) as a result of the distribution of dividends for the 2015 financial year (€70.5m) that took place in May 2016 and is not yet fully offset by the net profit for the period (€46.0m). To be mentioned is also the acquisition of own shares (400,354 shares) in the 9 months of 2016 for a total amount €3.2m. The total number of own shares held as at 30 September 2016 was 600,531.

Liabilities increased €158.8m (+18.3%) mostly due to: (i) Banco CTT customer deposits in the amount of €182.3m; (ii) the €43.9m (+13.3%) increase in Financial Services payables; (iii) the €3.0m increase in current funding obtained mainly for funding Tourline via cash pooling; and (iv) the €17.2m decrease in provisions of which €9.0m related to the early termination of the Conde Redondo building lease contract and €4.4m regarding the reversal/utilisation of the whole provision associated to the Restauradores and Av. Casal Ribeiro buildings.

Consolidated Balance Sheet

€ Million

	30.09.2016	31.12.2015	Δ
Non-current Assets	406.6	354.9	14.6%
Current Assets	845.1	764.6	10.5%
Assets	1,251.7	1,119.5	11.8%
Equity	225.3	251.8	-10.5%
Total Liabilities	1,026.4	867.6	18.3%
Non-current Liabilities	265.9	292.7	-9.1%
Current Liabilities	760.4	575.0	32.3%
Total Equity and Liabilities	1,251.7	1,119.5	11.8%

As at 30 September 2016, the liabilities related to employee benefits amounted to €258.3m, €4.5m (-1.7%) less than in December 2015.

Liabilities related to long-term employee benefits

€ Million

	30.09.2016	31.12.2015	Δ
Total responsibilities	258.3	262.8	-1.7%
Healthcare	236.0	236.8	-0.4%
Staff (suspension agreements)	5.5	8.2	-33.4%
Other benefits to Corporate Bodies	4.1	3.0	37.5%
Other long-term benefits	12.7	14.8	-14.0%

To note the decrease in other long-term benefits due to the €1.8m reduction of the liability related to the "telephone subscription fee" benefit, as mentioned above.

The caption Other benefits to Corporate Bodies includes the liability defined through an independent actuarial study regarding the long-term variable remuneration linked to the achievement of objectives for a Total Shareholder Return – TSR defined by the Remuneration Committee at the beginning of the term of office.

3. HUMAN RESOURCES

As at 30 September 2016, the CTT headcount consisted of 12,774 employees, 52 more (+0.4) than in the 9 months of 2015.

There was a reduction of 71 permanent employees and an increase of 123 with fixed-term contracts. With special impact on this change is the reduction in the staff of the Express & Parcels business unit as a consequence of the distribution networks integration process, of the integrated networks optimisation measures in Portugal and the collective redundancy procedure at Tourline (ERE - Expediente de Regulación de Empleo) in 2015, and the increase in the number of staff in Banco CTT inherent to the life span of the project. The increase in fixed-term contract employees focused on the Mail business unit - (i) in the operations area as a result of a higher absenteeism rate in the period and the necessary process adaptation to the integration of the Express & Parcels mail delivery within the Mail delivery network and (ii) in the Retail Network as a consequence of the necessary reorganisation to perform banking operations in the CTT post offices.

Headcount

	30.09.2016	30.09.2015	Δ 2016/2015	
Mail	10,323	10,242	81	0.8%
Express & Parcels	1,058	1,147	-89	-7.8%
Financial Services	96	103	-7	-6.8%
Banco CTT	162	34	128	>>
Other	1,135	1,196	-61	-5.1%
Total, of which:	12,774	12,722	52	0.4%
Permanent	11,330	11,401	-71	-0.6%
Fixed-term contracts	1,444	1,321	123	9.3%
Total in Portugal	12,324	12,237	87	0.7%

The number of employees includes 7,172 mail operations and delivery staff (including 4,690 delivery postmen) and 2,805 employees in the Retail Network.

In the 9 months of 2016, 127 employees were hired – 95 in Portugal, of which 51 for Banco CTT and 32 abroad, specifically for Tourline Express – while 164 left CTT. Of these, 47 employees retired, 105 terminated their contracts or are on leave without pay and 12 passed away.

In the framework of the human capital enhancement and development required for the growth of CTT as well as of the consolidation of the CTT Employer Brand, several measures have been implemented to promote the recruitment of staff with new skills and resources, to strengthen particularly the growing areas. In this field the selection process within the 2nd edition of the Trainee Programme was launched with a view to attract and retain high-potential youngsters, promote their development within a structured company-wide programme, contribute to the rejuvenation of the company staff, foster a mobility culture and confirm CTT as an "employer of first choice". The programme "Summer Traineeship" also took place, which gave 17 young university students the possibility to develop technical and relational skills in job context for two months.

A performance assessment process took place regarding the 2015 financial year performance based for the first time on a performance management model in line with the management cycle and in light of the assessment of behaviours and objectives stipulated for every employee and taking into account the various activities and functional groups which were defined and expectations communicated to the employees in the early months of 2015. Hence, as one of the pillars of the remuneration policy, an annual variable remuneration was attributed taking into account the company results and the performance in the 2015 financial year. This extraordinary bonus was distributed according to differentiated individual criteria which considered the merit, the performance and attendance levels. It covered more than 8,000 workers and totalled an amount of circa 7.5 million euros.

Following the focus on the transformation of CTT through the adoption of new practices that contribute to organisational efficiency, motivation and alignment of the teams, CTT VOX, an organisational diagnosis questionnaire was launched during the month of September in order to collect the employees' opinion and later make an analysis that allows the identification of the strengths and improvement areas and consequently the future improvement of the satisfaction and motivation of the employees.

In the course of the 3rd quarter, the human capital development policies were pursued by increasing training, which culminated in 239 thousand hours of training with the attendance of 11 thousand workers. The following stand out in the period: (i) the preparation of the post office teams that started to work with Banco CTT or will start until the end of the year; (ii) the preparation of the post offices for the launch of health insurance; and (iii) the continued training of the post offices, postal agencies, operations and subcontracted suppliers' teams for the commercial and operational changes in the Express & Parcels offer.

On 23 March 2016, effective as of 1 January 2016, a Revised Agreement of the 2015 Company Agreement was signed with ten Trade Unions, under which a revision of the fixed remunerations up to €2,753 was agreed for 2016. This revised Agreement was extended to the workers of the subsidiaries and takes into account the growth in revenues and results of the Company in 2015, the promotion of a stable and peaceful social climate in the Company, which is the purpose of CTT and the signatory Unions. It also values work, mainly based on the above-mentioned performance-linked variable remuneration policy, and represents an important adjustment in lower remuneration levels, which is possible due to the performance of the company and the inflation of the year.

4. Quality of Service

In the 9 months of 2016, CTT have had good levels of operating performance, with the OQSI – Overall Quality of Service Indicator – registering 156.4 points, compared to a target of 100.

All the quality of the Universal Postal Service parameters, as defined by ANACOM under article 13(1) of the Postal Law (Law no. 17/2012, of 26 April), performed above the minimum established targets.

CTT customers' perception of the quality of service continues to be good, as 86.7% of the customers consider the overall quality of CTT as good or very good.

In the 9 months of 2016, efforts continued to maintain all the management systems certified. In February 2016, an external audit was successfully conducted to maintain the Quality Certification of the Monitoring Systems and determine the Quality of Service Indicators (QSI) regarding the QSI 1 to 5 (Ordinary and priority mail routeing time), QSI 6 (newspapers and periodicals routeing time), QSI 9 (domestic parcels routeing time) and QSI 10 (waiting time in post office queues). In April, the external audit to maintain the CTT Expresso and Mailtec certification was also successfully carried out and in July the audit to maintain the Certification of the Sorting Centres was also performed with very positive results. The Service Certification process was maintained in all the post offices and postal delivery offices, as well as in 100 postal agencies.

Throughout 2016, the implementation of a new system to measure and monitor the quality of service levels has been underway. It is carried out by an external entity in accordance with the provisions of the new Postal Law and is explained in further detail below, in section 7, regarding the Regulatory Environment.

5. TRANSFORMATION PROGRAMME[3]

From among the wide number of projects included in this programme in 2016 and aiming at the indispensable achievement of the short and middle-term objectives of CTT, the following should be highlighted:

OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS

As regards the optimisation of operations, the progressive use of the Rest Mail Sorter (RMS) equipment, introduced at the beginning of 2016, stands out. By the end of the 3rd quarter, it had handled over 8.4 million items (42.7% more than the whole of the 1st half of 2016). To be highlighted are also the elimination of the manual sorting of flat mail in the Production and Logistics Centre of the North (PLCN) and the gradual reduction of the packets line within the 3 Production and Logistics Centres (PLC), the termination of the video coding service agreement with full insourcing of the activity within the PLC and the insourcing of the customs broker activity in July 2016 as CTT took it over via indirect representation.

In 2016, a new stage of the distribution networks optimisation project began, with the aim of gradually insourcing the delivery of EMS 19 Múltiplo through the Mail distribution network. In the 9 months of 2016, the initiative was implemented in 39 PDOs. This new stage will allow for the completion of the insourcing potential of EMS within the Mail distribution network.

As a result of these initiatives, at the end of the 3rd quarter of 2016, circa 80% of all the EMS volumes had been delivered by the Mail distribution network (compared to 46.2% during the same period of 2015).

INFORMATION SYSTEMS STRATEGIC PLAN

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

In the 3rd quarter of 2016, in the transformation of applications field, the implementation of the new revenue assurance solution began for CTT Expresso, and also the conceptualisation of the self-service model of products and services (of CTT or its partners) which will be offered in post offices, postal agencies and partners, and other premises with large public inflow. In this first stage, the implementation of integration, workflows and content management solutions also began, which were carried by the new Business Solutions services through new models of processes and services integration and through the automation of some internal processes. At the same time, the implementation of the system to support the new Advertising Mail (CTT Ads) offer and the CTT information management platform continued. Within the current activity, the new modular Express & Parcels product offer continued to be implemented, as did the new CTT Expresso cost accounting system and new services in the field of Interconnect. Worth mentioning is also the process underway to select the supplier for the implementation of the new ERP system (SAP S/4) and the new contract and billing system (SAP Hybris Billing) which is expected to start in the 4th quarter.

In the area of transformation of infrastructures, the consolidation of the Unix servers pool was completed, which allows for significant savings of maintenance costs and strong performance improvements. Also, new communication, security and access control services were implemented. The project to design the consolidation and storage of the Windows servers' pool also started aiming to reduce maintenance costs, improve performance and provide CTT with the necessary responsiveness for the envisaged transformation plan.

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

Advertising Mail

The advertising mail initiative is a major project for an increased sustainability of the mail business revenues, one of the main strategic vectors. The vision for the advertising mail is to position CTT as benchmark in direct and relationship marketing in Portugal, based on two strategic objectives: (1) expand the advertising mail market by increasing its weight in advertising investment in Portugal; and (2) capture a share of the digital marketing market with an integrated physical-digital offer.

CTT intends to develop its offer in terms of solutions for advertising campaigns and for this purpose it focuses on two vectors: (i) development of a platform where advertisers can build their own campaigns in a self-service way and (ii) boost demand and leverage partnerships with media agencies. It is intended to create an integrated online offer of advertising mail and digital marketing to SMEs by promoting an appealing and trendy concept that will position CTT as an agile and innovative company that supports solutions to promote its customers' brands and products.

In the 3rd quarter, focus was on the development of the computer platform to support this initiative. This development is still underway and is expected to be completed for trials in 2016 and launched to the market in 2017. The team dedicated to this project, which integrated new skills following external recruitment, has been involved in the preparatory activities of creation of a new naming – CTT Ads – for CTT advertising solutions portfolio, development of product activation and incentive campaigns for the commercial areas, design of an integrated package of advertising solutions, definition of the new relationship model with advertising agencies, with visible results already in the 3rd quarter of 2016.

6. Other Business Opportunities

CTT is currently undertaking a number of initiatives in 3 growth vectors – network growth, extension of the services offer in payments, and new channels and services – to maximise the payments business in CTT outside the scope of Banco CTT, through Payshop. A number of growth opportunities for this business have been identified and are under study and/or in implementation. They aim to position this business as a future growth segment for the Financial Services in a non-banking rationale. The new digital and convenience solutions and offers, boosted by Fintech, are an opportunity to expand the CTT payments offer.

7. Balance Sheet Optimisation Initiatives

In the recent past, CTT implemented various initiatives to optimise its Balance Sheet, from the renegotiation of the Healthcare plan to the optimisation of the working capital. In this framework, in 2016, it has been taking relevant steps, with the support of consultants, to create a fund to which some post-employment healthcare liabilities may be transferred, especially with regard to the authorisation for its establishment from the Insurance and Pension Funds Supervisory Authority and to contract the respective managing company and the custodian bank. The creation of the Fund is subject to the necessary internal approval of its terms and conditions (involving careful consideration of its impacts and desired advantages), as well as to the completion of said authorisation process.

8. Regulatory Framework

Complying with the pricing criteria for the 2015/2017 period as defined by a decision of ANACOM of 21.11.2014, the proposal on the prices of the Universal Postal Service submitted by CTT on 17.11.2015, and subsequently adjusted, was approved by ANACOM by a deliberation of 20.01.2016. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 01.02.2016. In terms of prices and as far as the special prices for postal services included in the universal postal service applicable to bulk mail senders were also updated on 01.02.2016, following the proposal submitted to the Regulator on 18.01.2016.

As the universal postal service provider and in order to provide a standardised service to operators wishing to use the universal service network, as of February 2016, CTT offers the postal operators holding an individual license access to its network, under competitive conditions and not jeopardising the security and efficiency of the universal service provision. In this context and with regard to the access of other postal operators to some elements of the postal infrastructure, the offer on the access to the service of delivery into P.O. boxes and to the service of return to sender of the mail found in the CTT network with postage of other operators was published and entered into force in the past month of March.

As regards the quality of the universal postal service, as per the new Postal Law, the implementation of a new quality of service levels measurement and monitoring system took place in 2016 to be carried out by an independent external body. Following a pre-qualifying international tender, the external entity in charge of the measurement of the quality levels was selected and the service awarded to an international company, which undertook the necessary work to implement the measurement system of the quality of service indicators to be started as of 01.10.2016.

In accordance with its attitude of collaboration with and due answer to any proceedings undertaken by supervisory entities, CTT will submit its answer within the legal deadline to the "statement of objections" that the Company received from the Competition Authority on the basis of an alleged obstruction of access of its competitors to the postal network infrastructure. CTT considers the allegations as unfounded, particularly given the ever-present willingness of the Company to give access to its postal network in non-discriminatory conditions and terms compatible with present and future efficient management of the operation and with the sustainability of the universal service provision it is obliged to, as well as with good competition practices that the Company adopts in this field.

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 boosting e-commerce across the entire EU, including namely a proposal for a regulation on cross-border parcel delivery. 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 regard, the European postal operators are together carrying out the implementation of the Interconnect project, which essentially entails 5 commitments: (i) flexible delivery options; (ii) return solutions; (iii) expansion of the track and trace system; (iv) better quality of service for the client; and (v) label harmonisation. The goal of this project is to thereby remove obstacles that dissuade consumers from making online purchases outside their country by providing the sellers with more flexible and efficient delivery solutions with a single service standard for the customer, and, as such, maximise growth potential in cross-border electronic commerce for postal operators and contribute to the development of the Digital Single Market.

9. Corporate Governance

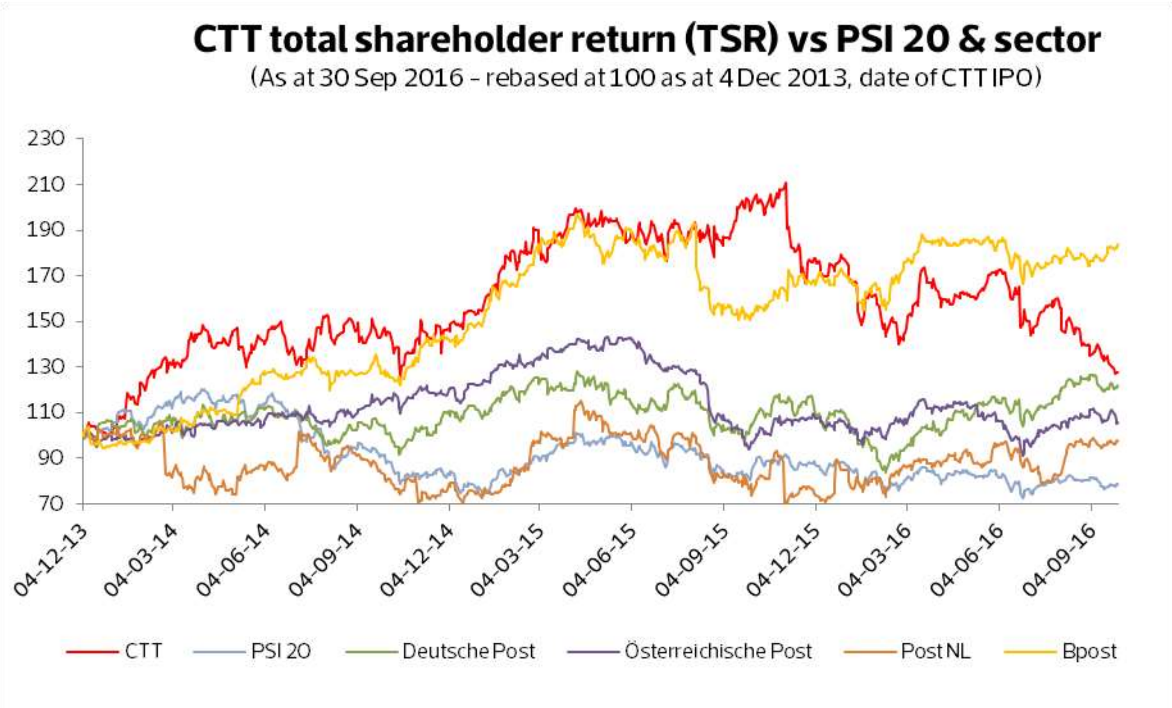
In the 3rd quarter of 2016, the following corporate events stand out:

- In its meeting held on 4 August 2016, the Board of Directors of CTT – Correios de Portugal, S.A. decided to co-opt Professor Celine Abecassis-Moedas for the position of Non-Executive Member of the Board of Directors to complete the current term of office (2014-2016), replacing Mr. António Manuel de Carvalho Ferreira Vitorino, who resigned from that position on 30 May 2016.
- On 22 and 23 August 2016, CTT – Correios de Portugal, S.A. acquired 100,089 own shares on the Euronext Lisbon Stock Exchange, corresponding to 0.067% of the share capital of the Company. As at 23 August

2016, as well as at the current date, CTT is the holder of 600,531 own shares, which represent 0.400% of its share capital, the voting rights inherent to those shares being suspended pursuant to article 324 of the Portuguese Companies Code.

10. DIVIDENDS

In May 2016, CTT paid a dividend of €0.47 per share, corresponding to a total shareholder return (capital gain + dividend, calculated on the basis of the share price as at 31 December 2015) of -28.25% for the 9 months of 2016. In terms of total shareholder return, the PSI 20 index presented a negative 10.64% performance in the same period. Since the privatisation, CTT performance vs the PSI20 index and its peers continues to represent a total shareholder return above average, as shown in the graph below, combining the share appreciation and a strategy of high return to its shareholders through a dividend policy which foresees a stable and sustained dividend growth.



As previously stated, the development of Banco CTT will have a negative impact on the company results during the first years of operation. However, given the high Balance Sheet liquidity of CTT and its capacity to generate cash flow, this is not expected to have an impact on the ability to pay dividends in accordance with that policy.

Hence, the Board of Directors is confident that it will be able to propose a minimum dividend of €0.48 per share (a 2.1% growth vs 2015) for the 2016 financial year, payable in 2017, consistent with its dividend policy.

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 9 months of 2016, which are attached hereto.

Lisbon, 31 October 2016

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code.

This information is also available on CTT's Investor Relations website at:

http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1

CTT – Correios de Portugal, S.A.

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By reading this document, you agree to be bound by the foregoing restrictions.

Forward-looking statements
This document contains forward-looking statements. All the statements herein which are not historical facts, including, but not limited to, statements expressing our current opinion or, as applicable, those of our directors regarding the financial performance, the business strategy, the management plans and objectives concerning future operations and investments are forward-looking statements. Statements that include the words "expects", "estimates", "foresees", "predicts", "intends", "plans", "believes", "anticipates", "will", "targets", "may", "would", "could", "continues" and similar statements of a future or forward-looking nature identify forward-looking statements.
All forward-looking statements included herein involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results, performance or achievements to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the results of our operations, growth strategy and liquidity, and the wider environment (specifically, market developments, investment opportunities and regulatory conditions).
Although CTT believes that the assumptions beyond such forward-looking statements are reasonable when made, any third parties are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of CTT, what could cause the models, objectives, plans, estimates and / or projections to be materially reviewed and / or actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.
Forward-looking statements (in particular, the objectives, estimates and projections as well as the corresponding assumptions) do neither represent a commitment regarding the models and plans to be implemented, nor are they guarantees of future performance, nor have they been reviewed by the auditors of CTT. You are cautioned not to place undue reliance on the forward-looking statements herein.
All forward-looking statements included herein speak only as at the date of this document. Except as required by applicable law, CTT does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CTT - CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2015

Euros

	NOTES	Unaudited 30.09.2016	31.12.2015
ASSETS			
Non-current assets			
Tangible fixed assets	4	201,577,713	209,940,886
Investment properties	6	15,778,593	19,783,095
Intangible assets	5	34,681,605	27,624,015
Goodwill		8,058,656	8,058,656
Investments in associated companies		296,260	255,695
Other investments		1,503,572	1,106,812
Investments held to maturity	19	58,860,998	-
Other non-current assets		1,114,128	601,103
Financial assets available for sale	20	4,261,347	-
Deferred tax assets	24	80,451,214	87,535,941
Total non-current assets		406,584,085	354,906,203
Current assets			
Inventories		5,605,724	5,455,115
Accounts receivable		118,906,664	124,355,641
Credit to bank clients		2,976,830	-
Income taxes receivable	18	297,231	-
Deferrals	8	8,580,440	8,168,589
Investments held to maturity	19	5,233,478	-
Other current assets		45,785,998	22,936,943
Financial assets available for sale	20	17,110,299	-
Other banking financial assets	21	47,827,491	-
Cash and cash equivalents		592,799,664	603,649,717
Total current assets		845,123,819	764,566,004
Total assets		1,251,707,904	1,119,472,208
EQUITY AND LIABILITIES			
Equity			
Share capital	10	75,000,000	75,000,000
Own shares	11	(5,097,536)	(1,873,125)
Reserves	11	34,514,465	33,384,112
Retained earnings	11	93,591,670	91,727,994
Other changes in equity	11	(18,644,832)	(18,644,832)
Net profit attributable to equity holders of parent company		46,034,675	72,065,283
Non-controlling interests		(51,616)	175,322
Total equity		225,346,827	251,834,754
Liabilities			
Non-current liabilities			
Medium and long term debt		110,556	1,035,522
Employee benefits	14	236,307,419	241,306,773
Provisions	15	23,574,499	40,732,332
Deferrals	8	1,585,032	5,016,576
Deferred tax liabilities	24	4,359,109	4,576,598
Total non-current liabilities		265,936,614	292,667,801
Current liabilities			
Accounts payable	16	454,943,188	435,891,677
Banking client deposits and other loans	17	182,250,573	-
Employee benefits	14	17,864,241	18,538,572
Income taxes payable	18	-	7,922,942
Short term debt		10,086,399	7,078,155
Deferrals	8	5,238,603	13,745,430
Other current liabilities	21	89,519,468	91,792,877
Other banking financial liabilities		521,992	-
Total current liabilities		760,424,464	574,969,653
Total liabilities		1,026,361,078	867,637,454
Total equity and liabilities		1,251,707,904	1,119,472,208

The attached notes are an integral part of these financial statements.

CTT - CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016 AND 30 SEPTEMBER 2015

Euros

	NOTES	Nine months ended Unaudited 30.09.2016	Nine months ended Unaudited 30.09.2015	Three months ended Unaudited 30.09.2016	Three months ended Unaudited 30.09.2015
Revenues		518,825,966	538,074,853	167,742,405	171,020,435
Sales and services rendered	3	497,261,477	526,960,579	161,074,171	166,759,673
Financial margin		(31,391)	-	(46,901)	-
Other operating income	22	21,595,881	11,114,274	6,715,136	4,260,762
Operating costs		(448,464,299)	(458,324,762)	(144,813,548)	(151,133,910)
Cost of sales		(10,262,066)	(11,815,222)	(3,480,296)	(4,248,101)
External supplies and services		(170,069,489)	(170,722,701)	(55,531,229)	(59,435,040)
Staff costs	23	(247,360,012)	(248,990,583)	(80,286,132)	(78,646,055)
Impairment of inventories and accounts receivable, net	9	(65,358)	(995,128)	194,309	(992,583)
Provisions, net	15	7,465,719	8,213	3,807,873	(96,948)
Depreciation / amortisation and impairment of investments, net	4,5,6	(19,905,863)	(16,685,767)	(6,919,585)	(6,043,569)
Other operating costs		(8,267,229)	(9,123,574)	(2,598,487)	(1,671,614)
Earnings before financial income and taxes		70,361,668	79,750,091	22,928,858	19,886,525
Financial results		(3,979,440)	(3,913,664)	(1,471,234)	(1,371,098)
Interest expenses		(4,802,433)	(5,150,983)	(1,600,992)	(1,689,487)
Interest income		592,653	1,209,042	129,758	318,389
Gains / losses in associated companies		230,340	28,277	-	-
Earnings before taxes		66,382,227	75,836,427	21,457,624	18,515,427
Income tax for the period	24	(20,585,820)	(25,193,593)	(7,211,067)	(7,050,861)
Net profit for the period		45,796,408	50,642,834	14,246,557	11,464,566
Net profit for the period attributable to:					
Equity holders of parent company		46,034,675	50,634,957	14,358,139	11,469,551
Non-controlling interests		(238,268)	7,877	(111,583)	(4,985)
Earnings per share of the parent company	13	0.31	0.34	0.10	0.08

The attached notes are an integral part of these interim condensed financial statements.

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016 AND 30 SEPTEMBER 2015
Euros

		Nine months ended		Three months ended	
		Unaudited	Unaudited	Unaudited	Unaudited
	NOTES	30.09.2016	30.09.2015	30.09.2016	30.09.2015
Net profit for the period		45,796,408	50,642,834	14,246,556	11,464,566
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)		-	335,015	-	-
Changes to fair value reserves		10,194	-	3,672	-
Employee benefits (non re-classifiable adjustment to profit and loss)	14	-	(3,176,170)	-	378,738
Deferred tax / Employee benefits (non re-classifiable adjustment to profit and loss)	24	-	893,774	-	(106,577)
Other changes in equity		74,515	127,020	6,939	278,472
Other comprehensive income for the period after taxes		84,709	(1,820,361)	10,611	550,633
Comprehensive income for the period		45,881,117	48,822,473	14,257,167	12,015,199
Attributable to non-controlling interests		(226,938)	501,550	(108,113)	133,869
Attributable to shareholders of CTT		46,108,054	48,320,923	14,365,280	11,881,330

The attached notes are an integral part of these interim condensed financial statements.

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2015
Euros

	NOTES	Share capital	Own Shares	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
Balance on 1 January 2015		75,000,000	-	31,773,967	(18,786,310)	84,374,563	77,171,128	(323,703)	249,209,645
Appropriation of net profit for the year of 2014		-	-	-	-	77,171,128	(77,171,128)	-	-
Dividends	12	-	-	-	-	(69,750,000)	-	-	(69,750,000)
Acquisition of own shares		-	(1,873,125)	-	-	-	-	-	(1,873,125)
Share plan		-	-	1,610,685	-	-	-	-	1,610,685
		-	(1,873,125)	1,610,685	-	7,421,128	(77,171,128)	-	(70,012,440)
Other movements		-	-	-	-	(177,319)	-	158,658	(18,661)
Actuarial gains/losses - Health Care, net from deferred taxes	11	-	-	-	141,478	-	-	-	141,478
Changes to fair value reserves		-	-	(540)	-	-	-	-	(540)
Adjustments from the application of the equity method	11	-	-	-	-	109,622	-	335,015	444,637
Net profit for the period		-	-	-	-	-	72,065,283	5,352	72,070,635
Comprehensive income for the period		-	-	(540)	141,478	(67,697)	72,065,283	499,025	72,637,549
Balance on 31 December 2015		75,000,000	(1,873,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Balance on 1 January 2016		75,000,000	(1,873,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Appropriation of net profit for the year of 2015		-	-	-	-	72,065,283	(72,065,283)	-	-
Dividends	12	-	-	-	-	(70,264,792)	-	-	(70,264,792)
Acquisition of own shares	11	-	(3,224,411)	-	-	-	-	-	(3,224,411)
Share plan	11	-	-	1,120,159	-	-	-	-	1,120,159
		-	(3,224,411)	1,120,159	-	1,800,491	(72,065,283)	-	(72,369,044)
Other movements		-	-	-	-	63,185	-	11,330	74,515
Changes to fair value reserves		-	-	10,194	-	-	-	-	10,194
Net profit for the period		-	-	-	-	-	46,034,675	(238,268)	45,796,408
Comprehensive income for the period		-	-	10,194	-	63,185	46,034,675	(226,938)	45,881,117
Balance on 30 September (unaudited)		75,000,000	(5,097,536)	34,514,465	(18,644,832)	93,591,670	46,034,675	(51,616)	225,346,827

The attached notes are an integral part of these interim condensed financial statements.

CTT - CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2016 AND 30 SEPTEMBER 2015

Euros

	NOTES	Unaudited 30.09.2016	Unaudited 30.09.2015
Operating activities			
Collections from customers		465,425,489	509,748,817
Payments to suppliers		(194,850,435)	(168,185,360)
Payments to employees		(231,834,406)	(240,448,930)
Banking customer deposits and other loans		182,048,811	
Credit to bank clients		(2,976,694)	
Cash flow generated by operations		217,812,765	101,114,527
Payments / receivables of income taxes		(22,530,191)	(21,767,203)
Other receivables / payments		17,088,893	(27,189,703)
Cash flow from operating activities (1)		212,371,467	52,157,621
Investing activities			
Receivables resulting from:			
Tangible fixed assets		225,264	458,750
Investment properties		4,919,750	-
Financial investments		-	24,870
Financial assets available for sale		12,517,040	-
Investments held to maturity		15,505,000	-
Other banking financial assets		68,805,000	-
Interest income		753,641	1,887,440
Payments resulting from:			
Tangible fixed assets		(10,688,130)	(15,062,993)
Intangible assets		(14,387,366)	(7,867,825)
Financial assets available for sale		(33,884,026)	-
Investments held to maturity		(79,889,616)	-
Demand deposits at Bank of Portugal		(1,737,354)	-
Other banking financial assets		(115,605,000)	-
Cash flow from investing activities (2)		(153,465,798)	(20,559,758)
Financing activities			
Receivables resulting from:			
Loans obtained		6,443,271	6,845,609
Payments resulting from:			
Loans repaid		(3,490,000)	(55,559)
Interest expenses		(557,864)	(488,501)
Finance leases		(740,328)	(736,701)
Acquisition of own shares	11	(3,224,411)	(1,873,125)
Dividends	12	(70,264,792)	(69,750,000)
Cash flow from financing activities (3)		(71,834,125)	(66,058,277)
Net change in cash and cash equivalents (1+2+3)		(12,928,455)	(34,460,414)
Changes in the consolidation perimeter		-	-
Cash and equivalents at the beginning of the period		603,649,717	664,569,744
Cash and cash equivalents at the end of the period		590,721,262	630,109,331

Cash and cash equivalents at the end of the period		590,721,262	630,109,331
Sight deposits at Bank of Portugal		1,737,354	-
Outstanding checks		341,049	-
Cash and cash equivalents (Balance sheet)		592,799,664	630,109,331

The attached notes are an integral part of these interim condensed financial statements.

CTT – CORREIOS DE PORTUGAL, S.A.

Notes to the interim condensed consolidated financial statements
(Amounts expressed in Euros)

TABLE OF CONTENTS

1. INTRODUCTION

CTT – Correios de Portugal, S.A. – Sociedade Aberta ("CTT" or "Company"), with head office at Avenida D. João II, no. 13, 1999-001 in Lisbon, had its origin in the "Administração Geral dos Correios Telégrafos e Telefones" government department and its legal form is the result of successive re-organisations carried out by the Portuguese state business sector in the communications area.

Decree-Law no. 49.368 of 10 November 1969 founded the state-owned company CTT - Correios e Telecomunicações de Portugal, E. P., which started operating on 1 January 1970. By Decree-Law no. 87/92, of 14 May, CTT – Correios e Telecomunicações de Portugal, E. P., was transformed into a legal entity governed by private law, with the status of a state-owned public limited company. Finally, with the foundation of the former Telecom Portugal, S.A. by spin-off from Correios e Telecomunicações de Portugal, S.A. under Decree-Law no. 277/92 of 15 December, the Company's name was changed to the current CTT – Correios de Portugal, S.A..

On 31 January 2013 the Portuguese State through the Order no. 2468/12 – SETF, of 28 December, determined the transfer of the investment owned by the Portuguese State in CTT to Parpública – Participações Públicas, SGPS, S.A..

At the General Meeting held on 30 October 2013, the registered capital of CTT was reduced to 75,000,000 Euros, being from that date onwards represented by 150,000,000 shares, as a result of a stock split which was accomplished through the reduction of the nominal value from 4.99 Euros to 0.50 Euros.

During 2013, CTT's capital was opened to the private sector. Supported by Decree-Law no. 129/2013 of 6 September and the Resolution of the Council of Ministers ("RCM") no. 62-A/2013, of 10 October, the RCM no. 62-B/2013, of 10 October and RCM no. 72-B/2013, of 14 November, the first phase of privatisation of the capital of CTT took place on 5 December 2013. From this date, 63.64% of the shares of CTT (95.5 million shares) were owned by the private sector, of which 14% (21 million shares) were sold in a Public Offering and 49.64% (74.5 million shares) by Institutional Direct Selling. On 31 December 2013 the Portuguese State, through Parpública - Participações Públicas, SGPS, S.A. held 36.36% of the shares of CTT, 30.00% by detention and 6.36% by allocation.

On 5 September 2014, the second phase of the privatisation of CTT took place. The shares held by Parpública - Participações Públicas, SGPS, S.A., which on that date represented 31.503% of CTT's capital, were subject to a private offering of Shares ("Equity Offering") via an accelerated bookbuilding process. The Equity Offering was addressed exclusively to institutional investors.

The shares of CTT are listed on Euronext Lisbon.

The interim condensed consolidated financial statements attached herewith are expressed in Euros, as this is the functional currency of the Group.

These interim condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 October 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted, including financial risk management policies, are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2015.
However, as a result of the increasing relevance of Banco CTT, the following accounting policies adopted by the Group and not disclosed as at 31 December 2015 are mentioned hereinafter.

Investments held to maturity

The investments classified as held to maturity are non-derivative assets with defined or determinable payment dates and fixed maturity, which the Group both intends and has the capacity to hold until maturity and which are not designated, on initial recognition, as assets at fair value through profit or loss or as financial assets available for sale.

The investments held to maturity are measured at amortised cost, according to the effective interest rate method and are net from impairment losses.

The impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (considering the recovery period) discounted at the financial asset's original effective interest rate. These investments are presented in the balance sheet net of impairment losses. If the asset is a floating interest rate's asset, the discount rate to use in the determination of the correspondent impairment losses should be the effective interest rate, determined in accordance with each contract rules. Regarding the investments held to maturity, if, in a subsequent period, the amount of the impairment loss decreases, and this decrease can be objectively associated to an event that occurred after the recognition of the impairment loss, the previously recognised impairment loss is reversed through the income of the period.

Financial assets available for sale

The financial assets available for sale are non-derivative financial assets which: (i) are designated as available for sale on initial recognition; or (ii) are not included in the remaining financial assets categories. These are recognised as non-current assets, except if there is the intention to sell within 12 months of the balance sheet date.

These financial assets are initially recognised at acquisition value. After initial recognition, the financial assets available for sale are subsequently carried at fair value, by reference to their market value at the balance sheet date, without any deduction of transaction costs which may be incurred until the sale. Whenever these investments are non-listed equity investments, and is not possible to estimate reliably the corresponding fair value, they are stated at cost net of any impairment losses.

Unrealised capital gains and losses are recognised directly in equity, until the financial asset is sold, received, or disposed of in any way, at which time the accumulated gain or loss previously recognised in equity is recognised in the net profit for the period.

2.1 Basis of presentation

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IAS / IFRS") as adopted by the European Union as at 1 January 2016, and in accordance with IAS 34 - Interim Financial Reporting.

3. SEGMENT REPORTING

In accordance with IFRS 8, the Group discloses the segment financial reporting.

The Board of Directors regularly reviews segmental reports, using them to assess and communicate each segment performance, as well as to decide on how to allocate resources.

The business of CTT is organised in the following segments:

- Mail – CTT, S.A. excluding financial services, but including retail network, business solutions, corporate and support areas, CTT Contacto, 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..

The segments cover the three CTT business areas, as follows:

- Postal Market, covered by the Mail segment;
- Express and Parcels Markets, covered by the Express & Parcels segment; and
- Financial Market, covered by the Financial Services and Banco CTT segments.

Besides the above mentioned segments, there are two sales channels, which are common to all businesses and products, the Retail Network and Large Customers. In this analysis, the Retail Network, which is connected to the obligations of the universal postal service concession, is incorporated in the Mail segment and integrates internal revenues related to the provision of services to other segments, as well as the sale in its network of third-party products and services.

The amounts reported in each business segment result from the aggregation of the subsidiaries and business units defined in each segment perimeter and the elimination of transactions between companies of the same segment.

The statement of financial position of each subsidiary and business unit is determined based on the amounts booked directly in the companies that compose the segment, including the elimination of balances between companies of the same segment, and excluding allocation adjustments between segments.

The income statement for each business segment is based in the amounts booked directly in the companies' financial statements and related business units, adjusted by the elimination of transactions between companies of the same segment.

However, as CTT, S.A. has assets in more than one segment it was necessary to split its income and costs by the various operating segments. The Internal Services Rendered refers to services provided across the different CTT, S.A. business areas, and the income is calculated according to standard activities valued through internally set transfer prices.

Initially, CTT, S.A. operating costs are allocated to the different segments by charging the internal transactions for the services mentioned above. After this initial allocation, cost relating to corporate and support areas (Central Structure CTT) previously unallocated, are allocated among the segments Mail and Financial Services according to the average number of CTT, S.A. employees in each of these segments.

With the allocation of all costs, the earnings before depreciation, provisions, impairments, financial results and taxes by segment in the periods ended 30 September 2016 and 2015 are analysed as follows:

30.09.2016								
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	397,965,264	88,088,771	53,398,852	270,548	75,486,880	(96,384,350)	-	518,825,966
Sales and services rendered	365,568,967	84,481,567	49,425,288	-	-	(2,214,346)	-	497,261,477
Sales	13,857,113	570,429	-	-	-	(550)	-	14,426,992
Services rendered	351,711,855	83,911,138	49,425,288	-	-	(2,213,796)	-	482,834,484
Financial Margin	-	-	-	(31,391)	-	-	-	(31,391)
Operating revenues external customers	20,102,831	3,607,204	3,911,257	301,940	13,995,855	(20,323,206)	-	21,595,881
Internal services rendered	12,293,465	-	62,307	-	29,943,745	(42,299,517)	-	-
Allocation to CTT central structure	-	-	-	-	31,547,280	(31,547,280)	-	-
Operating costs	328,220,865	85,277,246	24,555,371	18,802,783	75,486,880	(96,384,350)	-	435,958,796
External supplies and services	75,509,115	67,395,028	7,326,951	11,592,836	30,761,894	(22,516,336)	-	170,069,489
Staff costs	180,972,093	16,042,382	3,467,712	6,993,976	39,883,850	-	-	247,360,012
Other costs	11,599,701	1,839,837	890,997	215,970	4,004,007	(21,216)	-	18,529,295
Internal services rendered	28,809,519	-	12,652,870	-	837,129	(42,299,517)	-	-
Allocation to CTT central structure	31,330,438	-	216,842	-	-	(31,547,280)	-	-
EBITDA (1)	69,744,399	2,811,525	28,843,481	(18,532,235)	-	-	-	82,867,170
Depreciation / amortisation and impairment of investments, net	(11,464,470)	(2,041,961)	(259,865)	(1,026,993)	(4,721,764)	-	(390,810)	(19,905,863)
Impairment of accounts receivable, net								(65,358)
Provisions net								7,465,719
Interest expenses								(4,802,433)
Interest income								592,653
Gains / losses in associated companies								230,340
Earnings before taxes								66,382,227
Income tax for the period								(20,585,820)
Net profit for the period								45,796,408
Non-controlling interests								(238,268)
Equity holders of parent company								46,034,675

(1) Operating results + depreciation / amortisation + provisions and impairment losses, net.

Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
				30.09.2015			
Revenues	411,067,713	96,030,137	57,887,784	79,664,554	(106,575,334)	-	538,074,853
Sales and services rendered	380,953,541	93,247,401	56,304,172	-	(3,544,535)	-	526,960,579
Sales	15,671,214	649,956	-	-	-	-	16,321,170
Services rendered	365,282,327	92,597,445	56,304,172	-	(3,544,535)	-	510,639,409
Operating revenues external customers	17,225,769	2,782,736	1,523,203	11,225,912	(21,643,345)	-	11,114,274
Internal services rendered	12,888,403	-	60,409	41,591,539	(54,540,351)	-	-
Allocation to CTT central structure	-	-	-	26,847,103	(26,847,103)	-	-
Operating costs	337,691,659	97,797,949	32,073,253	79,664,554	(106,575,334)	-	440,652,080
External supplies and services	76,454,815	73,550,583	14,524,462	31,364,928	(25,172,087)	-	170,722,701
Staff costs	179,924,411	21,373,776	3,648,023	44,044,374	-	-	248,990,583
Other costs	14,345,275	2,873,589	334,765	3,400,959	(15,793)	-	20,938,796
Internal services rendered	40,330,267	-	13,355,791	854,293	(54,540,351)	-	-
Allocation to CTT central structure	26,636,891	-	210,212	-	(26,847,103)	-	-
EBITDA [(1)]	73,376,054	(1,767,812)	25,814,531	-	-	-	97,422,773
Depreciation / amortisation and impairment of investments, net	(10,622,671)	(2,399,908)	(502,724)	(2,971,340)	-	(189,123)	(16,685,767)
Impairment of inventories and accounts receivable, net							(995,128)
Provisions net							8,213
Interest expenses							(5,150,983)
Interest income							1,209,042
Gains / losses in associated companies							28,277
Earnings before taxes							75,836,427
Income tax for the period							(25,193,593)
Net profit for the period							50,642,834
Non-controlling interests							7,877
Equity holders of parent company							50,634,957

[(1)] Operating results + depreciation / amortisation + provisions and impairment losses, net.

The revenues are detailed as follows:

Thousand Euros	30.09.2016	30.09.2015
Mail	397,965	411,068
Transactional mail	303,005	312,582
Editorial mail	11,687	11,704
Parcels (USO)	4,545	4,893
Advertising mail	21,607	22,500
Retail	13,085	12,775
Philately	5,276	6,025
Business Solutions	6,985	8,831
Other	31,776	31,758
Express & Parcels	88,089	96,030
Financial Services	53,399	57,888
Banco CTT	271	-
CTT Central Structure	75,487	79,665
Intragroup eliminations	(96,384)	(106,575)
	518,826	538,075

The assets by segment are detailed as follows:

Assets (Euros)	30.09.2016 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
Intagible assets	2,449,173	3,617,123	143,227	17,737,121	7,118,999	3,615,962	34,681,605
Tangible fixed assets	167,429,991	12,357,740	472,141	66,422	16,609,646	4,641,774	201,577,713
Investment properties						15,778,593	15,778,593
Goodwill	7,652,555		406,101				8,058,656
Deferred tax assets						80,451,214	80,451,214
Accounts receivable						118,906,664	118,906,664
Credit to bank clients				2,976,830			2,976,830
Investments held to maturity				64,094,476			64,094,476
Financial assets available for sale				21,371,646			21,371,646
Other banking financial assets				47,827,491			47,827,491
Other assets						63,183,353	63,183,353
Cash and cash equivalents						592,799,664	592,799,664
	177,531,718	15,974,863	1,021,469	154,073,985	23,728,645	879,377,224	1,251,707,904

Assets (Euros)	31.12.2015 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
Intagible assets	2,884,879	3,663,322	245,408	9,716,701	9,104,348	2,009,357	27,624,015
Tangible fixed assets	174,902,447	13,727,659	549,351	60,642	17,579,075	3,121,711	209,940,886
Investment properties						19,783,095	19,783,095
Goodwill	7,652,555		406,101				8,058,656
Deferred tax assets						87,535,941	87,535,941
Accounts receivable						124,355,641	124,355,641
Other assets						38,524,257	38,524,257
Cash and cash equivalents						603,649,717	603,649,717
	185,439,881	17,390,982	1,200,860	9,777,343	26,683,423	878,979,718	1,119,472,208

Debt by segment is detailed as follows:

Other information (Euros)	30.09.2016 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	Total
Medium and long-term debt		110,556				110,556
Bank loans		73,922				73,922
Leasings		36,633				36,633
Short-term debt	840,666	9,245,734				10,086,399
Bank loans		8,891,448				8,891,448
Leasings	840,666	354,285				1,194,951
	840,666	9,356,289				10,196,955

Other information (Euros)	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	Total
	31.12.2015					
Medium and long-term debt	724,845	310,677				1,035,522
Bank loans		95,241				95,241
Leasings	724,845	215,436				940,281
Short-term debt	462,968	6,615,187				7,078,155
Bank loans		6,028,197				6,028,197
Leasings	462,968	586,990				1,049,958
	1,187,813	6,925,864				8,113,677

The Group CTT is domiciled in Portugal. The result of its Sales and services rendered by geographical segment is disclosed below:

Thousand Euros	30.09.2016	30.09.2015
Revenue - Portugal	441,260	468,781
Revenue - other countries	56,001	58,179
	497,261	526,961

The financial statements are subject to seasonality, however this does not affect comparability between identical periods in a given year. There are atypical / non-recurring factors that may affect comparability between equal periods of the several years such as the number of working days of the period (mobile holidays or weekend holidays), special events (elections, promotional campaigns for clients) which may impact the revenue to increase / decrease from one period to another.

4. TANGIBLE FIXED ASSETS

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movements occurred in Tangible fixed assets, as well as in the respective accumulated depreciation, were as follows:

	30.09.2016								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	37,306,577	337,982,013	138,002,341	3,273,328	54,961,400	23,252,352	1,971,617	1,398,407	598,148,034
Acquisitions	-	44,345	1,329,011	3,037	1,455,769	224,361	1,964,499	1,828,473	6,849,495
Disposals	(73,365)	-	(1,507,206)	-	(11,153)	-	-	-	(1,591,724)
Transfers and write-offs	-	1,880,170	(2,227,331)	(279)	(229,074)	(54,176)	(1,880,170)	(343,057)	(2,853,918)
Adjustments	-	(4,744)	(455,977)	(7,939)	(93,880)	(40,112)	-	(123,265)	(725,918)
Closing balance	37,233,211	339,901,784	135,140,838	3,268,146	56,083,062	23,382,425	2,055,946	2,760,558	599,825,971
Accumulated depreciation									
Opening balance	3,888,321	192,743,986	118,629,681	3,154,422	50,187,217	19,306,750	-	-	387,910,379
Depreciation for the period	-	6,879,603	5,210,436	51,258	1,804,860	726,553	-	-	14,672,711
Disposals	(5,040)	-	(1,487,431)	-	(11,153)	-	-	-	(1,503,625)
Transfers and write-offs	-	-	(2,320,932)	(279)	(447,777)	(113,871)	-	-	(2,882,859)
Adjustments	-	(1,054)	(122,019)	(4,908)	(16,517)	(7,834)	-	-	(152,332)
Closing balance	3,883,281	199,622,535	119,909,735	3,200,493	51,516,631	19,911,599	-	-	398,044,275
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(92,786)	-	-	(92,786)
Closing balance	-	-	-	-	-	203,983	-	-	203,983
Net Tangible fixed assets	33,349,931	140,279,248	15,231,103	67,653	4,566,431	3,266,843	2,055,946	2,760,558	201,577,713

	31.12.2015								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	36,831,709	330,651,512	143,631,822	2,620,085	53,946,268	22,491,331	1,737,799	431,404	592,341,930
Acquisitions	-	241,625	6,037,562	1,981	1,694,892	929,960	3,505,594	2,137,061	14,548,674
Disposals	(2,881)	(206,610)	(3,453,459)	-	(10,823)	-	-	-	(3,673,773)
Transfers and write-offs	477,748	7,295,485	(8,159,431)	647,245	(634,229)	(139,395)	(3,271,776)	(1,168,066)	(4,952,418)
Adjustments	-	-	(57,723)	4,016	(34,707)	(29,544)	-	(1,991)	(119,949)
Changes in the consolidation perimeter	-	-	3,569	-	-	-	-	-	3,569
Closing balance	37,306,577	337,982,013	138,002,341	3,273,327	54,961,400	23,252,352	1,971,616	1,398,408	598,148,034
Accumulated depreciation									
Opening balance	3,888,710	181,856,867	124,532,096	2,539,928	48,417,343	18,220,445	-	-	379,455,389
Depreciation for the period	-	8,999,999	6,576,631	65,894	2,392,151	1,244,129	-	-	19,278,804
Disposals	(388)	(116,904)	(3,449,206)	-	(10,823)	-	-	-	(3,577,322)
Transfers and write-offs	-	2,004,296	(8,961,765)	548,540	(602,122)	(154,648)	-	-	(7,165,699)
Adjustments	-	(271)	(70,002)	60	(9,332)	(3,176)	-	-	(82,720)
Changes in the consolidation perimeter	-	-	1,927	-	-	-	-	-	1,927
Closing balance	3,888,322	192,743,987	118,629,681	3,154,422	50,187,217	19,306,750	-	-	387,910,379
Accumulated impairment									
Opening balance	-	-	-	-	-	420,483	-	-	420,483
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	296,769	-	-	296,769
Net Tangible fixed assets	33,418,255	145,238,026	19,372,659	118,905	4,774,183	3,648,833	1,971,616	1,398,408	209,940,886

During the nine-month period ended 30 September 2016, Land and natural resources and Buildings and other constructions include 4,594,502 Euros (4,756,534 Euros as at 31 December 2015), related to land and property in co-ownership with MEO – Serviços de Comunicações e Multimédia, S.A..

In the year ended 31 December 2015, the caption Changes in the consolidation perimeter relates to the balances of the company Escrita Inteligente, S.A. acquired in December 2015.

During the nine-month period ended 30 September 2016, the most significant movements in Tangible fixed assets were the following:

<u>Buildings and other constructions:</u>
The movements associated to acquisitions and transfers relate mostly to the capitalisation of repairs in own and third-party buildings of CTT and Tourline.

<u>Basic equipment:</u>
The amount of acquisitions mainly relates to the purchase of IT equipment worth approximately 664 thousand Euros, pallets and pallet trucks for about 20 thousand Euros, scales for approximately 42 thousand Euros, pallets for Rest Mail for about 40 thousand Euros and strapping machines worth approximately 15 thousand Euros by CTT and the upgrade of parcel sorting machines of about 257 thousand Euros by CTT Expresso. Payshop acquired 400 payment terminals in the amount of 74 thousand Euros.

<u>Office equipment:</u>
The amount of acquisitions relates essentially to the purchase of safes and security doors totaling 361 thousand Euros, various office equipment worth about 596 thousand Euros, medium and large size equipment of about 270 thousand Euros and the acquisition of several micro-computing equipment for approximately 194 thousand Euros by CTT. In addition, Tourline acquired several IT equipment worth approximately 37 thousand Euros.

<u>Other tangible fixed assets:</u>
The amount of acquisitions mainly relates to prevention and safety equipment for approximately 170 thousand Euros.

<u>Tangible fixed assets in progress:</u>

CTT - Correios de Portugal, S.A. - Public Company - Share capital €75,000,000.00 - Lisbon commercial registry and fiscal number 500 077 568
CTT Building, Av. D. João II, 13 - 1999-001 LISBON - PORTUGAL
ctt.pt

The amounts under this heading are related to the capitalisation of improvements in own and third-party properties.

In the year ended 31 December 2015, the amounts recorded under write-offs, with particular emphasis on Basic equipment, are mainly due to the write-offs of CTT assets that were fully depreciated.

The depreciation recorded of 14,672,711 Euros (13,818,692 Euros on 30 September 2015), is booked under the heading Depreciation/amortisation and impairment of investments, net.

Contractual commitments related to Tangible fixed assets are as follows:

Improvements in properties	1,461,710
Improvements in properties - Banco CTT	1,146,684
Safety equipment	928,091
Servers upgrades	467,400
Electric vehicles	384,375
Motorcycles	361,141
Upgrades to mail sorting machines	344,570
Safes and security doors	284,187
Mail transporter machines	268,080
Hardware firewall networks	249,350
Trailers	192,249
Forklifts	50,701
Pallets	38,804
Orthophotomaps	16,313
Laptops, desktops and screens	14,398
	6,208,052

5. INTANGIBLE ASSETS

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movements which occurred in the main categories of Intangible assets, as well as the respective accumulated amortisation, were as follows:

	30.09.2016					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	4,372,923	48,455,024	12,004,296	444,739	12,175,413	77,452,395
Acquisitions	-	6,215,697	5,172	-	6,008,227	12,229,096
Disposals	-	(15,490)	-	-	-	(15,490)
Transfers and write-offs	-	11,818,686	1,893	-	(11,851,705)	(31,126)
Adjustments	-	(15,640)	(359,444)	-	-	(375,084)
Closing balance	4,372,923	66,458,278	11,651,916	444,739	6,331,935	89,259,791
Accumulated amortisation						
Opening balance	4,350,412	36,912,898	8,120,329	444,739	-	49,828,379
Amortisation for the period	7,236	4,582,734	252,371	-	-	4,842,341
Disposals	-	(15,490)	-	-	-	(15,490)
Adjustments	-	(2,289)	(74,755)	-	-	(77,044)
Closing balance	4,357,648	41,477,853	8,297,946	444,739	-	54,578,186
Net intangible assets	15,275	24,980,424	3,353,971	-	6,331,935	34,681,605

	31.12.2015					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	4,372,922	38,620,250	11,659,692	444,739	4,726,397	59,824,001
Acquisitions	84,441	5,386,048	342,437	-	11,911,640	17,724,566
Transfers and write-offs	(84,441)	4,448,727	-	-	(4,502,826)	(138,540)
Changes in the consolidation perimeter	-	-	2,167	-	40,201	42,368
Closing balance	4,372,922	48,455,024	12,004,296	444,739	12,175,413	77,452,394
Accumulated amortisation						
Opening balance	4,340,765	33,801,244	7,816,346	439,639	-	46,397,993
Amortisation for the period	12,060	3,471,192	344,597	5,100	-	3,832,949
Transfers and write-offs	(2,413)	(359,537)	-	-	-	(361,949)
Adjustments	-	-	(40,614)	-	-	(40,614)
Closing balance	4,350,412	36,912,898	8,120,329	444,739	-	49,828,379
Net intangible assets	22,510	11,542,126	3,883,967	-	12,175,413	27,624,015

The caption Industrial property includes the license of the trademark "Payshop International" of CTT Contacto, S.A., of 1,200,000 Euros. This license has an indefinite useful life, therefore is not being amortised.

The transfers occurred in the nine-month period ended 30 September 2016 from Intangible assets in progress to Computer software refer to IT projects which were completed during the period.

The amounts of 492,943 Euros and 190,954 Euros that were capitalised in Computer software or in Intangible assets in progress as at 30 September 2016 and 30 September 2015, respectively, related to the staff costs incurred in the development of these projects.

As at 30 September 2016, Intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

SGEE - System Management Express Shipping	1,416,204
Management information - Software	622,243
International (E-CIP)	586,238
CBS - Core banking system	552,024
OPICS - Treasury mangement	460,676
NAVE evolution	275,435
Mail products evolution	252,342
Digital platform - advertising mail	217,489
Payment platform	136,221
Financial consolidation - Software	120,572
Audit management - software	112,545
DOL - Treatment and generation of scales	89,017
CIA - New portal of treatment	88,578
Extraterritorial virtual mailbox	87,504
CTT Mobile	70,228
Riposte migration	61,454
Reg Pro - Banking report system	46,296
	5,195,067

The amortisation for the period of 4,842,341 Euros (2,677,952 Euros as at 30 September 2015) was recorded under Depreciation / amortisation and impairment of investments, net.

There are no Intangible assets with restricted ownership or any carrying value relative to any Intangible Assets which have been given as a guarantee of liabilities.

Contractual commitments relative to Intangible assets are as follows:

CBS - Core Banking System	11,492,837
Card management system	297,996
OPICS - Treasury management	260,000
SAP Business Process Management	240,170
APP Mobile Account	236,370
Licences Management Information	221,880
Enterprise Content Management (ECM) - Document Management	209,871
SAP Enterprise Application Integration	203,264
APP Direct Marketing	86,961
APP Home Banking USSD	62,200
Management contracts and Budgeting	47,183
SADIP - Dynamics Change Plans	46,675
Self Service Network	39,360
Geocontacto e Geomarketing	18,184
APP Mobile CTT Expresso	9,970
RFP - GEOGIRO	7,082
	13,480,002

6. INVESTMENT PROPERTIES

As at 30 September 2016 and 31 December 2015, the Group has the following assets classified as investment properties:

	30.09.2016		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,079,433	40,895,219	47,974,653
Disposals	(890,140)	(8,088,615)	(8,978,754)
Closing balance	6,189,294	32,806,605	38,995,898
Accumulated depreciation			
Opening balance	239,427	26,669,509	26,908,936
Depreciation for the period	-	487,211	487,211
Disposals	(25,824)	(5,432,025)	(5,457,848)
Closing balance	213,603	21,724,696	21,938,299
Accumulated impairment			
Opening balance	-	1,282,622	1,282,622
Transfers / Adjustments	-	(3,615)	(3,615)
Closing balance	-	1,279,007	1,279,007
Net Investment properties	5,975,691	9,802,902	15,778,593

	31.12.2015		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,716,058	45,722,963	53,439,021
Additions	14,500	43,500	58,000
Disposals	(173,376)	(854,186)	(1,027,562)
Transfers and write-offs	(477,748)	(4,017,057)	(4,494,805)
Closing balance	7,079,434	40,895,220	47,974,654
Accumulated depreciation			
Opening balance	259,501	28,399,732	28,659,233
Depreciation for the period	-	752,365	752,365
Disposals	(20,075)	(435,235)	(455,310)
Transfers and write-offs	-	(2,047,352)	(2,047,352)
Closing balance	239,426	26,669,510	26,908,936
Accumulated impairment			
Opening balance	-	1,450,025	1,450,025
Transfers / Adjustments	-	(167,403)	(167,403)
Closing balance	-	1,282,622	1,282,622
Net Investment properties	6,840,008	12,943,087	19,783,095

These assets are not allocated to the Group's operating activities, nor have a specific future use.

During the nine-month period ended 30 September 2016, the amount of disposals relates to the sale of six properties having the corresponding gains, of 1.2 million Euros, been recorded in the caption Other operating income.

Depreciation for the period of 487,211 Euros (613,561 Euros on 30 September 2015) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals).

7. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 30 September 2016 and 31 December 2015, the parent company, CTT - Correios de Portugal, S.A. and the following subsidiaries in which it holds control were included in the consolidation:

Company name	Head office	30.09.2016 Percentage of ownership Direct	Indirect	Total	31.12.2015 Percentage of ownership Direct	Indirect	Total
Parent company:							
CTT - Correios de Portugal, S.A.	Av. D. João II N.º 13 1999-001 Lisboa	-	-	-	-	-	-
Subsidiaries:							
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
CTT Contacto, S.A. [a] ("CTT Con")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Mailtec Comunicação, S.A. ("Mailtec TI")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Tourline Express Mensajería, SLU. ("TourLine")	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908) - Barcelona - Spain	100	-	100	-	100	100
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo - Mozambique	50	-	50	50	-	50
Escrita Inteligente, S.A. ("RONL")	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Banco CTT, S.A. ("BancoCTT")	Av. D. João II N.º 11 1999-001 Lisboa	100	-	100	100	-	100

[a] Previously named CTT Gest, S.A.

In relation to CORRE as the Group has the right to variable returns and the ability to affect those returns through its power over this company, it is included in the consolidation due to the fact that the Group controls its operating and financial business.

On 17 March 2016, CTT Expresso, S.A. sold to CTT – Correios de Portugal, S.A., 100% of the shareholding in the subsidiary Tourline Express Mensajería, SLU. This transaction had no impact on the consolidation perimeter.

On 16 May 2016, the share capital of Banco CTT, S.A. has been increased by 26,000,000 Euros, and currently totals 60,000,000 Euros.

Joint ventures

As at 30 September 2016 and 31 December 2015, the Group held the following interests in joint ventures, accounted for by the equity method:

Company name	Head office	30.09.2016 Percentage of ownership Direct	Indirect	Total	31.12.2015 Percentage of ownership Direct	Indirect	Total
Ti-Post Prestção de Serviços informáticos, ACE (" Ti-Post")	R. do Mar da China, Lote 107.2.3 Lisboa	49	-	49	49	-	49
NewPost, ACE [a]	Av. Fontes Pereira de Melo, 40 Lisboa	49	-	49	49	-	49
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

[a] Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE.

Associated companies

As at 30 September 2016 and 31 December 2015, the Group held the following interests in associated companies accounted for by the equity method:

Company name	Head office	30.09.2016 Percentage of ownership Direct	Indirect	Total	31.12.2015 Percentage of ownership Direct	Indirect	Total
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisboa	20	-	20	20	-	20
Payshop Moçambique, S.A. [(a)]	R. da Sé, 114-4º. Maputo - Mozambique	-	35	35	-	35	35
Mafelosa, SL [(b)]	Castellon - Spain	-	25	25	-	25	25
Urpacksur, SL [(b)]	Málaga - Spain	-	30	30	-	30	30

[(a)] Company held by Payshop Portugal, S.A., which is currently under liquidation.

[(b)] Company held by Tourline Mensajeria, SLU, which currently has no activity.

Changes in the consolidation perimeter

During the nine-month period ended 30 September 2016, there were no changes in the consolidation perimeter.

8. DEFERRALS

As at 30 September 2016 and 31 December 2015, the Deferrals included in current assets and current and non-current liabilities showed the following composition:

	30.09.2016	31.12.2015
Assets deferrals		
Current		
Rents payable	1,239,373	1,293,761
Meal allowances	1,674,303	1,701,736
Company Agreement - Supplementary agreement compensation	424,421	1,457,575
Other	5,242,343	3,715,517
	8,580,440	8,168,589
Liabilities deferrals		
Non-current		
Deferred capital gains	535,845	3,677,282
Deferred commissions	700,000	1,000,000
Tangible fixed assets	349,187	339,294
	1,585,032	5,016,576
Current		
Deferred capital gains	2,143,378	2,399,029
Phone-ix top ups	175,431	206,329
Deferred comissions	400,000	400,000
Investment subsidy	11,201	11,201
Altice agreement	2,083,333	9,583,333
Other	425,260	1,145,538
	5,238,603	13,745,430
	6,823,635	18,762,006

In prior years, CTT sold certain properties, which it subsequently leased. The gains on these sales were deferred and are being recognised over the period of the lease contracts.

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the amounts of 2,858,988 Euros and 1,511,128 Euros, respectively, were recognised under Other operating income in the consolidated income statement, related to the above mentioned gains. The amount recognised in the nine-month period ended 30 September 2016 includes the amount of 1,725,642 Euros regarding Conde Redondo's building as a result of the lease contract's termination.

In 2014, CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euros on the signing date. An amount of 1 million Euros, related to an entry fee was recognised at the beginning of the contract and the remaining 2 million Euros, for the non-refundable fees will be recognised over the period of the contract. As at 30 September 2016 an amount of 1,100,000 Euros related to this contract was deferred (1,400,000 Euros as at 31 December 2015).

Following the memorandum of understanding signed with Altice and the acquisition of PT Portugal being completed by Altice, CTT received from Altice the agreed initial payment, which is being recognised in the consolidated income statement over the exclusive period for negotiation of potential partnerships. In the nine-month period ended 30 September 2016, the amount of 7,500,000 Euros, was recognised under Other operating income in the consolidated income statement, related to this memorandum.

9. ACCUMULATED IMPAIRMENT LOSSES

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the following movements occurred in the impairment losses:

	30.09.2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other non-current assets						
Other non-current assets	1,472,836	-	(71,670)	-	191,853	1,593,020
INESC loan	347,021	-	-	-	(347,021)	-
	1,819,857	-	(71,670)	-	(155,168)	1,593,020
Accounts receivable and Other current assets						
Accounts receivable	31,737,169	2,421,901	(1,675,608)	(1,516,214)	-	30,967,248
Other current assets	8,622,168	434,486	(646,991)	(2,616)	(191,853)	8,215,193
INESC loan	49,740	-	(396,761)	-	347,021	-
	40,409,077	2,856,388	(2,719,360)	(1,518,830)	155,168	39,182,441
Inventories						
Merchandise	1,397,098	188,135	(111)	-	-	1,585,121
Raw, subsidiary and consumable	565,513	87,546	-	-	-	653,058
	1,962,611	275,680	(111)	-	-	2,238,180
	44,191,545	3,132,068	(2,791,141)	(1,518,830)	-	43,013,641

	31.12.2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other non-current assets						
Other non-current assets	1,421,001	51,835	-	-	-	1,472,836
INESC loan	371,891	-	(24,870)	-	-	347,021
	1,792,892	51,835	(24,870)	-	-	1,819,857
Accounts receivable and Other current assets						
Accounts receivable	30,498,785	4,625,870	(2,025,960)	(1,361,526)	-	31,737,169
Other current assets	9,461,922	487,981	(1,500,571)	(9,530)	182,366	8,622,168
INESC loan	49,740	-	-	-	-	49,740
	40,010,447	5,113,851	(3,526,531)	(1,371,056)	182,366	40,409,077
Inventories						
Merchandise	1,527,827	36,874	(129,402)	(38,201)	-	1,397,098
Raw, subsidiary and consumable	676,836	35,091	(146,414)	-	-	565,513
	2,204,663	71,965	(275,816)	(38,201)	-	1,962,611
	44,008,002	5,237,651	(3,827,217)	(1,409,257)	182,366	44,191,545

Impairment losses regarding tangible fixed assets and investment properties are detailed respectively in Notes 4 and 6.

The net amount between increases and reversals of impairment losses of inventories was recorded in the consolidated income statement under the caption Cost of sales.

10. EQUITY

As at 30 September 2016, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

As at 30 September 2016 and 31 December 2015 the Company's shareholders with greater than or equal to 2% shareholdings, according to the information reported, are as follows:

Shareholder		30.09.2016 No. of shares	%	Nominal value
Gestmin SGPS, S.A. (1)		14,183,956	9.456%	7,091,978
Manuel Carlos de Melo Champalimaud		284,885	0.190%	142,443
Manuel Carlos de Melo Champalimaud	Total	14,468,841	9.646%	7,234,421
Standard Life Investments Limited (2)		9,910,580	6.607%	4,955,290
Ignis Investment Services Limited (2)		97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	Total	10,007,653	6.672%	5,003,827
Allianz Global Investors GmbH (3)	Total	7,552,637	5.035%	3,776,319
BNP Paribas Investment Partners Belgium S.A. (4)			0.833%	625,000
BNP Paribas Investment Partners Luxembourg S.A. (4)			2.972%	2,228,765
BNP Paribas Asset Management SAS (4)			1.197%	897,450
BNP Paribas Investment Partners S.A.	Total	7,502,430	5.002%	3,751,215
Norges Bank	Total	6,820,342	4.547%	3,410,171
Kames Capital plc (5)		2,045,003	1.363%	1,022,502
Kames Capital Management Limited (5)		3,096,134	2.064%	1,548,067
Aegon NV (5)	Total	5,141,137	3.427%	2,570,569
F&C Asset Management plc (6)		3,124,801	2.083%	1,562,401
Bank of Montreal (6)		3,124,801	2.083%	1,562,401
BlackRock, Inc. (7)	Total	3,013,331	2.009%	1,506,666
CTT, S.A. (own shares) (8)	Total	600,531	0.400%	300,266
Other shareholders	Total	91,768,297	61.179%	45,884,149
Total		150,000,000	100.000%	75,000,000

(1) Shareholding directly and indirectly attributable to Mr. Manuel Carlos de Melo Champalimaud.
(2) Company held by Standard Life Investments (Holdings) Limited.
(3) Previously, Allianz Global Investors Europe GmbH.
(4) Companies controlled by BNP Paribas Investment Partners S.A..
(5) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc. This qualifying shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital

plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

(6) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.

(7) The full chain of BlackRock, Inc. controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted at the attachment of the qualifying holding press release, available at: www.ctt.pt/BlackRock.

(8) The voting rights inherent to own shares held by the Company are suspended pursuant to article 324 of the Portuguese Companies Code.

Shareholder		31.12.2015 No. of shares	%	Nominal value
Standard Life Investments Limited (1)		9,910,580	6.607%	4,955,290
Ignis Investment Services Limited (1)		97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	Total	10,007,653	6.672%	5,003,827
Manuel Carlos de Melo Champalimaud		33,785	0.023%	16,893
Gestmin SGPS, S.A. (2)		7,766,215	5.177%	3,883,108
Manuel Carlos de Melo Champalimaud	Total	7,800,000	5.200%	3,900,000
Artemis Fund Managers Limited (3)		7,433,817	4.956%	3,716,909
Artemis Investment Management LLP		276,892	0.185%	138,446
Artemis Investment Management LLP	Total	7,710,709	5.140%	3,855,355
Allianz Global Investors Europe GmbH (AGIE) (4)	Total	7,552,637	5.035%	3,776,319
A.A.-FORTIS-ACTIONS PETITE CAP. EUROPE (5)		226,096	0.151%	113,048
BNP PARIBAS A FUND European Multi-Asset Income (5)		241,969	0.161%	120,985
BNP PARIBAS B PENSION BALANCED (5)		675,151	0.450%	337,576
BNP PARIBAS B PENSION GROWTH (5)		89,950	0.060%	44,975
BNP PARIBAS B PENSION STABILITY (5)		42,617	0.028%	21,309
BNP PARIBAS L1 MULTI-ASSET INCOME (5)		287,384	0.192%	143,692
BNP PARIBAS SMALLCAP EUROLAND (5)		1,569,016	1.046%	784,508
Merck BNP Paribas European Small Cap (5)		97,607	0.065%	48,804
METROPOLITAN-RENTASTRO GROWTH (5)		159,111	0.106%	79,556
PARVEST EQUITY EUROPE SMALL CAP (5)		3,863,880	2.576%	1,931,940
PARWORLD TRACK EUROPE SMALL CAP (5)		5,004	0.003%	2,502
Stichting Bewaar ANWB – Eur Small Cap (5)		149,732	0.100%	74,866
Stichting Pensioenfonds Openbare Bibliotheken (5)		130,657	0.087%	65,329
BNP Paribas Investment Partners, Limited Company (5)	Total	7,538,174	5.025%	3,769,087
Kames Capital plc (6)		2,045,003	1.363%	1,022,502
Kames Capital Management Limited (6)		3,096,134	2.064%	1,548,067
Aegon NV (6)	Total	5,141,137	3.427%	2,570,569
Norges Bank	Total	3,143,496	2.096%	1,571,748
F&C Asset Management plc (7)		3,124,801	2.083%	1,562,401
Bank of Montreal (7)		3,124,801	2.083%	1,562,401
Henderson Global Investors Limited (8)		3,037,609	2.025%	1,518,805
Henderson Group plc (8)		3,037,609	2.025%	1,518,805
CTT, S.A. (own shares) (9)	Total	200,177	0.133%	100,089
Other shareholders	Total	94,743,607	63.162%	47,371,804
Total		150,000,000	100.000%	75,000,000

(1) Company held by Standard Life Investments (Holdings) Limited.
(2) Shareholding directly and indirectly attributable to Mr. Manuel Carlos de Melo Champalimaud.
(3) Company held by Artemis Investment Management LLP.
(4) Previously named Allianz Global Investors Europe GmbH.
(5) The qualifying holding of BNP Paribas Investment Partners represents 5.025% of CTT share capital and 4.773% of the voting rights (see CTT press release of 18-12-2015). Shareholding held through the following funds managed by BNP Paribas Investment Partners: A.A.-FORTIS-ACTIONS PETITE CAP EUROPE; BNP PARIBAS A FUND European Multi-Asset Income; BNP PARIBAS B PENSION BALANCED; BNP PARIBAS B PENSION GROWTH; BNP PARIBAS B PENSION STABILITY; BNP PARIBAS L1 MULTI-ASSET INCOME; BNP PARIBAS SMALLCAP EUROLAND; Merck BNP Paribas European Small Cap; METROPOLITAN-RENTASTRO GROWTH; PARVEST EQUITY EUROPE SMALL CAP; PARWORLD TRACK EUROPE SMALL CAP; Stichting Bewaar ANWB - Eur Small Cap; Stichting Pensioenfonds Openbare Bibliotheken.
(6) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc. This qualified shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.
(7) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.
(8) Henderson Group plc is the parent company of Henderson Global Investors Limited. All voting rights are attributable to Henderson Global Investors Limited. According to a disclosure of 8 January 2016, Henderson Group plc ceased to hold a qualified holding in CTT.
(9) The voting rights inherent to own shares held by the Company are suspended pursuant to article no. 324 of the Portuguese Companies Code.

11. OWN SHARES, RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS

Own shares

The commercial legislation regarding own shares requires that a non-distributable reserve must be created for the same amount of the acquisition price of such shares. This reserve is not available for distribution while the shares stay in the Company's possession. In addition, the applicable accounting standards determine that the gains or losses obtained with the sale of such shares are recognised in reserves.

As at 30 September 2016, the company held 600,531 own shares, acquired in June 2015 and March and August 2016, which represent 0.400% of the Company's share capital.

Own shares held by CTT are within the limits established by the Articles of Association of the Company and by the Portuguese Companies Code. These shares are recorded at acquisition cost.

During the nine-month period ended 30 September 2016, the movements that occurred in this caption were as follows:

	Quantity	Value	Average price
Balance at 31December 2015	200,177	1,873,125	9.357
Acquisitions	400,354	3,224,411	8.054
Disposals	-	-	-
Balance at 30 September 2016	600,531	5,097,536	8.488

Reserves

As at 30 September 2016 and 31 December 2015, the heading Reserves is detailed as follows:

	30.09.2016	31.12.2015
Legal reserves	18,072,559	18,072,559
Own shares reserve (CTT, S.A.)	5,097,536	1,873,125
Other reserves	11,344,370	13,438,428
	34,514,465	33,384,112

Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after all the other reserves have been depleted, or incorporated in the share capital.

Own shares reserve (CTT, S.A.)

As at 30 September 2016, this caption includes the amount of 5,097,536 Euros related to the creation of an unavailable reserve for the same amount of the acquisition price of the own shares held.

Other reserves

This heading records the profits transferred to reserves that are not imposed by the law or articles of association, nor constituted pursuant to contracts signed by the Company.

In the nine-month period ended 30 September 2016 and the years ended 31 December 2015 and 31 December 2014, it also records the amount recognised in each year related to the Share Plan that constitutes the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee in the amount of 4,107,251 Euros (Note 14).

Retained earnings

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the following movements were made in the heading Retained earnings:

	30.09.2016	31.12.2015
Opening balance	91,727,994	84,374,563
Application of the net profit of the prior year	72,065,283	77,171,128
Distribution of dividends (Note 12)	(70,264,792)	(69,750,000)
Adjustments from the application of the equity method	-	109,622
Other movements	63,185	(177,319)
Closing balance	93,591,670	91,727,994

Other changes in equity

The Actuarial gains/losses associated to post-employment benefits, as well as the corresponding deferred taxes, are recognised in this heading (Note 14).

Thus, for the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movements occurred in this heading were as follows:

	30.09.2016	31.12.2015
Opening balance	(18,644,832)	(18,786,310)
Actuarial gains / losses - Healthcare	-	114,181
Tax effect - Healthcare	-	27,297
Closing balance	(18,644,832)	(18,644,832)

12. DIVIDENDS

At the General Meeting of Shareholders held on 28 April 2016, a dividend distribution of 70,500,000 Euros was approved, corresponding to a dividend per share of 0.47 Euros, regarding to the financial year ended on 31 December 2015. The dividend was paid on 25 May 2016. The dividend amount assigned to own shares was transferred to Retained earnings, totaling 235,208 Euros.

Assigned dividends	70,500,000
Dividends assigned to own shares	(235,208)
Dividends paid	70,264,792

According to the dividends distribution proposal included in the 2014 Annual Report, at the General Meeting of Shareholders, which took place on 5 May 2015, a dividend distribution of 69,750,000 Euros regarding to the financial year ended 31 December 2014 was proposed and approved. The dividend was paid on 29 May 2015.

13. EARNINGS PER SHARE

During the nine-month periods ended 30 September 2016 and 30 September 2015, the earnings per share were calculated as follows:

	30.09.2016	30.09.2015
Net income for the period	46,034,675	50,634,957
Average number of ordinary shares	149,569,956	149,911,075
Earnings per share		
Basic	0.31	0.34
Diluted	0.31	0.34

The average number of shares is detailed as follows:

	30.09.2016	30.09.2015
Shares issued at begining of the period	150,000,000	150,000,000
Own shares effect	430,044	88,925
Average number of shares during the period	149,569,956	149,911,075

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares, excluding the average number of own shares held by the Group. As at 30 September 2016, the number of own shares held by the Group is 600,531 and its average number for the period ended 30 September 2016 is 430,044, reflecting the fact that the acquisition of own shares occurred in June 2015 and March and August 2016.

There are no dilutive factors of earnings per share.

14. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – healthcare, (ii) other long-term employee benefits and (iii) other long-term benefits for the statutory bodies.

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, these liabilities presented the following movement:

	30.09.2016				
	Liabilities			Equity	Total
	Healthcare	Other long-term employee benefits	Total	Other long-term benefits statutory bodies	
Opening balance	236,806,000	23,039,345	259,845,345	2,987,092	262,832,437
Movement of the period	(851,183)	(4,822,502)	(5,673,686)	1,120,159	(4,553,526)
Closing balance	235,954,817	18,216,843	254,171,660	4,107,251	258,278,911

	31.12.2015				
	Liabilities			Equity	Total
	Healthcare	Other long-term employee benefits	Total	Other long-term benefits statutory bodies	
Opening balance	241,166,000	36,125,547	277,291,547	1,376,407	278,667,954
Movement of the period	(4,360,000)	(13,086,203)	(17,446,203)	1,610,685	(15,835,518)
Closing balance	236,806,000	23,039,345	259,845,345	2,987,092	262,832,437

The heading Other long-term employee benefits essentially refers to the on-going suspension of contracts programme and to the pensions for work accidents.

The caption Other long-term benefits for the statutory bodies refers to the long-term variable remuneration assigned to the executive members of the Board of Directors.

The details of liabilities related to employee benefits, considering their classification, are as follows:

	30.09.2016	31.12.2015
Equity (Other reserves)	4,107,251	2,987,092
Non-current liabilities	236,307,419	241,306,773
Current liabilities	17,864,241	18,538,572
	258,278,911	262,832,437

For the nine-month periods ended 30 September 2016 and 30 September 2015, the costs related to employee benefits recognised in the consolidated income statement and the amount recognised directly in Other changes in equity were as follows:

	30.09.2016	30.09.2015
Costs for the period		
Healthcare	7,327,500	7,456,500
Other long-term employee benefits	(1,498,311)	(2,614,475)
Other long-term benefits statutory bodies	1,120,159	1,237,298
	6,949,348	6,079,322
Other changes in equity		
Healthcare	-	(3,176,170)
	-	(3,176,170)

Healthcare

CTT is responsible for financing the healthcare plan applicable to certain employees. In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is performed by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, and an actuarial study has been performed as at 31 December 2015.

The evolution of the present value of the liabilities related to the healthcare plan has been as follows:

	30.09.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Liabilities at the end of the period	235,954,817	236,806,000	241,166,000	263,371,000	252,803,000

For the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movement which occurred in the present value of the defined benefits liability regarding the healthcare plan was as follows:

	30.09.2016	31.12.2015
Opening balance	236,806,000	241,166,000
Service cost of the year	2,982,750	4,042,000
Interest cost of the year	4,344,750	5,900,000
Plan amendment	-	-
Pensioners contributions	3,745,152	5,113,703
(Payment of benefits)	(11,446,085)	(18,654,596)
(Other costs)	(477,750)	(646,926)
Actuarial (gains)/losses	-	(114,181)
Other changes	-	-
Closing balance	235,954,817	236,806,000

During the nine-month period ended 30 September 2016, no actuarial (gains)/losses have been recognised as the actuarial study will only be performed as at 31 December 2016.

During the nine-month periods ended 30 September 2016 and 30 September 2015, the total costs were recognised as follows:

	30.09.2016	30.09.2015
Gastos com pessoal/benefícios aos empregados	2,505,000	2,523,000
Outros gastos	477,750	508,500
Gastos com juros	4,344,750	4,425,000
	7,327,500	7,456,500

Other long-term employee benefits

In certain situations, the Group has liabilities related to the payment of salaries in situations of Suspension of contracts, redeployment and release of employment, the allocation of subsidies of Support for termination of professional activity (which were eliminated as of 1 April 2013), the payment of the Telephone subscription fee, Pensions for work accidents, and Monthly life annuity. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable. The Group requested an actuarial study from an independent entity to assess the estimated liabilities as at 31 December 2015.

For the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movement of liabilities with other long-term employee benefits was as follows:

	30.09.2016	31.12.2015
Suspension of contracts, redeployment and release of employment		
Opening balance	8,234,231	17,810,243
Interest cost of the period	128,954	379,359
Curtailment	-	(4,782,194)
(Payment of benefits)	(2,800,332)	(5,187,776)
Actuarial (gains)/losses	-	14,599
Other changes	(79,809)	-
Closing balance	5,483,044	8,234,231
Telephone subscription fee		
Opening balance	4,518,270	4,832,775
Interest cost of the period	80,359	114,854
(Payment of benefits)	(129,765)	(216,939)
Actuarial (gains)/losses	(1,815,868)	(212,420)
Closing balance	2,652,996	4,518,270
Pension for work accidents		
Opening balance	6,863,591	8,161,400
Interest cost of the period	124,754	198,665
(Payment of benefits)	(320,519)	(472,298)
Actuarial (gains)/losses	-	(1,024,176)
Closing balance	6,667,826	6,863,591
Monthly life annuity		
Opening balance	3,423,253	5,282,395
Interest cost of the period	63,299	130,698
(Payment of benefits)	(73,575)	(97,925)
Actuarial (gains)/losses	-	(1,891,915)
Closing balance	3,412,977	3,423,253
Support for cessation of professional activity		
Opening balance	-	38,734
Interest cost of the period	-	484
(Payment of benefits)	-	(35,284)
Actuarial (gains)/losses	-	(3,934)
Closing balance	-	-
Total	18,216,843	23,039,345

During the nine-month period ended 30 September 2016, except for the benefit Telephone subscription fee, no actuarial (gains)/losses have been recognised as the actuarial study will only be performed as at 31 December 2016.

During the nine-month periods ended 30 September 2016 and 30 September 2015, the total costs for the period were recognised as follows:

	30.09.2016	30.09.2015
Staff costs / employee benefits		
Suspension of contracts, redeployment and release of employment	(79,809)	(3,018,620)
Telephone subscription fee	(1,815,868)	(193,648)
Pension for work accidents	-	(22,004)
Monthly life annuity	-	(4,118)
Support for cessation of professional activity	-	6,233
	(1,895,677)	(3,232,157)
Interest expenses	397,366	617,682
	(1,498,311)	(2,614,475)

During the nine-month period ended 30 September 2016, a historical analysis of the average costs per beneficiary and the number of beneficiaries regarding the benefit Telephone subscription fee was conducted, with the support of an independent expert, , having CTT recognised a liability reduction of 1,815,868 Euros which was recorded under Staff costs since it relates to long-term employee benefits.

Following the renegotiation of the conditions related to workers in situations of Suspension of contract, redeployment and release of employment, CTT recorded, in the year ended 31 December 2015, a liability reduction of 4,782,194 Euros.

As a result of a change in the pension's growth rate applied to the benefits Monthly life annuity and Pensions for work accidents the related liability decreased significantly, in the year ended 31 December 2015, which was reflected under Staff costs for that period.

Other long-term benefits for the statutory bodies

The Remuneration Committee of CTT approved, with effect as from 31 December 2014, the Remuneration Regulation for Members of the Statutory Bodies, which defines the allocation of a long-term variable remuneration, to be paid in Company shares. The number of shares allocated to members of the CTT's Executive Committee is based on the performance evaluation results during the period of the term of office, until 31 December 2016, which consists of a comparison between the recorded performance of the Total Shareholder Return (TSR) of CTT shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

The evaluation period of CTT TSR performance compared to peers is from 1 January 2014 to 31 December 2016. The long-term variable remuneration is to be paid on 31 January 2017, by allocating shares of the Company, subject to a positive TSR of the shares of the Company at the end of the evaluation period, according to a maximum number of shares defined in the Regulation and corrected by maximum limits for each member of the Executive Committee.

On 31 December 2014, the liability for this long-term remuneration was calculated, based on the fair value of the shares, by an independent expert and by using a Black-Scholes methodology through the production of a Monte Carlo simulation model.

Therefore, for the nine-month period ended 30 September 2016, CTT recorded a cost of 1,120,159 Euros, booked against Other reserves.

15. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the nine-month period ended 30 September 2016 and the year ended 31 December 2015, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

	30.09.2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	9,102,700	1,600,477	(2,091,484)	(1,527,191)	1,458,774	8,543,276
Onerous contracts	14,358,103	139,058	(6,613,918)	(7,883,243)	-	-
Other provisions	17,035,233	118,888	(618,740)	(45,383)	(1,458,774)	15,031,224
	40,496,036	1,858,423	(9,324,142)	(9,455,817)	-	23,574,500
Investments in subsidiary and associated companies	189,775	-	(189,775)	-	-	-
Restructuring	46,521	-	-	(46,521)	-	-
	40,732,332	1,858,423	(9,513,917)	(9,502,338)	-	23,574,500

	31.12.2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	9,907,427	1,942,805	(2,556,840)	(1,603,861)	1,413,169	9,102,700
Onerous contracts	16,854,955	1,291,580	(670,798)	(3,117,634)	-	14,358,103
Other provisions	18,693,363	1,212,339	(941,773)	(515,527)	(1,413,169)	17,035,233
	45,455,745	4,446,724	(4,169,411)	(5,237,022)	-	40,496,036
Investments in subsidiary and associated companies	215,772	-	-	-	(25,997)	189,775
Restructuring	-	1,880,000	(167,398)	(1,666,081)	-	46,521
	45,671,517	6,326,724	(4,336,809)	(6,903,103)	(25,997)	40,732,332

Litigations

The provisions for litigations were set up to face the liabilities resulting from lawsuits brought against the Group and are estimated based on information from its lawyers.

Onerous Contracts

Following the termination of the Conde Redondo's building lease contract, CTT recorded, in the first quarter of 2016, a reversal of the provision for onerous contracts regarding the lease contract of this building, in the amount of 2,913,557 Euros.

The utilisations in the amount of 7,883,243 Euros relate to the payment of rents due during the period as well as part of the outstanding rents of the Conde Redondo building.

The increases regard the update of the assumptions used in 2015, namely the discount rate.

As a result of the restructuring of CTT's retail network and the new sublease contracts, the associated profitability now exceeds the amount of the rents paid under the lease contracts in force, therefore, these contracts are no longer considered as onerous contracts.

Consequently, as at 30 September 2016 there are no amounts recognised as onerous contracts (14,358,103 Euros as at 31 December 2015).

Other provisions

For the nine-month period ended 30 September 2016, the provision to cover contingencies relating to employment litigation actions not included in the current court proceedings and related to remuneration differences that can be claimed by workers, amounts to 13,184,218 Euros (15,142,991 Euros as at 31 December 2015).

As at 30 September 2016, in addition to the previously mentioned situations, this heading also includes:

- the amount of 190,114 Euros to cover costs for dismantlement of tangible fixed assets and/or removal of facilities and restoration of the sites;
- the amount of 985,403 Euros, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in associated companies

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A.. The reversal recorded on 30 September 2016 results from the Group's assessment in which it concluded that the previously existing obligations are no longer maintained.

Restructuring

During the year ended 31 December 2015, a provision for restructuring was recognised in the accounts of the subsidiary Tourline Express Mensajería, SLU, for 1,880,000 Euros, following the human resources optimisation and restructuring process, timely disclosed by the parent company (ERE – "Expediente de regulación de empleo"). The process was aimed at increasing the operational efficiency of Tourline by reducing its staff costs, as well as improving and simplifying processes in the context of the restructuring plan currently being implemented. This provision was recorded under the line Staff costs in the consolidated income statement.

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to 7,465,719 Euros as at 30 September 2016 (8,213 Euros as at 30 September 2015).

Guarantees provided

As at 30 September 2016 and 31 December 2015, the Group had provided bank guarantees to third parties as follows:

Description	30.09.2016	31.12.2015
Courts	157,107	200,087
Fundo de Pensões do Banco Santander Totta	3,030,174	3,030,174
Euro Bridge-Sociedade Imobiliária, Lda.	-	2,944,833
Planinova - Soc. Imobiliária, S.A.	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886
Novimoveste - Fundo de Investimento Imobiliário	1,523,201	1,523,201
Lusimoveste - Fundo de Investimento Imobiliário	1,274,355	1,274,355
Autoridade Tributária e Aduaneira	590,000	590,000
Lisboagás, S.A.	190,000	190,000
Autarquias	183,677	183,677
Solred	-	80,000
ACT Autoridade Condições Trabalho	44,697	59,395
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
Record Rent a Car (Cataluña, Levante)	-	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	34,000	34,000
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Portugal Telecom, S.A.	16,658	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180
Instituto de Gestão Financeira Segurança Social	12,681	-
Águas do Porto, E.M	10,720	10,720
INCM - Imprensa Nacional da Casa da Moeda	46,167	-
TNT Express Worldwide	-	6,010
SMAS Torres Vedras	9,909	2,808
SMAS Sintra	15,889	-
Instituto do emprego e formação profissional	3,718	3,718
Inmobiliaria Ederkin	-	7,800
Promodois	6,273	6,273
Águas de Coimbra	870	870
Direção Geral do Tesouro e Finanças	16,867	16,867
Estradas de Portugal, EP	5,000	5,000
ARM - Águas e Resíduos da Madeira , SA	-	12,681
Instituto de Segurança Social	11,915	-
REN Serviços, S.A.	9,818	9,818
EMEL, S.A.	26,984	19,384
IFADAP	1,746	1,746
Consejeria Salud	-	6,433
Universidad Sevilha	-	4,237
Fonavi, Nave Hospitalet	-	40,477
Other entities	2,062	7,694
	11,232,568	14,336,996

Guarantees for lease contracts

According to the terms of some lease contracts of the buildings occupied by the Group's services, at the moment that the Portuguese State ceased to hold the majority of the share capital of CTT, bank guarantees on first demand had to be provided. These guarantees amount to 9,654,198 Euros as at 30

September 2016 (12,599,031 Euros as at 31 December 2015). The decrease in the value of the guarantees provided is mainly explained by the termination of the lease contract of the building Conde Redondo, the guarantee of which amounted to 2,944,833 Euros.

Commitments

As at 30 September 2016 and 31 December 2015, the Group subscribed promissory notes amounting to approximately 34.1 thousand Euros and 60.9 thousand Euros, respectively, for various credit institutions intended to secure complete and timely compliance with the corresponding financing contracts.

The Group assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros for the subsidiary Tourline and regarding the subsidiary Corre in the amount of 73,922 Euros, which are still active as at 30 September 2016.

As at 30 September 2016, the commitments assumed by the Group regarding the sponsoring of "Taça da Liga" (League Football Cup) for three seasons amount to 1.7 million Euros.

In addition, the Group also assumed commitments relating to real estate rents under lease contracts and rents for operating and financial leases.

The contractual commitments related to Tangible fixed assets and Intangible assets are detailed respectively in Notes 4 and 5.

16. ACCOUNTS PAYABLE

As at 30 September 2016 and 31 December 2015, the heading Accounts payable showed the following composition:

	30.09.2016	31.12.2015
Advances from customers	2,964,751	3,043,051
CNP money orders	215,336,380	218,478,956
Suppliers	54,799,765	67,989,193
Invoices pending confirmation	7,356,511	9,834,805
Fixed assets suppliers	2,127,629	6,717,094
Invoices pending confirmation (fixed assets)	1,933,785	5,311,267
Values collected on behalf of third parties	6,954,935	5,881,304
Postal financial services	159,601,272	112,544,152
Customers deposits	-	52,422
Other accounts payable	3,868,160	6,039,433
	454,943,188	435,891,677

CNP money orders

The value of CNP money orders refers to the money orders received from the National Pensions Centre (CNP), whose payment date to the corresponding pensioners must occur in the month after the closing of the period.

Postal financial services

This heading records mainly the amounts collected related to taxes, insurance, savings certificates and other money orders. The increase in this caption results from the fact that the second payment of account of the Corporate Income Tax is due in September.

17. BANKING CLIENT DEPOSITS AND OTHER LOANS

As at 30 September 2016 and 31 December 2015, the composition of the heading Banking client deposits and other loans is as follows:

	30.09.2016	31.12.2015
Sight deposits	67,292,975	-
Savings accounts	2,523,829	-
Term deposits	112,433,769	-
	182,250,573	-

The above mentioned amounts relate to Banco CTT's clients deposits. As at 30 September 2016, the residual maturity of banking client deposits and other loans, is detailed as follows:

	30.09.2016					
	In cash	Due within 3 months	Over 3 months and less than 1year	Over 1year and less than 3 years	Over 3 years	Total
Sight deposits	67,292,975	-	-	-	-	67,292,975
Savings accounts	2,523,829	-	-	-	-	2,523,829
Term deposits	-	16,059,011	96,374,758	-	-	112,433,769
	69,816,804	16,059,011	96,374,758	-	-	182,250,573

As at 31 December 2015, the deposits from Banco CTT's clients in the amount of 52,422 Euros were recognised under the caption Accounts payable.

18. INCOME TAXES RECEIVABLE / PAYABLE

As at 30 September 2016 the caption reflects the difference between the estimated income tax regarding the nine-month period ended 30 September 2016 and the amounts already paid regarding payments on account and additional payments on account.

19. INVESTMENTS HELD TO MATURITY

As at 30 September 2016 and 31 December 2015, the Investments held to maturity included in current and non-current assets showed the following composition:

	30.09.2016	31.12.2015
Non-current		
Debt securities and other fixed-income securities		
Public issuers	58,860,998	-
Other issuers	-	-
	58,860,998	-
Current		
Debt securities and other fixed-income securities		
Public issuers	378,428	-
Other issuers	4,855,050	-
	5,233,478	-
	64,094,476	-

The analysis of the residual maturity of the investments held to maturity as at 30 September 2016, is detailed as follows:

	30.09.2016					
	Current		Non-current			Total
	Due within 3 months	Over 3 months and less than 1year	Over 1year and less than 3 years	Over 3 years	Undetermined	
Debt securities and other fixed-income securities						
Public issuers	378,428	-	12,362,531	46,498,467	-	59,239,426
Other issuers	4,644,868	210,182	-	-	-	4,855,050
	5,023,296	210,182	12,362,531	46,498,467	-	64,094,476

20. FINANCIAL ASSETS AVAILABLE FOR SALE

As at 30 September 2016 and 31 December 2015, the composition of the heading Financial assets available for sale is as follows:

	30.09.2016	31.12.2015
Non-current		
Debt securities and other fixed-income securities		
Public issuers	667,522	-
Other issuers	3,593,825	-
	4,261,347	-
Current		
Debt securities and other fixed-income securities		
Public issuers	15,514,177	-
Other issuers	1,596,122	-
	17,110,299	-
	21,371,646	-

The analysis of the Financial assets available for sale and the corresponding residual maturity is detailed as follows:

	30.09.2016				
	Cost [1]	Fair value reserve		Impairment losses	Total
		Positive	Negative		
Debt securities and other fixed-income securities					
Public-debt securities					
National	16,180,704	2,789	(1,794)	-	16,181,699
Foreign	-	-	-	-	-
Other issuers					
National	-	-	-	-	-
Foreign	5,181,288	12,320	(3,661)	-	5,189,947
	21,361,992	15,109	(5,455)	-	21,371,646

[1] Acquisition cost regarding shares and other equity instruments and amortised cost regarding debt securities.

	30.09.2016					
	Current		Non-corrent			Total
	Due within 3 months	Over 3 months and less than 1year	Over 1year and less than 3 years	Over 3 years	Undetermined	
Debt securities and other fixed-income securities						
Public-debt securities						
National	13,852	15,500,325	125,472	542,050	-	16,181,699
Foreign	-	-	-	-	-	-
Other issuers						
National	-	-	-	-	-	-
Foreign	565,367	1,030,755	2,988,484	605,341	-	5,189,947
	579,219	16,531,080	3,113,956	1,147,391	-	21,371,646

21. OTHER BANKING FINANCIAL ASSETS

As at 30 September 2016 and 31 December 2015, the heading Other banking financial assets showed the following composition:

CTT - Correios de Portugal, S.A. - Public Company - Share capital €75,000,000.00 - Lisbon commercial registry and fiscal number 500 077 568
CTT Building, Av. D. João II, 13 - 1999-001 LISBON - PORTUGAL
ctt.pt

	30.09.2016	31.12.2015
Investments in credit institutions	46,817,382	-
Other	1,010,109	-
	47,827,491	-

Regarding the caption Investments in credit institutions, the scheduling by maturity is as follows:

	30.09.2016	31.12.2015
Up to 3 months	31,215,799	-
From 6 to 12 months	15,601,583	-
	46,817,382	-

22. OTHER OPERATING INCOME

During the nine-month periods ended 30 September 2016 and 30 September 2015, the composition of the heading Other operating income was as follows:

	30.09.2016	30.09.2015
Supplementary revenues	3,116,168	3,377,622
Altice agreement	7,500,000	2,916,667
Early settlement discounts received	33,666	62,339
Favourable exchange rate differences of assets and liabilities other than from financing	698,685	2,010,731
Income from financial investments	450,142	356,665
Income from non-financial investments	4,669,493	1,305,376
Income from services and commissions	184,144	-
Interest income and expenses - financial services	246,428	402,328
VAT adjustments	3,522,637	201,770
Other	1,174,518	480,776
	21,595,881	11,114,274

Following the Memorandum of understanding signed with Altice and being the acquisition of PT Portugal completed by Altice, CTT received from Altice the agreed initial payment, which is being recognised in the consolidated income statement over the exclusive period for the negotiation of the partnerships, as provided in the Memorandum.
The caption Income from non-financial investments includes the gains realised on the sale of six properties classified as Investment properties in the amount of 1.2 million Euros, as well as the gain in the amount of 1.7 million Euros regarding Conde Redondo's building as a result of the lease contract's termination.

The amount related to VAT adjustments mainly results from the improvements made in the procedures of the VAT deduction methodology.

23. STAFF COSTS

During the nine-month periods ended 30 September 2016 and 30 September 2015, the composition of the heading Staff Costs was as follows:

	30.09.2016	30.09.2015
Statutory bodies remuneration (Note 25)	3,414,643	2,969,137
Staff remuneration	190,939,279	192,039,303
Empolyee benefits	1,897,108	679,724
Indemnities	1,448,996	5,063,399
Social Security charges	42,414,425	42,072,305
Occupational accident and health insurance	2,334,349	1,547,517
Social welfare costs	4,873,169	4,583,787
Other staff costs	38,044	35,411
	247,360,012	248,990,583

<u>Remuneration of the statutory bodies</u>

In the nine-month periods ended 30 September 2016 and 30 September 2015, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	30.09.2016				
	Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,462,431	145,714	24,464	4,500	2,637,109
Annual variable remuneration	777,534	-	-	-	777,534
	3,239,965	145,714	24,464	4,500	3,414,643
Long-term remuneration					
Defined contribution plan RSP	167,625	-	-	-	167,625
Long-term variable remuneration - Share Plan	1,120,159	-	-	-	1,120,159
	1,287,784	-	-	-	1,287,784
	4,527,749	145,714	24,464	4,500	4,702,427

	30.09.2015				
	Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	1,662,768	204,793	28,080	3,075	1,898,716
Annual variable remuneration	1,070,421	-	-	-	1,070,421
	2,733,189	204,793	28,080	3,075	2,969,137
Long-term remuneration					
Defined contribution plan RSP	151,583	-	-	-	151,583
Long-term variable remuneration - Share Plan	1,237,298	-	-	-	1,237,298
	1,388,881	-	-	-	1,388,881
	4,122,070	204,793	28,080	3,075	4,358,018

Bearing in mind the new reality of CTT as an entity of private capital and admitted to trading on a regulated market, the Remuneration Committee (elected by the General Meeting on 24 March 2014 and composed of independent members) defined the new remuneration model for the statutory bodies which followed a benchmark study performed by a specialised firm and is already considered under the caption Statutory bodies' remuneration.

Following the remuneration model approved by the Remuneration Committee, it was decided to allocate a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to be granted to the executive members of the Board of Directors.

The long-term variable remuneration awarded to the executive members of the Board of Directors shall be paid at the end of the 2014-2016 term of office in Company shares, and the amount of 1,120,159 Euros corresponds to the expense to be recognised in the period between 1 January 2016 and 30 September2016 and was determined by an actuarial study performed by an independent entity. The annual variable remuneration will be determined and paid on an annual basis.

<u>Staff remuneration</u>

The variation in this heading is mainly a result of the reduction in the accrual for variable remunerations regarding 2016 as well as the reduction in Tourline's staff costs following the initiatives that begun in 2015.

Employee benefits

The amount registered under Employee benefits in the nine-month period ended 30 September 2016 mainly reflects the liability reduction related to the Telephone subscription fee.

During the nine-month period ended 30 September 2015, this caption mainly reflect the liability reduction related to workers in situations of Suspension of contracts, redeployment and release of employment.

Indemnities

During the nine-month period ended 30 September 2016, this caption includes 819,374 Euros related to compensation paid for termination of employment contracts by mutual agreement.

Social welfare cost

Social welfare costs relate almost entirely to health costs incurred by the Group with active workers, as well as expenses related to Health and Safety at Work.

During the nine-month periods ended 30 September 2016 and 30 September 2015, the heading Staff costs includes the amounts of 517,842 Euros and 557,079 Euros, respectively, related to expenses with workers' representative bodies.

For the nine-month periods ended 30 September 2016 and 30 September 2015, the average number of staff of the Group was 12,432 and 12,535, respectively.

24. INCOME TAX FOR THE PERIOD

Companies with head office in Portugal are subject to tax on their profit through Corporate Income Tax ("IRC") at the normal tax rate of 21%, whilst the municipal tax is established at a maximum rate of 1.5% of taxable profit, and State surcharge is 3% of taxable profit above 1,500,000 Euros and 5% of taxable profit above 7,500,000 Euros up to 35,000,000 Euros and 7% of the taxable profit above 35,000,000 Euros. Tourline is subject to income taxes in Spain, through income tax (Impuesto sobre Sociedades - "IS") at a rate of 25%, and the subsidiary Corre is subject to corporate income tax in Mozambique ("IRPC") at a rate of 32%.

Corporate income tax is levied on the Group and its subsidiaries CTT – Expresso, S.A., Mailtec Comunicação, S.A., Payshop Portugal, S.A, CTT Contacto, S.A. and Banco CTT, S.A., through the Special Regime for the Taxation of Groups of Companies ("RETGS"). The remaining companies are taxed individually.

Reconciliation of the income tax rate

In the nine-month periods ended 30 September 2016 and 30 September 2015, the reconciliation between the nominal rate and the effective income tax rate is as follows:

	30.09.2016	30.09.2015
Earnings before taxes	66,382,227	75,836,427
Nominal tax rate	21.0%	21.0%
	13,940,268	15,925,650
Tax Benefits	(164,833)	(129,866)
Accounting capital gains / (losses)	(441,208)	36,214
Tax capital gains / (losses)	(844,621)	(36,214)
Equity method	(8,518)	(5,938)
Provisions not considered in the calculation of deferred taxes	-	19,167
Impairment losses and reversals	275,835	(45,810)
Other situations, net	2,322,015	1,485,834
Adjustments related with - autonomous taxation	1,159,059	950,294
Adjustments related with - Municipal Surcharge	920,446	1,124,013
Adjustments related with - State Surcharge	3,152,854	3,696,984
Tax losses without deferred tax	1,298,506	2,233,924
Excess estimated income tax and reimbursement of tax	(1,023,983)	(60,659)
Income taxes for the period	20,585,820	25,193,593
Effective tax rate	31.01%	33.22%
Income taxes for the period		
Current tax	14,785,924	21,390,288
Deferred tax	6,823,879	3,863,964
Excess estimated income tax and reimbursement of tax	(1,023,983)	(60,659)
	20,585,820	25,193,593

During the nine-month period ended 30 September 2016, the heading Excess estimated income tax and reimbursement of tax includes the amount of 268,898 Euros regarding the tax credit allocated under the SIFIDE program of 2014 of CTT – Correios de Portugal, S.A., the amount of 371,959 Euros related to the amortisations of Track&Trace software of 2008 which were considered, by Arbitral decision, deductible for Corporate Income Tax purposes as well as the amount of 383,146 Euros regarding the excess income tax estimate of 2015.

Deferred taxes

As at 30 September 2016 and 31 December 2015, the balance of deferred tax assets and liabilities was composed as follows:

	30.09.2016	31.12.2015
Deferred tax assets		
Employee benefits - healthcare	66,916,785	67,158,181
Employee benefits - other long-term benefits	5,166,457	6,531,878
Deferred accounting capital gains	759,828	1,723,242
Impairment losses and provisions	4,435,869	8,997,558
Tax losses carried forward	361,919	342,161
Impairment losses in tangible fixed assets	367,985	405,373
Share Plan	1,164,817	847,140
Land and buildings	993,633	1,392,924
Other	283,920	137,484
	80,451,214	87,535,941
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,368,321	3,562,520
Suspended capital gains	948,389	971,679
Other	42,399	42,399
	4,359,109	4,576,598

As at 30 September 2016, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 4,099,252 Euros and 289,988 Euros, respectively.

During the nine-month period ended 30 September 2016 and the year ended 31 December 2015, the movements which occurred under the deferred tax headings were as follows:

	30.09.2016	31.12.2015
Deferred tax assets		
Opening balances	87,535,941	91,428,940
Effect on net profit		
Employee benefits - healthcare	(241,396)	(733,228)
Employee benefits - other long-term benefits	(1,365,421)	(3,628,545)
Deferred accounting gains	(963,414)	(661,719)
Impairment losses and provisions	(4,561,689)	(1,142,594)
Tax losses carried forward	19,759	24,628
Impairment losses in tangible fixed assets	(37,388)	(91,864)
Share plan	317,677	459,819
Land and buildings	(399,291)	1,392,924
Other	146,436	460,283
Effect on equity		
Employee benefits - healthcare	-	27,297
Closing balance	80,451,214	87,535,941

	30.09.2016	31.12.2015
Deferred tax liabilities		
Opening balances	4,576,598	4,841,684
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(194,199)	(231,295)
Suspended capital gains	(23,290)	(23,274)
Other	-	(10,517)
Closing balance	4,359,109	4,576,598

The tax losses carried forward are related to the losses of the subsidiaries Tourline, Corre and Escrita Inteligente and are detailed as follows:

Company	Tax losses	Deferred tax assets
CORRE	114,665	36,693
Tourline	29,131,339	320,408
Escrita Inteligente	22,946	4,819
Total	29,268,949	361,919

Regarding Tourline, the tax losses of the years 2008, 2009 and 2011 may be reported in the next 15 years, the tax losses related to 2012, 2013 and 2014 may be carried forward in the next 18 years and the tax losses of the year 2015 have no time limit for deduction. The tax losses of Corre relate to the nine-month period ended 30 September 2016 and may be carried forward in the next 5 years. As far as Escrita Inteligente is concerned the tax losses refer to the year 2015 and the nine-month period ended 30 September 2016 and may be carried forward in the next 12 years.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 2.4 million Euros.

SIFIDE

The Group policy for recognition of fiscal credits regarding SIFIDE is to recognise the credit at the moment of the effective receipt from the commission certification statement, certifying the eligibility of expenses presented in the applications for tax benefits.

Regarding the expenses incurred with R&D during 2013, of 33,987 Euros, and according to the notification dated 16 January 2015 of the Certification Commission, the Group benefited from a tax credit of 8,337 Euros.

In relation to the expenses incurred with R&D during 2014 of 736,033 Euros and according to the notification dated 18 January 2016 of the Certification Commission, a tax credit of 268,898 Euros was attributed to CTT.

Regarding the year ended 31 December 2015, for the expenses incurred with R&D of 3,358,151 Euros, the Group will have the possibility of benefiting from a tax deduction in income tax estimated at 2,556,380 Euros.

Other information

Pursuant to the legislation in force in Portugal, income tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these years are extended or suspended. Therefore, the Group's income tax returns from 2012 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews / inspections by the tax authorities of these income tax returns will not have a significant effect on the interim condensed consolidated financial statements as at 30 September 2016.

25. RELATED PARTIES

The Regulation on Assessment and Control of transactions with CTT's related parties defines related party as a qualified shareholder, officer, or even a third party related by any commercial or relevant personal interest and subsidiaries or associates or jointly controlled entities (joint ventures).

According to the Regulation, the significant transactions with related parties must be previously approved by the Audit Committee of CTT as well as transactions that members of the Board of Directors of CTT and / or its subsidiaries conduct with CTT and / or its subsidiaries.

The other related parties transactions are communicated to the Audit Committee for the purpose of subsequent examination.

During the nine-month periods ended 30 September 2016 and 30 September 2015, the following transactions took place and the following balances existed with related parties:

	30.09.2016				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	70,264,792	-
Other shareholders of Group companies					
Associated companies	8,622	9,277	9,194	-	52,128
Jointly controlled	127,060	-	380,937	-	18,664
Members of the					
Board of Directors	-	-	-	-	2,462,431
General Meeting	-	-	-	-	4,500
Audit Committee	-	-	-	-	145,714
Remuneration Committee	-	-	-	-	24,464
	135,682	9,277	390,131	70,264,792	2,707,900

	30.09.2015				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	69,750,000	-
Other shareholders of Group companies					
Associated companies	5,783	10,024	13,205	-	83,438
Jointly controlled	124,914	14,333	385,803	-	155,220
Members of the					
Board of Directors	-	-	-	-	2,733,189
General Meeting	-	-	-	-	3,075
Audit Committee	-	-	-	-	204,793
Remuneration Committee	-	-	-	-	28,080
	130,697	24,357	399,008	69,750,000	3,207,796

The transactions and balances between subsidiaries are eliminated in the consolidation process and are not disclosed in this note.

26. OTHER INFORMATION

Regulatory proceedings

CTT's activity is regularly subject to inquiry and check-up procedures from the supervisory entities for verification of effective compliance with the rules and regulations in force. In this framework, the Company adopts an attitude of collaboration by providing the necessary clarifications and due answer.

Following a thorough analysis of the "statement of objections" that the Company received from the Competition Authority on 16 August 2016 concerning an infraction proceeding on the basis of an alleged obstruction of access of its competitors to the postal network infrastructure, CTT will give its answer within the legal deadline, which refuted those allegations and considered them as unfounded for the following main reasons:

(i) The Company has always shown and will continue to show its willingness to give access to its postal network in non-discriminatory conditions whenever the requested terms are compatible with an efficient management of the operation and with the sustainability of the universal service provision (agreements regarding access to the postal network have already been concluded with other operators);

(ii) The Company intends to adopt good competition practices in this field which take into account both the efficiency of its postal network and the access conditions set up by universal postal service operators from other Member States.

The communication of a "statement of objections" does not correspond to a final decision of the Competition Authority regarding the procedure, as a final decision of this entity to impose a potential fine and / or penalties is still subject to a court appeal.

Post-employment healthcare benefits fund

CTT has been developing, with the support of consultants, the relevant measures to establish a fund to which a part of the post-employment healthcare liabilities will be transferred, namely the authorisation process with the Supervisory Authority for Insurance and Pension Funds ("Autoridade de Supervisão de Seguros e Fundos de Pensões" - "ASF"), as well as the selection of the managing entity and custodian bank. The fund establishment is subject to the internal approvals of its final terms and conditions (which involves the assessment of its impacts and intended benefits) and to the conclusion of the mentioned authorisation process.

27. SUBSEQUENT EVENTS

Banco CTT

On 24 October 2016 Banco CTT, S.A. increased its share capital by 25,000,000 Euros. Thus, its share capital currently stands at 85,000,000 Euros.