



Annual Report

2016



CTT- Correios de Portugal, S.A. – Sociedade Aberta
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CHAIRMAN & CHIEF EXECUTIVE OFFICER'S STATEMENT

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

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

Transformation of the Postal Sector

The postal sector is undergoing a deep transformation with technological disruptions that significantly change our activity and way of operating. Although traditional mail usage has been declining over the last few years, postal operators have been able to explore new sources of value around its core competencies.

The dynamics of the postal business market have gone through major changes as the industry has been shifting from public monopolies to liberalised markets, with increasing presence of competitors. This combination of occurrences has accelerated the dynamism of the market by creating a more competitive environment.

On the demand side, companies and end consumers have been showing an increasing preference for digital communications, which impacts the physical business due to the substitution effect. On the other hand, the democratisation of internet access has made it possible to purchase online, not only at national level but also to access international markets. The evolution of e-commerce has been intensifying and as a result the parcels business is the one that has contributed the most to the growth of the industry. However, in many cases it means starting from a smaller base (i.e. the B2C delivery market), and it becomes more difficult in the short term to provide direct compensation to postal operators for the substitution effect that will tend to soften over time.

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

Evolutionary strategy materialised in concrete actions

Mail & Business Solutions

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

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

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

Express & Parcels business

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

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

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

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

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

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

2016 was also marked by the signing of the contract for the purchase of **Transporta** - Transportes Porta a Porta, S.A., a company that essentially operates in the cargo distribution and transport market of goods of over 30 kg. This acquisition fits into the strategy of capturing growth opportunities in adjacent markets with synergies with our business. This platform will allow CTT to expand and reinforce its presence in the logistics and last-mile cargo value chain, extending the range of services provided and offering even more integrated solutions to our customers. As at this date, the Competition Authority has already communicated its non-opposition decision regarding such acquisition, hence we have already started to prepare its integration, ensuring that we have a robust plan to capture the synergies and the operational growth once the transaction is completed.

Banco CTT

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

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

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

Payment Services

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

Operational Efficiency

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

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

Commercial Excellence

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

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

CTT Catalysts

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

Results

In 2016 the overall results were lower than expected and were significantly impacted by the structural decline in mail revenues, which was higher than expected and with a strong negative price

mix effect. Recurring revenues totalled €695.1m and recurring EBITDA was €119.5m, reflecting an EBITDA margin of 17.2%. Excluding Banco CTT, recurring EBITDA totalled €139.6m and the EBITDA margin was 20.1%, the latter remaining at similar levels as in the previous year.

A significant part of the revenues still comes from Mail (77%), and the results of this business had the greatest impact on the overall results of the Company. Although unaddressed mail volumes increased by 5.1%, the digitalisation trend led to a drop in addressed mail. The revenue decrease in 2016 is particularly driven by the decline in Registered Mail volumes, strongly impacted by its lower usage by the Tax Authority. Excluding the Tax Authority effect, Registered Mail volumes grew by 1.3% in the year.

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

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

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

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

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

CTT has been pursuing a transformation path since its privatisation, in order to prepare the Company for the future while adequately remunerating its shareholders. Since the IPO, there has been a stabilisation of the level of revenues and a significant increase in the EBITDA. In recent years, a total of €200m of dividends (referring to the years 2013 to 2015) has been distributed and for the 2016

financial year a distribution of €72m will be proposed, an amount higher than the previous year and in line with our policy of stable growth of dividend.

Acknowledgement

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

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

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

Francisco de Lacerda
Chairman & CEO

CORPORATE BODIES AND MANAGEMENT¹**Board of Directors**

Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Vice-Chairmen:	António Sarmiento Gomes Mota (Chairman of the Audit Committee) Manuel Cabral de Abreu Castelo-Branco
Members²:	André Manuel Pereira Gorjão de Andrade Costa (CFO) Dionizia Maria Ribeiro Farinha Ferreira Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo Nuno de Carvalho Fernandes Thomaz (Member of the Audit Committee) Diogo José Paredes Leite de Campos (Member of the Audit Committee) Rui Miguel de Oliveira Horta e Costa ³ José Manuel Baptista Fino Manuel Carlos de Melo Champalimaud ⁴ Céline Abecassis-Moedas ⁵

Board of the General Meeting

Chairman:	Júlio de Lemos de Castro Caldas
Vice-Chairman:	Francisco Maria de Moraes Sarmiento Ramalho

Remuneration Committee

Chairman:	João Luís Ramalho de Carvalho Talone
Members⁶:	Rui Manuel Meireles dos Anjos Alpalhão Manuel Fernando Macedo Alves Monteiro ⁷

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

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

³ Tendered his resignation as Non-Executive Member of the Board of Directors on 08-02-2017.

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

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

⁶ José Gonçalo Ferreira Maury tendered his resignation as Member of the Remuneration Committee on 04-01-2016.

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

Executive Committee

Chairman: Francisco José Queiroz de Barros de Lacerda

Members: Manuel Cabral de Abreu Castelo-Branco
André Manuel Pereira Gorção de Andrade Costa (CFO)
Dionizia Maria Ribeiro Farinha Ferreira
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

Audit Committee

Chairman: António Sarmento Gomes Mota

Members: Nuno de Carvalho Fernandes Thomaz
Diogo José Paredes Leite de Campos

Corporate Governance, Evaluation and Nominating Committee

Chairman: António Sarmento Gomes Mota

Members: José Manuel Baptista Fino
Céline Abecassis-Moedas⁸

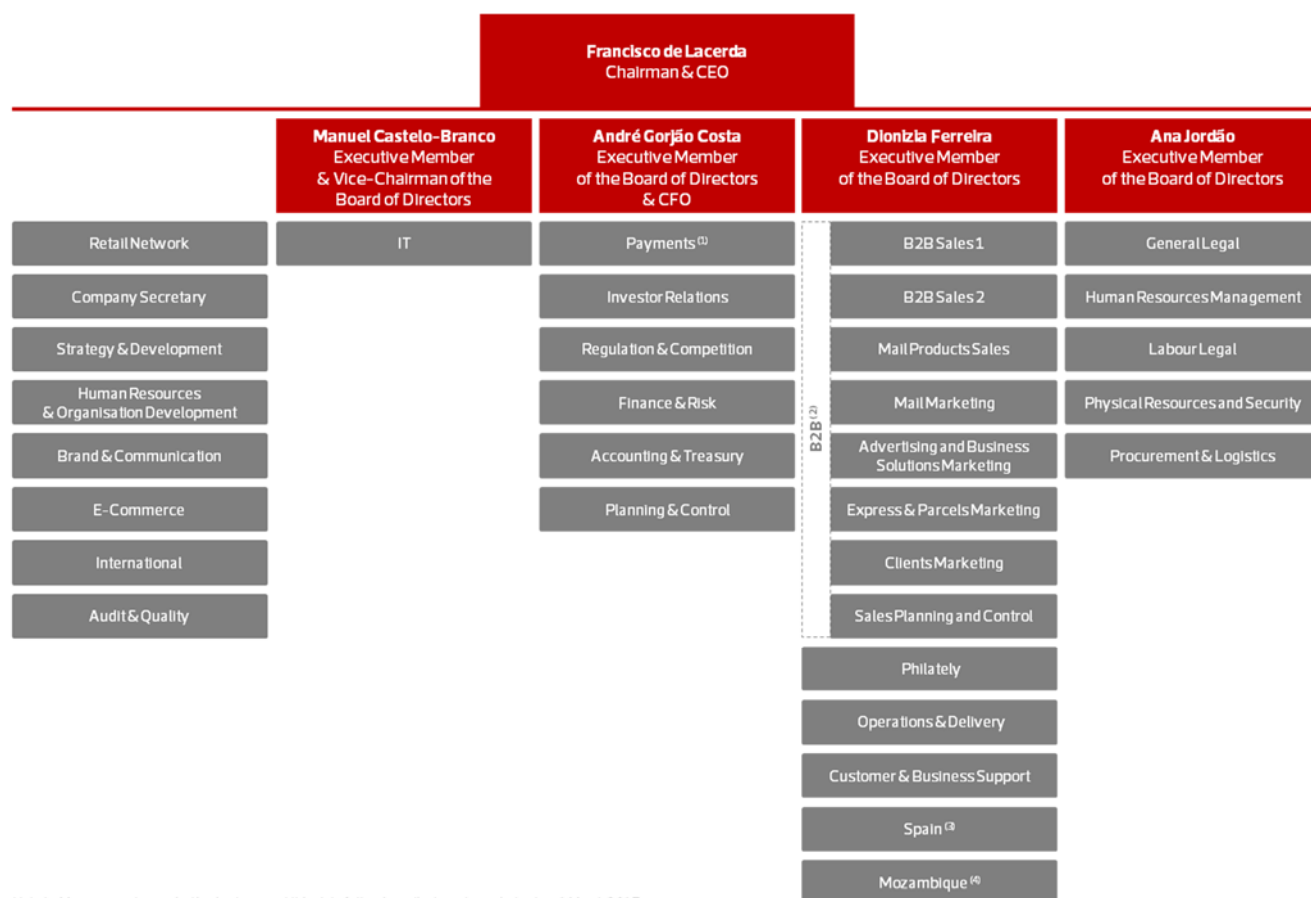
Statutory Auditor and External Auditor

Statutory Auditor (ROC): KPMG & Associados, SROC, S.A., represented by
Maria Cristina Santos Ferreira

Alternate Statutory Auditor: Vítor Manuel da Cunha Ribeirinho

⁸ Appointed as Member of the Corporate Governance, Evaluation and Nominating Committee by a deliberation of the Board of Directors of 14-02-2017 to replace Rui Miguel de Oliveira Horta e Costa who tendered his resignation as Non-Executive Member of the Board of Directors and Member of the Corporate Governance, Evaluation and Nominating Committee on 08-02-2017.

Management Organisation



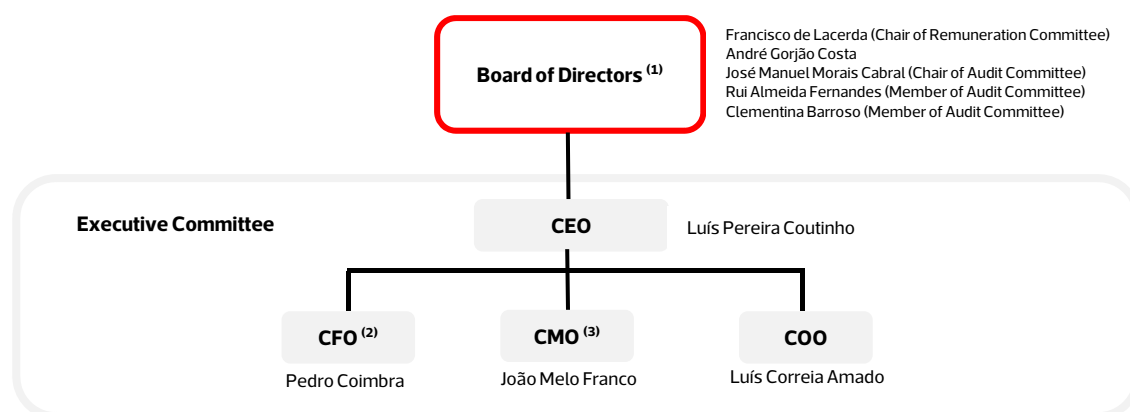
Note I – Management organisation in place as at this date following adjustments carried out on 1 March 2017;
Note II – Banco CTT has its own management structure, autonomous from CTT's Executive Committee.

⁽¹⁾ Includes Payshop; ⁽²⁾ Includes Mailtec Comunicação, CTT Contacto and CTT Expresso; ⁽³⁾ Includes Tourline; ⁽⁴⁾ Includes CORRE.

• Banco CTT

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

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



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

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

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

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

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

KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2014	2015	2016	Δ%16/15
Revenues ⁽¹⁾	717,774	727,180	695,060	-4.4
Operating costs excluding depreciation, amortisation, impairments, provisions and non recurring-costs	582,674	583,205	575,561	-1.3
Recurring EBITDA ⁽²⁾	135,100	143,975	119,499	-17.0
Recurring EBIT ⁽²⁾	111,522	119,762	94,687	-20.9
EBIT	135,418	109,932	90,883	-17.3
EBT	127,999	104,610	85,245	-18.5
Net profit for the period	76,844	72,071	61,897	-14.1
Net profit attributable to equity holders	77,171	72,065	62,160	-13.7
Earnings per share (euro) ⁽³⁾	0.51	0.48	0.42	-13.5
Recurring EBITDA margin	18.8%	19.8%	17.2%	-2.6 p.p.
Recurring EBIT margin	15.5%	16.5%	13.6%	-2.9 p.p.
Net profit margin	10.8%	9.9%	8.9%	-1.0 p.p.
Return on Equity (ROE)	29.4%	28.8%	25.6%	-3.1 p.p.
Return on Invested Capital (ROIC)	26.2%	21.3%	13.0%	-8.3 p.p.
Return on Capital Employed (ROCE)	24.0%	20.2%	18.1%	-2.1 p.p.
Capex	16,596	32,331	42,160	30.4
Operating free cash flow ⁽⁴⁾	106,434	68,322	83,761	22.6
	31.12.2014	31.12.2015	31.12.2016	Δ%16/15
Cash and cash equivalents	664,570	603,650	618,811	2.5
Net cash	278,891	278,999	295,306	5.8
Assets	1,180,997	1,119,472	1,316,697	17.6
Liabilities	931,787	867,637	1,083,370	24.9
Equity	249,210	251,835	233,327	-7.3
Share Capital	75,000	75,000	75,000	-
Number of shares	150,000,000	150,000,000	150,000,000	-
Current liquidity ratio	134.5%	133.0%	106.2%	-26.8 p.p.
Solvency ratio	26.7%	29.0%	21.5%	-7.5 p.p.
Adjusted Solvency ratio ⁽⁵⁾	45.6%	46.4%	30.7%	-15.7 p.p.
Net debt ⁽⁶⁾	-74,876	-82,590	-90,275	9.3
Net debt/recurring EBITDA ⁽⁷⁾	-0.6 x	-0.6 x	-0.8 x	0.2 x
Tangible fixed asset coverage	239.0%	237.0%	230.4%	-6.6 p.p.

(1) Excluding non-recurring revenues.

(2) Before non-recurring revenues and costs.

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

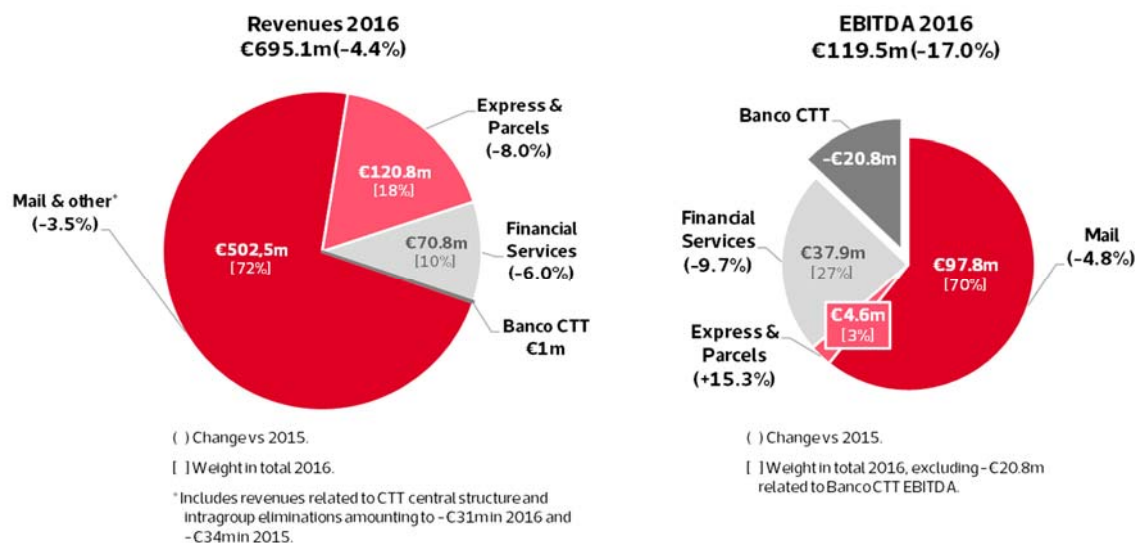
(4) Cash flow from operating and investment activities excluding change in net Financial Services payables.

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

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

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

Revenues and recurring EBITDA per business unit



Operating Indicators

	2014	2015	2016	Δ%16/15
Mail				
Addressed mail volumes (million items)	841.3	814.7	780.2	-4.2
Transactional mail	718.0	688.3	662.8	-3.7
Editorial mail	47.6	46.2	43.3	-6.4
Advertising mail	75.7	80.2	74.2	-7.5
Unaddressed mail volumes (million items)	507.7	473.4	497.8	5.1
Express & Parcels				
Portugal (million items)	13.8	14.4	14.6	1.1
Spain (million items)	13.7	14.0	12.3	-12.3
Financial Services				
Payments (number of transactions; millions)	67.0	61.5	57.6	-6.2
Savings and insurance (subscriptions and redemptions; € millions)	5,481.6	4,252.9	3,794.0	-10.8
Banco CTT				
Number of current accounts	-	-	74,135	-
Client deposits (€m)	-	-	253,945	-
Number of branches	-	-	202	-
Staff				
Staff (FTE) ⁽¹⁾	12,523	12,462	12,479	0.1
Retail, Transport and Delivery Networks				
Post offices	623	619	615	-0.6
Postal agencies (partnership branches)	1,694	1,711	1,724	0.8
Payshop agents	3,876	3,939	4,202	6.7
Postal delivery offices	262	254	242	-4.7
Postal delivery routes	4,659	4,731	4,698	-0.7
Fleet (number of vehicles)	3,478	3,530	3,609	2.2

(1) FTE = Full-time equivalent.

Sustainability Indicators

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

(1) As of 1 January 2016 the constitution of the Overall quality of service indicator was changed with the introduction of new indicators and weights. The indicator of 2016 is not comparable with those of the previous years.

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

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

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

(4) Indicators do not include Corre.

(5) Volume.

HIGHLIGHTS OF THE YEAR

February

- **Price update** effective 1 February 2016. The update corresponded to an average annual variation of 1.3% in the price of the basket of letter mail, editorial mail and parcel services.
- CTT **granted access to its postal network** to postal operators with an individual license.
- The **new Rest Mail automated sorting equipment** was put into operation, which maximised sorting automation capacity, with a special focus on **medium-sized postal items**. The Rest Mail machine is the only one in Europe that sorts automatically 6,000 non-standard items between 10g and 12kg per hour.

March

- **Banco CTT opened to the general public** with 52 branches (located within CTT post offices), the biggest opening on a single day ever in Portugal.
- A **Revision Agreement for CTT's 2015 Company Agreement** was signed with ten trade unions, effective 1 January 2016.
- CTT granted **access to the delivery service at P.O. Boxes and to the service of returning mail found in the CTT network with postage from other operators**, also under the access of elements of the postal infrastructure to other postals.

April

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

May

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

June

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

October

- **Banco CTT's share capital was increased** by €25m, making up the current share capital of €85m.
- Launch of CTT Expresso's new modular offer, **CTT e-segue**, which offers clients convenience, flexibility and predictability and whose main target is the B2C/e-commerce segment.

December

- **An agreement to purchase the entire share capital of "Transporta - Transportes Porta a Porta, S.A."**, a goods distribution and transport company, **was entered into**.
- **A promissory agreement to sell real estate belonging to CTT** (one of which was CTT's previous registered office) on Rua de S. José **was entered into**.
- **Banco CTT opened 7 new branches** in CTT's Retail Network, making-up a total of 202 branches opened in 2016.

AWARDS AND RECOGNITIONS

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

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

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

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

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

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

CTT won in the following categories:

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

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

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

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

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

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

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

- **SUPERBRANDS 2016**

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

- **46th ASIAGO PRIZE**

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

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

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

- **NEXOFIL AWARDS FOR PORTUGUESE STAMPS**

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

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

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

- **“BICYCLE-FRIENDLY COMPANY 2016”**

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

- **ENVIRONMENTALLY TRUSTED BRAND**

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

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

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

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

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

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

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

PART I – MANAGEMENT REPORT

1. STRATEGIC LINES

1.1. Sector trends

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

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



1.2. Strategic lines

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

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

CTT Strategy



Some of the main initiatives carried out or currently underway concerning these strategic pillars are:

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

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

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

2. BUSINESSES

2.1. Economic, sectoral and regulatory environment

2.1.1. Economic framework

International

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

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

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

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

National

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

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

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

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

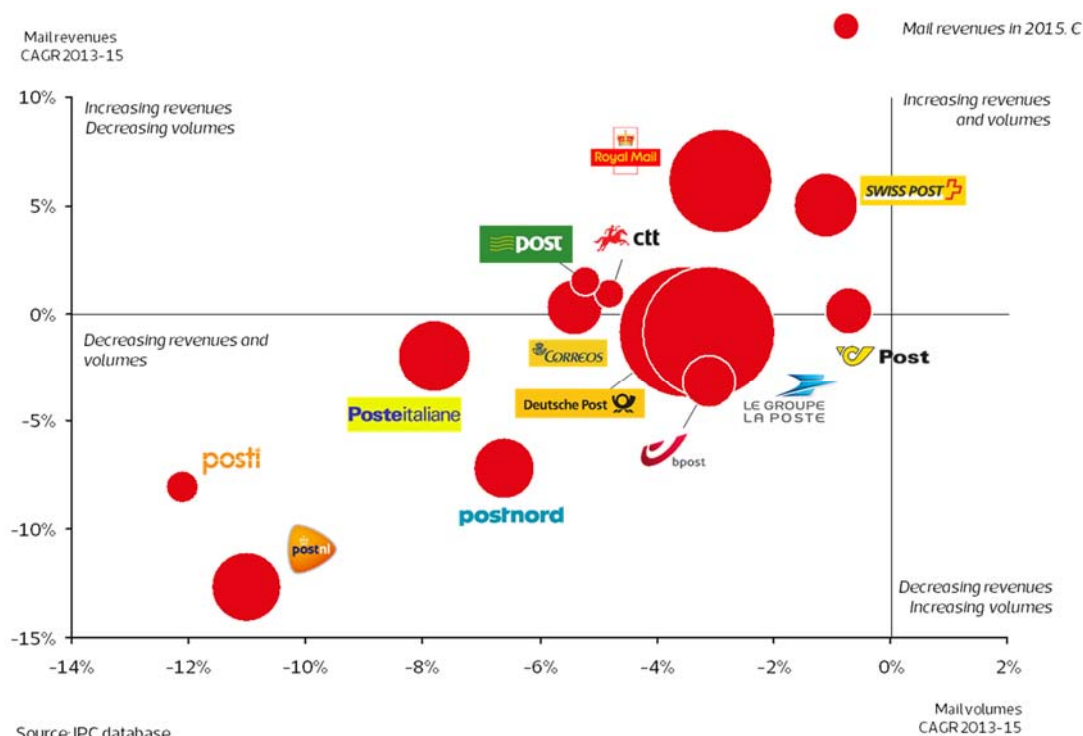
2.1.2. Sectoral framework

2.1.2.1. Postal Sector

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

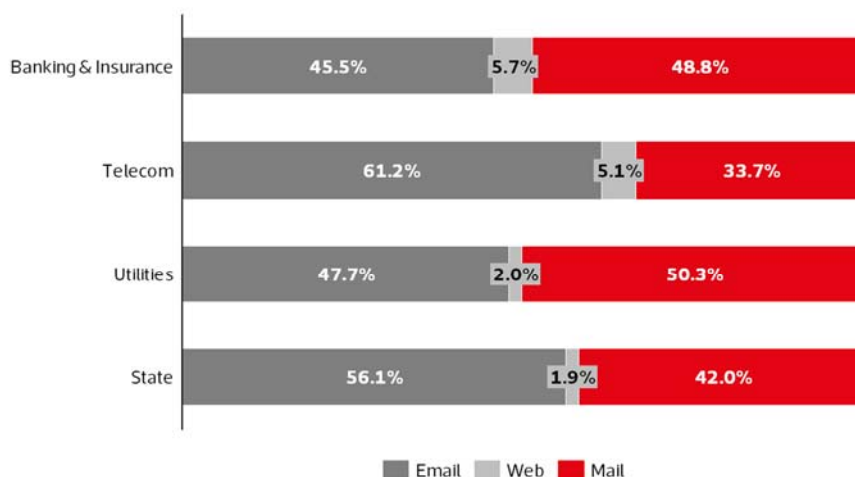
As regards mail, volumes are under pressure for most postal operators, which led to a fall in volumes in recent years and thereby a drop in mail-related revenue. CTT, together with certain other operators, is an exception in this regard for the period between 2013 and 2015. In 2016, the fall in revenue was similar to the fall in volume, due to a change in the volume profile with a sharp fall in mail of greater added-value (registered mail) and a price increase lower than the volume decrease. The following graph shows the relationship between volume growth and revenue growth for a group of European postal operators, in a sectoral trend analysis between 2013 and 2015 (2016 data is not yet available for all operators).

Evolution in mail volume versus revenue by operator



In the national market, the panorama is analogous to those of international markets with a historic trend toward a drop in volume in all mail segments in recent years. The evolution in transaction communication, and in government authorities in particular, is one of the reasons for this fall, due to the increasing weight of the use of digital options.

Mail reception channels by sector of activity (%)



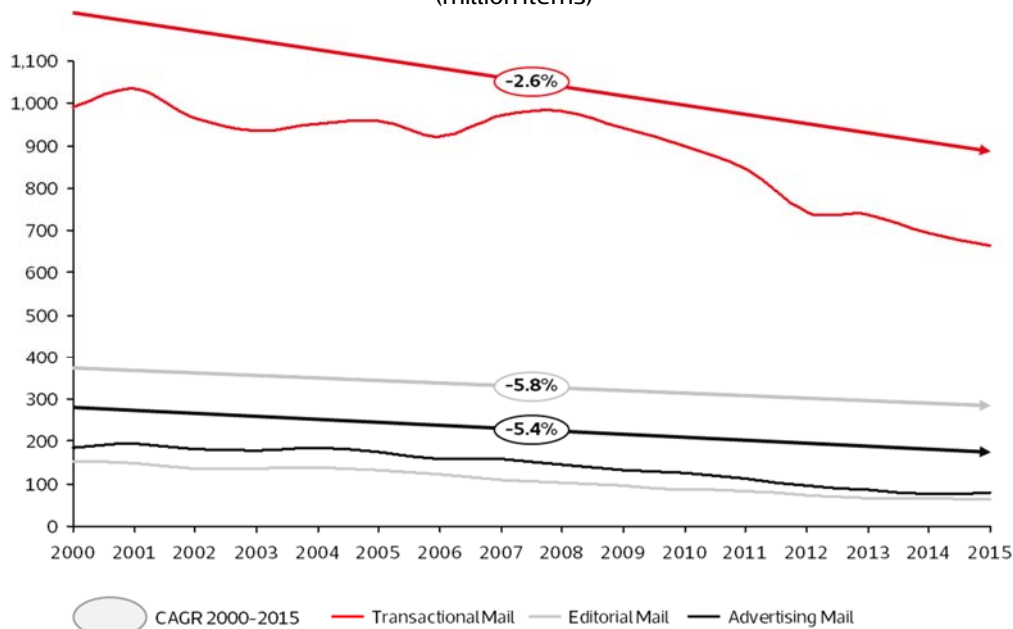
Note: Web channel comprises other electronic platforms.
Source: Research "Adoption of digital services related to Via CTT – non-users" (IMR 2016).

However, it is important to note that segments that have historically tended to show sharper downturns are those most permeable to the digital substitution effect, as is the case for advertising mail and editorial mail (2016 has shown signs of a turnaround in this trend as regards addressed advertising mail volumes in Portugal⁹). Letter mail represents the vast majority of postal volumes

⁹ Source: ANACOM – addressed advertising mail volume in the first 9 months of the year.

and has historically tended to fall less sharply than other segments, nearly 2.6% a year. The following table illustrates the evolution of mail volumes over the last 16 years (all of the market).

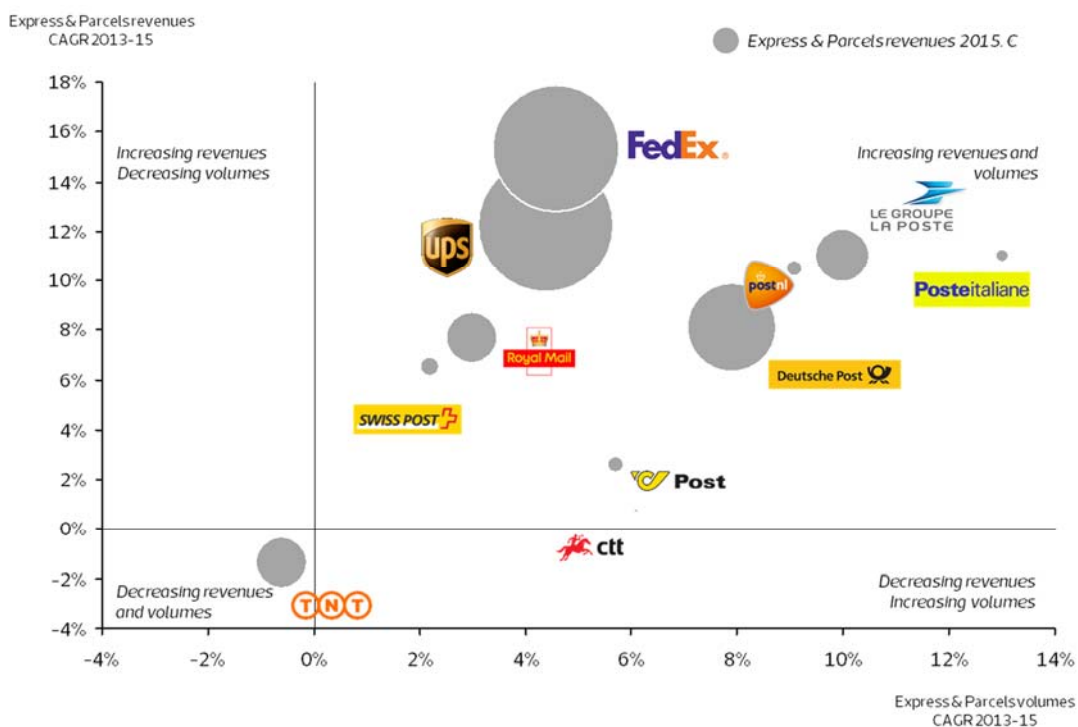
Evolution in Portuguese mail market volumes in the period of 2000-2015 (million items)



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

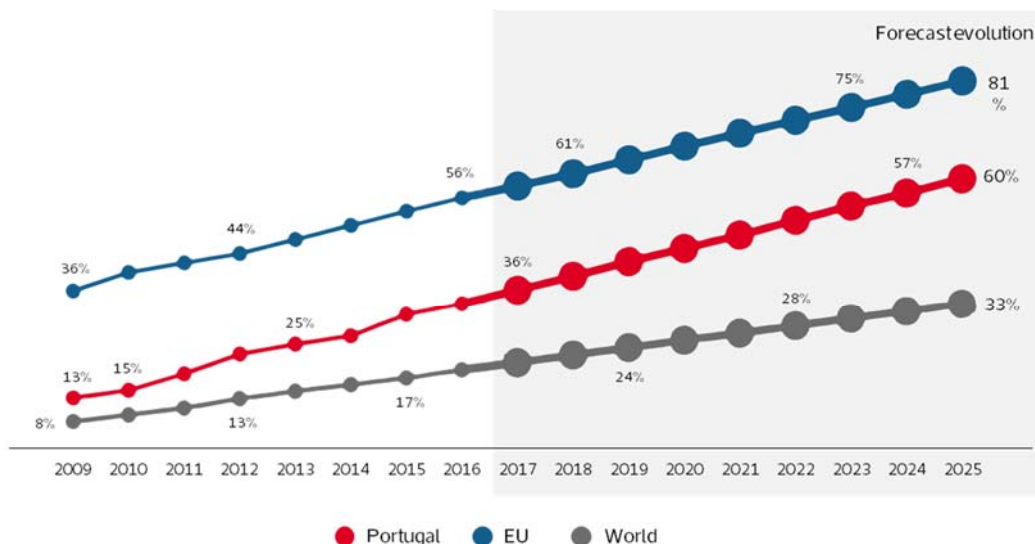
Inversely, the global express & parcels market continues to show strong growth (largely driven by e-commerce), with generally growing volumes and revenue, as the following graph illustrates.

Evolution in express & parcels volume versus revenue by operator



E-commerce has grown quite significantly in recent years. The number of online shoppers has been growing as trust in shopping websites and platforms has increased. Even so, Portugal still has a way to go as it trails behind European countries with nearly 30% of online shoppers in 2016 (see graph below).

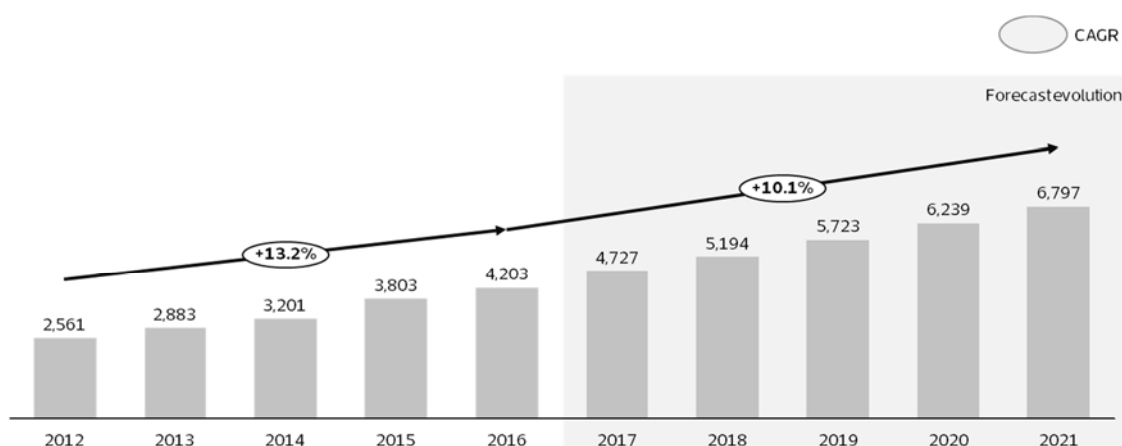
Evolution in % of online shoppers in Portugal, the EU and the world



Source: IDC / ANACOM, Digital Economy and Society in Portugal Annual Study, 2016.

Notwithstanding, growth forecasts are very positive, with the volume spent on e-commerce growing by double digits in Portugal per year. The outlook for the following years is that the growth trend will continue at a very accelerated pace.

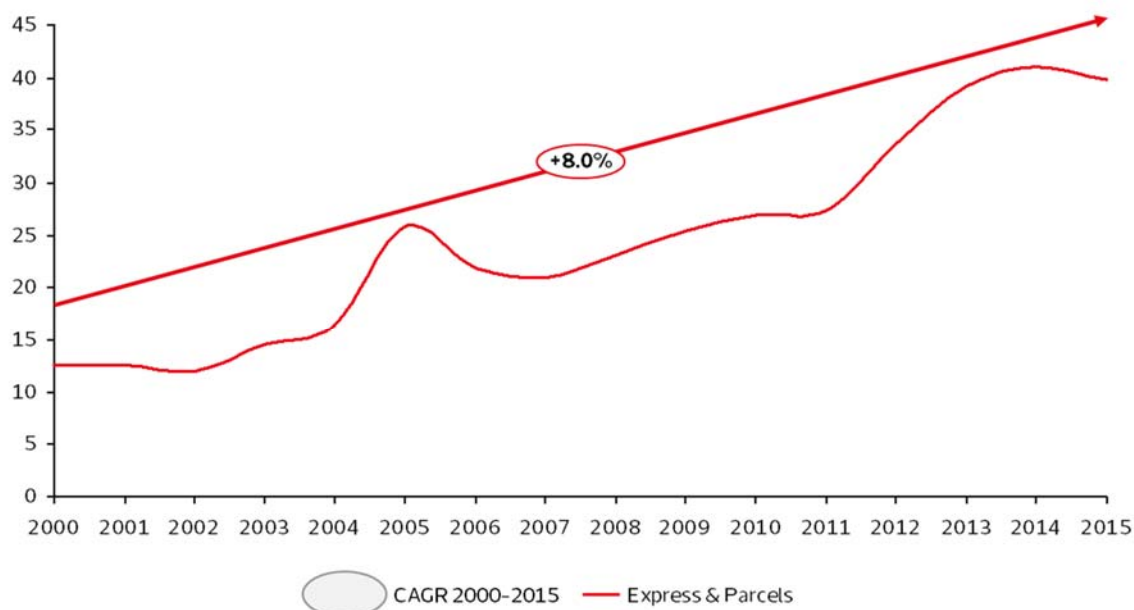
Total volume of e-commerce in Portugal (million euros)



Source: IDC / ANACOM, Digital Economy and Society in Portugal Annual Study, 2016.

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

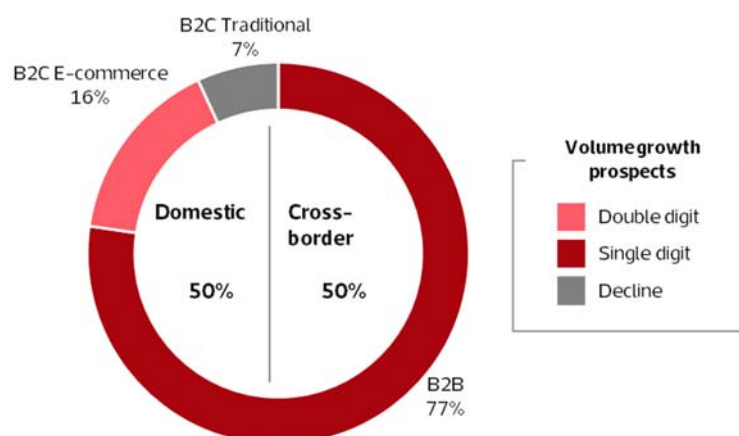
Evolution in the Portuguese Express & Parcels market volume from 2000–2015 (million items)



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

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

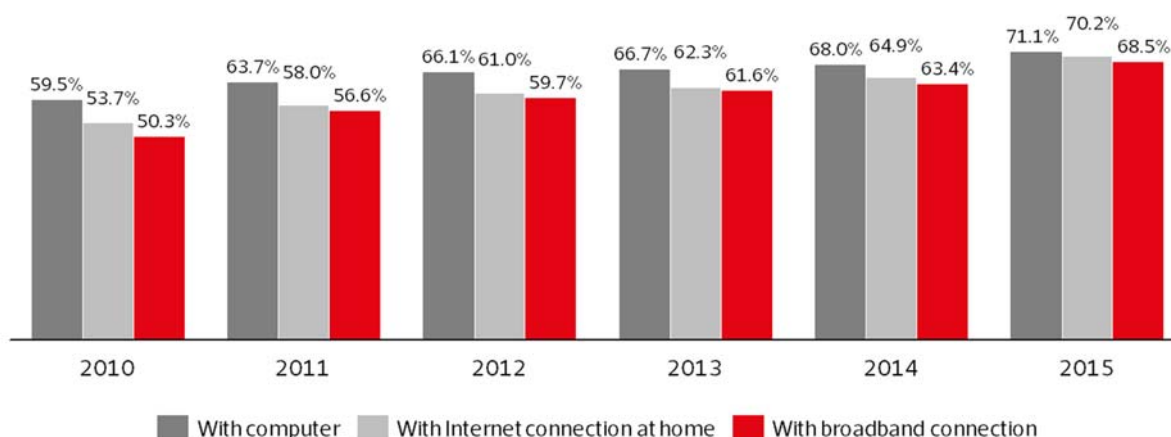
Breakdown of segments in the Express & Parcels market in Portugal – 2015



Source: CTT market research on the Express & Parcels market

Computer use and access to the internet in private homes in Portugal has grown at a consistent pace over the last 5 years, with nearly 71% and 70% in 2015 respectively. There is nonetheless still some resistance to using the internet in the home, the main reasons for which are, among homes without internet access where there is at least one person between the age of 17 and 74, not knowing how to access the internet (65.4%), not being interested (44.8%) and the high-cost of getting online (40.1%)¹⁰.

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



Source: Pordata.

2.1.2.2. Other sectors of activity

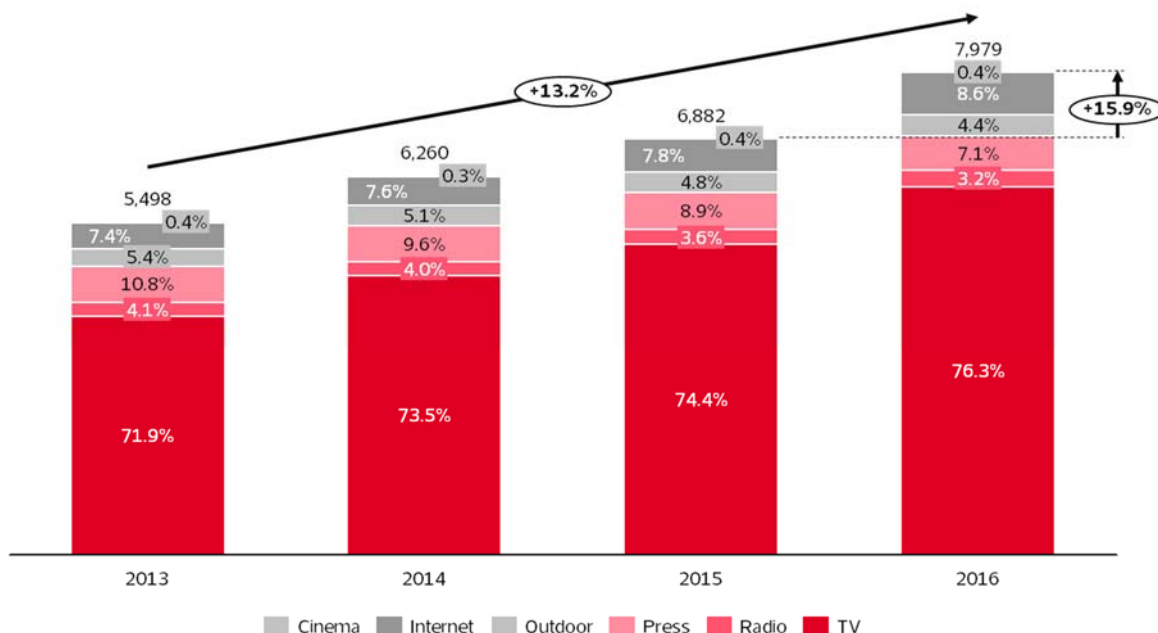
The evolution of the postal sector and the trends that affect it result in ever straighter ties between postal operators with other sectors of activity, such as logistics and transport, the financial sector or the advertising market.

Advertising market

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

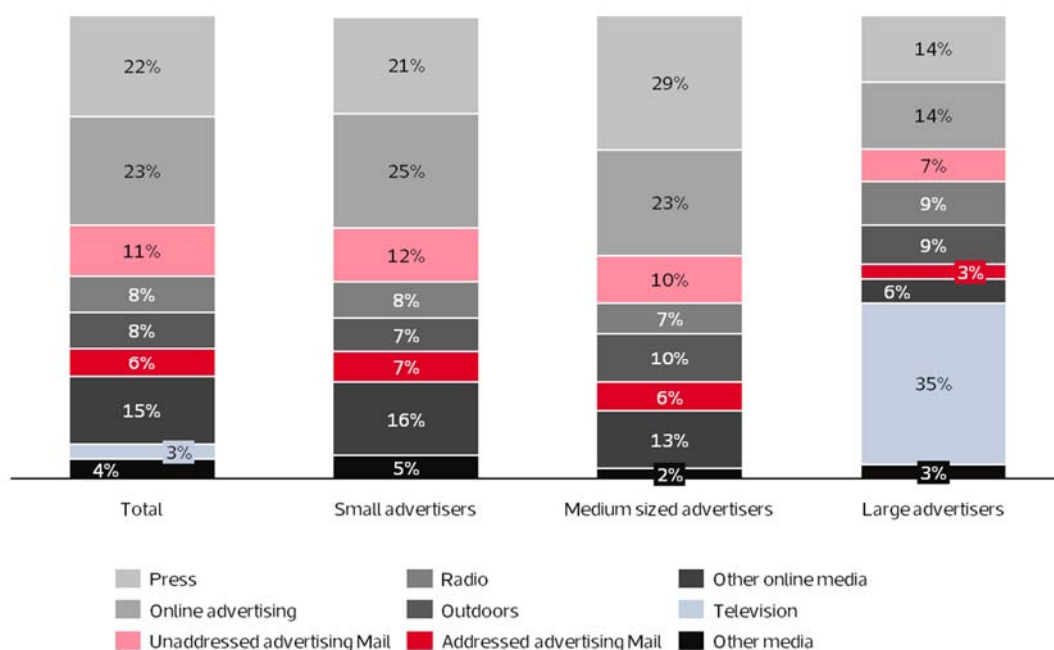
¹⁰ Source: National Institute of Statistics.

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



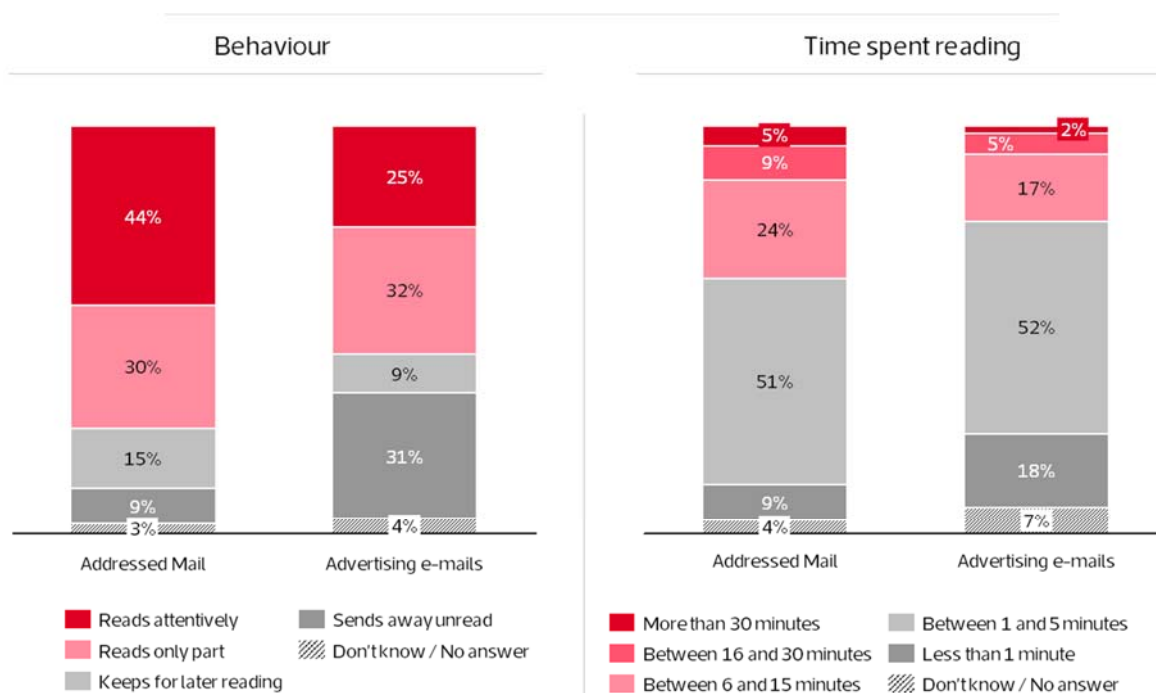
TV and the internet are the media that have sustained the referenced growth, as opposed to the printed press which is in sharp decline due to its migration online. Notwithstanding the dominant weight of TV, advertisers diversify the media used for campaigns, namely Small and Medium Enterprises that claim the Press and Internet as the prevalent media in their communications budget planning. These small advertisers tend to rely more heavily than the rest on addressed and unaddressed advertising mail (spending 12% and 7% of their respective budget), while large advertisers essentially use television to promote their products and services.

Breakdown of advertiser budget by category of media used



In addition to the growth trend in the Portuguese advertising sector, it is also relevant to understand the importance consumers give advertising media, in particular those related to physical medium. When comparing the behaviour and time spent on receiving addressed physical mail with advertising emails, it is clear the consumer's behaviour differently with addressed advertising mail, on which he/she spends more time and attention. Nearly 44% reads addressed advertising mail closely (versus 25% in advertising email) and almost 40% spends more than 6 minutes reading it.

Addressed mail and advertising emails received by consumers



Source: CTT Consumer Research to assess DirectMarketing

Financial Markets

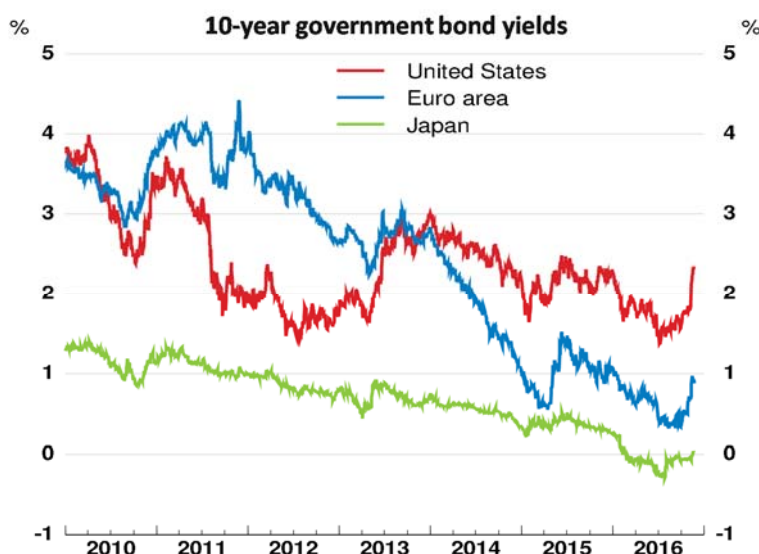
The year of 2016 was marked by strained world growth of around 3%¹¹, which was close to the post-financial crisis rates of previous years. Growth forecasts were gradually adjusted downward and world growth rates continue to be low, affecting financial market forecasts differently.

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

After announcing Brexit, European shares, especially British shares, traded at historical lows as compared to North American shares. Lack of clarity as to the framework that will govern economic and commercial ties between the United Kingdom and Europe caused great volatility in the markets, in particular the foreign exchange market, where the Euro gained ground *vis-à-vis* the British Pound. This fact also sparked a greater concern with promoting the unity of the Euro economies by the European Union.

¹¹ OECD Economic Outlook November 2016.

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



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

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

In its projections for 2017, the Fed¹² states that interest rates will tend to rise and predicts three 25 basis point increases throughout the year. As evidence thereof, the Fed raised the federal funds rate in December by 25 basis points, from 0.50% to 0.75%. Inflation is also expected to rise to 2% in the medium-term in this region.

In turn, the ECB¹³ decided to keep reference interest rates unchanged in the Eurozone and so the reference rate remains at 0%. For short-term rates, whose reference is 3-month EURIBOR, the ECB predicts an average rate of -0.3% in 2017. Nominal yields for 10-year public debt bonds in the Eurozone are forecast at 1.2% in 2017.

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

¹³ "Macroeconomic projections for the Eurozone prepared by Eurosystem specialists" - December 2016.

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

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

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

Banking System

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

The Banking system reinforced positive returns on equity in the 3rd quarter of 2016, although with a substantial year-on-year fall, due to solid revenues from financial operations (sale of public debt securities). This profitability continued to be positively influenced by the international activity of Portuguese banks, thereby offsetting the fragile returns on domestic activity.

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

Volumes of new credit production were also positive, with 14% growth in Mortgage Loans and 8.5% in Consumer Credit, between the end of 2015 and November 2016, although these remain low as compared to the volumes generated before 2011. Spreads on new loans granted by banks to retail customers follow an inverse trajectory, with a 34 b.p. drop for Mortgage Loans to 1.82% and 31 b.p. drop for Consumer Credit to 7.39% between the end of 2015 and November 2016¹⁵.

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

¹⁵ Bank of Portugal – Statistical Bulletin – January 2017.

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

2.1.3. Regulatory Framework

2.1.3.1. Postal Sector

At the level of the European Union

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

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

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

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

At a national level

The Postal Law entered into force in April 2012 (Law 17/2012, of 26 April, as amended by Decree-Law 160/2013, of 19 November), transposing to the Portuguese legal system Directive

2008/6/EC. The postal market in Portugal was thereby fully opened to competition, eliminating the areas under the Universal Service that were still reserved to CTT. However, for reasons of public order and security or general public interest, some activities and services remain reserved up to 2020: placement of letter and mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

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

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

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

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

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

Under the criteria for formation of prices for the 2015/2017 period as established by an ANACOM resolution of 21 November 2014, ANACOM approved the Universal Service price proposal presented by CTT on 17 November 2015, as later adjusted, by a resolution of 20 January 2016. The prices inherent to this proposal, which complied with the established price formation principles and criteria, became effective on 1 February 2016.

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

As the Universal Postal Service provider and in order to provide a standardised and non-discriminatory service to operators that wish to use the Universal Service network, as of February 2016, CTT made available to postal operators with an individual license an offer to access its

network that is deemed competitive and that safeguards the network's security and the Universal Service provision efficiency.

This offer consists of a basic service of collection, transport, sorting and delivery of non-priority letter mail with a maximum weight of 2kg that allows items to be sent nationally or internationally using the Business Mail counters of Lisbon, Taveiro (Coimbra) and Maia (Porto) as access points. Through this offer, the other postal operators access a specific price list in order to feed their clients' mail in the CTT postal network, thereby enabling them to only develop their own network in certain geographic areas wherein they may compete with CTT while using CTT for the rest of the national territory.

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

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

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

2.1.3.2. Financial Sector

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

Capital and liquidity requirements are increasingly heavier. Of note are the liquidity cover ratio (LCR) and the net stable funding ratio (NSFR). The LCR, to be implemented by banks at 100% by 2019¹⁶ serves to increase their resilience in the event of a strong liquidity stress over a 30-day period. The NSFR, to be implemented by 2018, serves to stipulate a minimum amount of stable funding, with a maturity of at least a 1 year, to control changes in banks' balance structure during that period.

The CRD – Capital Requirements Directive IV / CRR – Capital Requirements Regulation reinforced standards to attribute Core Tier I status to banking capital and RWA calculation standards. This directive introduced the Leverage Ratio as a new prudential measure for the banking sector, which

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

stipulates the minimum amount of own funds over total exposure. The Leverage Ratio has been currently set at a minimum of 3%¹⁷ of CET1 by the EBA and is expected to be fully calibrated and applied at the beginning of 2018.

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

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

2.2. Mail

2.2.1. Activity

The recurring revenues¹⁸ of the Mail business unit reached €533.6m in 2016, corresponding to a 3.8% fall relative to 2015. The evolution in revenues is connected to the drop in addressed mail volumes (-4.2%), together with the evolution of the product mix influenced by the 8.8% volume fall for mail of greater added-value, i.e. registered mail.

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

Mail

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

Mail Volumes

million items												
	1Q16	Δ 1Q15	2Q16	Δ 2Q15	3Q16	Δ 3Q15	4Q16	Δ 4Q15	2015	2016	Δ	
Transactional mail	180.5	-4.4%	169.4	0.2%	155.0	-6.1%	157.9	-4.6%	688.3	662.8	-3.7%	
Editorial mail	11.6	2.2%	11.0	-7.7%	9.3	-14.9%	11.3	-5.3%	46.2	43.3	-6.4%	
Advertising mail	19.4	-7.1%	19.2	0.6%	16.0	11.5%	19.6	-24.4%	80.2	74.2	-7.5%	
Total addressed mail	211.5	-4.3%	199.6	-0.2%	180.3	-5.3%	188.8	-7.2%	814.7	780.2	-4.2%	
Unaddressed mail	108.5	-1.6%	126.2	9.9%	126.7	5.7%	136.3	6.1%	473.4	497.8	5.1%	

¹⁷ CFA Institute – Capital Requirements Directive (CRD) IV – Issue Brief

https://www.cfainstitute.org/ethics/documents/crd_iv_issue_brief_final.pdf

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

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

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

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

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

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

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

Domestic **editorial mail** volumes continued to fall (-5.3% in the 4th quarter and -6.4% for the year) throughout the year, mainly due to a drop in demand by contractual clients, which is also affected by the growing recourse to online editions. The price policy offset the drop in volume so that it did not affect this product's revenues, which grew by 6.3% in the 4th quarter and 1.4% in the year.

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

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

CTT launched a new integrated service of advertising solutions in January 2017 that allows micro-, small- and medium-sized companies to design, produce and procure advertising campaigns

through the online solution- www.cttads.pt. This turnkey solution allows companies to manage their advertising campaigns with autonomy, simplicity and effectiveness. For that, the user needs only define the communication targets and create his/her campaign. CTT undertakes all the rest of the process, from printing (Mailtec) to distribution of the advertisements by mail, email or SMS.

Business Solutions

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

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

New **geographic information services** are in the final stages of development. In 2017, these will endow CTT with new features based on its knowledge of the territory and population and will allow clients to access services based on quality information, which allow them to be more operationally efficient and effective in their communications with clients from the domestic market.

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

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

Philately

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

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

- the "Portuguese Canning Industry" philatelic issue, which was the first time ever in the world that 50,000 sets within this special issue were issued in cans.
- the sale of Sport Lisboa e Benfica (SLB) and "Historical Figures" philatelic products – 1st issue.

- the new issues of self-adhesive stamps: Madeira, the Southern Mainland and the meuselo (mystamp) "30-Year Anniversary of the Collector's Magazine".
- the publication of the book "Portuguese Cathedrals", which sold out in just a few months.

In 2016, CTT received four international awards for quality of design. CTT was distinguished for the eighth time in the International Prize of Philatelic Art in the Asiago municipality in the province of Vicenza, Italy. The winning philatelic issue in the "Ecology" category is the one honouring 2015 as the "International Year of Light and International Year of the Soil". The stamp issue was deemed the most original in the entire world by the monthly magazine *L'Arte del Francobollo* in February 2016, because it addressed the United Nations decision to proclaim 2015 simultaneously the International Year of Light and the International Year of the Soil. Two stamps issued by CTT in 2015 were distinguished in the Nexofil grand prize gala. The "International Year of the Soil" stamp won 1st prize for final artwork design in the "Best Design" category and the "Madeira Embroidery" self-adhesive stamp was considered the 2nd best stamp in the "Innovation" competition. The Nexofil awards are granted by "El Eco" magazine, the oldest and most renowned philately and numismatic Spanish magazine.

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

Issues	
<ul style="list-style-type: none"> • Historical and Cultural Figures • Centenary Museums - Abade de Baçal • Centenary Museums - Grão Vasco • 50 Years of Lubrapex • Joint Portugal-Vietnam Issue • Joint Portugal-France Issue • Joint Portugal-Phillipines Issue • Centenary of the 1st Portuguese Military Flight • 500 Years of Postal Services in Portugal • 450 Years of the Publication of the Petri Nonni Salaciensis Opera • Marian Shrines 	Historical and Cultural Figures
<ul style="list-style-type: none"> • Launch of Banco CTT • Jesuits - Builders of Globalisation • Madeira - Christmas and New Year Festivities • Portuguese Army Heraldry • Historical Cafés (1st Group) • Portuguese Canning Industry • Treasures of Portuguese Museums (1st Group) • Our Cities (1st Group) • Radio Voices • Congratulations Portugal! European Champions 2016 • Southern Mainland (Self-Adhesive) • Madeira (Self-Adhesive) 	Themes
<ul style="list-style-type: none"> • 2016 - International Year of Global Understanding (automatic postage labels) 	International Projection

Issues	
<ul style="list-style-type: none"> • Cante Alentejano – Song of Alentejo • Europe – Think Green • Azores – Ecotourism • Mammalian Predators • Fish of the Mediterranean • Old Vineyards of Portugal • Sidewalks of Portugal • Extreme Sports (3rd Group) – Base Issue • Extreme Sports (3rd Group) – Self-Adhesive • Portuguese Anti-Cancer League – 75th Anniversary (automatic postage labels) 	Environment and Sustainability

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

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

2.2.2. Retail Network

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

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

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

- development of the Mail business, namely added-value mail;
- channel of proximity for the marketing of financial services as a pillar for creating and developing Banco CTT in particular and for the ongoing placement of public debt with the retail market through its network;

- businesses and services of convenience to the population, services of general interest, by taking on the role of local multi-service assistance, services to citizens, pension payments and other welfare services by postal order and parcel pick-up and drop-off in the solutions offered for e-commerce.

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

During 2016, with the cost optimising and streamlining measures carried out under the Transformation Programme¹⁹, satellite post offices continued to be integrated into core post offices (a project that entails placing smaller post offices under the management of core post offices), thereby enabling their joint management and greater integration of the local offer with the public.

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

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

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

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

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

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

This segmentation allowed initiatives to be carried out in 2016 to stimulate other retail businesses, by (i) leasing out space, (ii) establishing partnerships with well-known reference brands in the national market (iii) providing the CTT ticket sales service, (iv) sales via catalogue and (v) providing

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

services to citizens, such as the payment of the Mobility Social Subsidy in the Autonomous Regions of Madeira and the Azores, which in 2016 entailed 250 thousand operations in a total amount paid to beneficiaries greater than 47 million Euros. Of further note is the partnership with EDP Comercial that entails attracting customers for new contracts in all mainland post offices. Hereunder, nearly 1,000 contracts were registered in 2016. The intention is to expand this type of partnership to the telecommunications sector.

2.2.3. Operations

In 2016, the Transformation Programme²⁰ was heavily focused on improving operational efficiency not only by continually reorganising the production cycle through a wider set of initiatives aimed at streamlining the operational cycle (sorting, transport and delivery), but also by deepening integration and synergies between CTT delivery networks (Mail distribution network and the outsourced Express & Parcels network). In this regard, a plan to reinforce and later replace equipment and transport is under analysis for later implementation. Its goal is to increment the level of automated sorting of standard mail with non-standard mail and small parcels to face the efficiency challenges that the fall in mail and changes to the volume profile have brought with them.

Sorting

The sorting network is composed of 3 production and logistics centres, 7 logistics and delivery centres and 1 business mail centre. The activities of the production and logistics centres are carried out by 44 automated mail sorting machines (of which 24 are mail sequencing machines and one Rest Mail machine) and 78 video encoding posts.

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

In 2016, 2.1 million items (flat ordinary mail) a day were automatically sorted by postal delivery route. Nearly 1.9 million (79% of total volume) were automatically sequenced (door-to-door) for 4,698 postal delivery routes of 242 postal delivery offices (PDO), which is 88% of automated volumes of mail delivered daily on those routes.

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

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

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

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

Under the Transformation Programme²¹, we highlight:

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

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

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

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

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

Transport

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

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

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

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

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

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

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

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

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

Delivery

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

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

Under the Transformation Programme²², the continued reorganisation and optimisation of PDOs with the intervention and implementation of new more efficient organisations are worthy of note. In 2016, 114 PDO interventions took place entailing 41% of total volume. 11 operational units (DSO/PDO) were centralised, thereby contributing to the greater streamlining of producing infrastructures. This continuous demand for efficiency will continue for years to come, due to developments in the postal business and as a result of the permanent rise in automated sorting of upstream postal items in production and logistics centres. This allows PLCs to increasingly become operational units with no internal activity and places where post men and women receive mail and other postal items ready for the mail delivery routes straight away.

The MOGU project (Motorisation of Urban On Foot Delivery Routes) was implemented in September 2016 in the 1500 Lisbon PDO. This project intends to motorise urban on-foot postal delivery routes in order to reduce down time during delivery, where there are increasingly fewer items per point and also to better address the rise in volumes in the mail distribution network. The expansion of this project to other PDOs has been planned for 2017.

²² Transformation Programme: a set of projects selected annually as fundamental to implementing CTT's strategy.

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

2.3. Express & Parcels

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

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

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

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

The main project implemented in 2016 was the launch of a new offer called **CTT e-segue** (meaning, e-follow). This required profound technological adjustments to the information systems that support the business and is based on an essential vector: transfer of control of the delivery process to the final client, i.e. the recipient. It was designed with the B2C / e-commerce segment in mind. It seeks to give the market convenience, flexibility and predictability based on fast information suitable to the participants therein (mainly the recipient) and the possibility of interacting by changing delivery conditions (address, date and time slot). Because returns are a critical concern for online shoppers and retailers, returns are also addressed with CTT *e-segue*. The launch was initially planned for the end of the 1st semester, but was only launched on 11 November 2016. For this reason, the impact on revenues was minimal despite the positive intake by B2C clients.

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

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

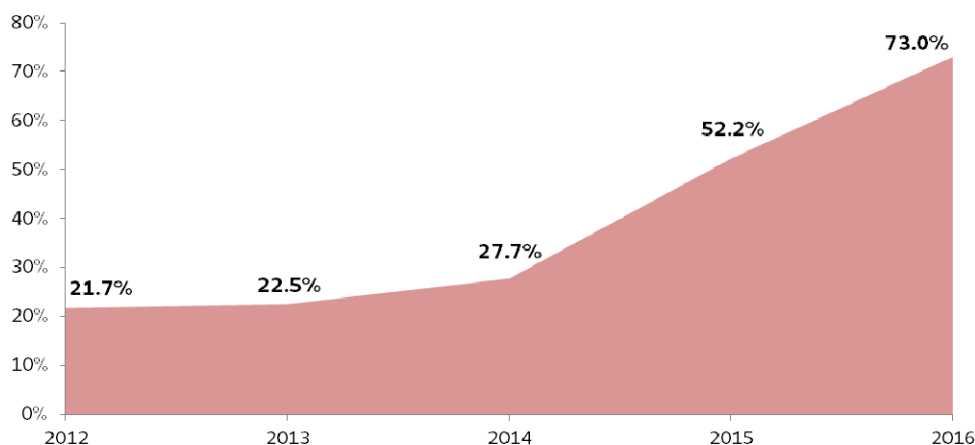
Despite these and other commercial and marketing initiatives, **revenues in Portugal** fell -4.5% albeit with signs of recovery in the last 3 months of the year, with a growth in the activity, measured in terms of +8.6% volume particularly based on the performance of the e-commerce, retail, cosmetic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

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

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

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

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



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

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

- holding CTT's 1st **"E-commerce Day"** on 11 November, with a conference on opportunities and outlooks to develop e-commerce in Portugal, bringing together therein CTT's main partners and clients. It also included the public launch of the new e-segure offer mentioned above and the publication of an "e-commerce report" prepared by CTT on the e-commerce market in Portugal.
- launching **CTT's London ETOE** (Extra Territorial Office of Exchange) and operational testing of a line-haul (end-to-end solution) for e-commerce products between China and Brazil, using CTT's London ETOE.
- launching the basis for offering "Special Cross-Border Solutions", based on line-hauls for e-sellers that intend to ship items to Portugal, either as a final destination or as a gateway (with or without recourse to the ETOE) to other geographies (eg. Brazil).
- pursuing contacts and negotiations with potential partners in order to develop the e-commerce business, with note to the Singpost e-commerce partnership (SPEC) and the partnership with AmenWorld in Portugal and the delivery services agreement entered into with Amazon Spain through the CTT subsidiary Tourline Express, which will begin with the Spanish market but with prospects of later covering the Portuguese market where CTT has clear competitive advantages as regards price and service.
- launching a new service in the last week of December – **Express2Me** – that allows Portuguese consumers to access online shopping on U.S.-based websites by attributing a 1st-mile virtual address.
- conclusion of a market survey to carry out a pilot of automated lockers for parcel delivery (parcel lockers), located in places with a large affluence of people and whose launch is expected to take place in 2017.

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

In commercial terms, we highlight:

- the **launch of a product for the e-commerce segment**, characterised by reduced issue and delivery fees in order to address customer needs.
- the evolution of the **Official Fee, which will be applied to franchisees in 2017**, thereby ensuring greater alignment between operational costs and prices in force.
- the creation of a **new discount policy** for franchisees that is both clearer and more uniform.
- **beginning activity with Amazon Spain** as of November 2016. This client's arrival and the reinforcement of others at the year-end only were not sufficient to offset the reduction during most of the year and therefore the annual volume fell by 12.3%.

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

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

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

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

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

2.4. Financial Services

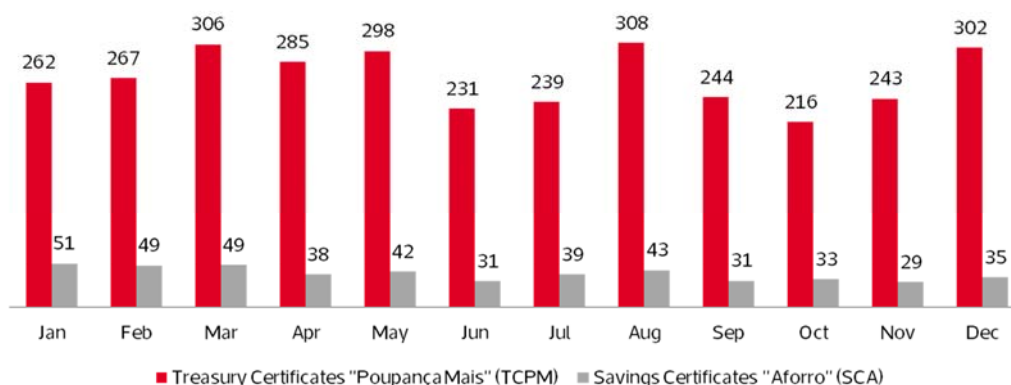
This business unit includes all CTT, S.A.'s financial services that are focused on retail, as well as payment activities, directed at the business segment. They are provided through the Retail Network and the Payshop business with its vast network of agents, in order to reach the largest possible number of users. The recurring revenues²³ of this business unit reached €70.8m in 2016, -6% than in 2015.

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

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

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

Public Debt Placement – 2016 (million euros)



Source: CTT/IGCP

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

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

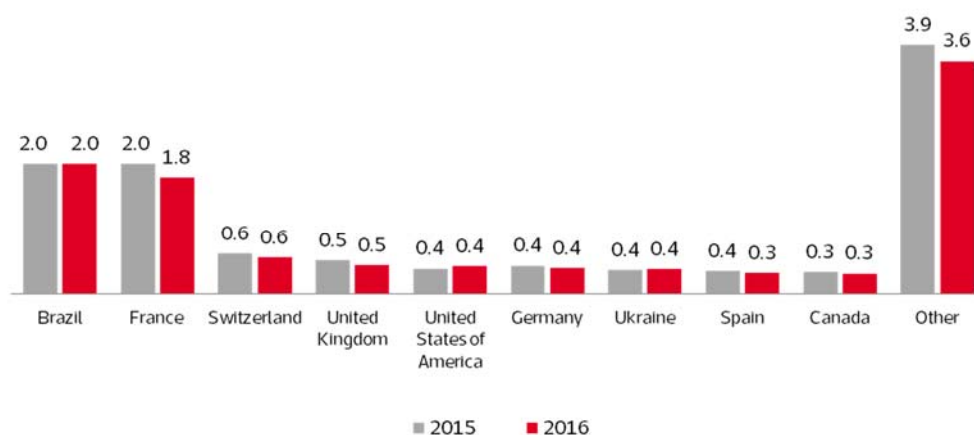
Despite the dip in revenues that was still felt in 2016, the payment business as a whole generated revenues greater than 23 million euros. On a positive note, we highlight:

- the growth in integrated payment services that allow corporate clients to have all of their payment solutions concentrated in the same provider, thereby enabling the integrated management of collections from clients;
- the toll payment service, whose completely digital campaign over the Summer months resulted in the significant growth of this business, by taking advantage of the economy's upswing; and
- the turnaround trend in the sale of pre-paid products for online shopping in the last quarter of the year with the launch of the new *PaySafecard Direct* service and advertising campaigns for users and agents.

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

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

International Transfers – Main outbound corridors (million euros)



2.5. Banco CTT

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

The recurring revenues²⁴ of this business unit reached €961.7 thousand in 2016, in which the focus was on attracting clients by opening accounts. The results obtained until now prove Banco CTT was a project the market was anxious for and is already a brand widely recognised by the Portuguese, associated to trust and solidity, in addition to proximity.

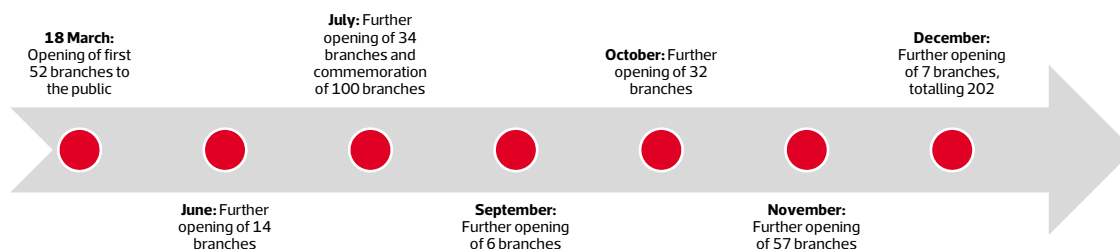
The year of 2016 marked the launch of Banco CTT's operations, with enormous challenges, namely the opening of branches at an unprecedented pace, attracting clients, developing and optimising processes, gradually reinforcing the offer of products and solutions to clients and focusing on quality dissemination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

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

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

²⁴ Including internal services and intra-group transactions which are eliminated for consolidation purposes.

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



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

In 2017, the Bank intends to continue to grow in terms of activity, clients, credit, branches and resources, while expanding its offer. It will do so by launching and preparing new products, namely by competitively positioning itself in the mortgage loans segment, which will allow the Bank to increase and diversify its current client portfolio and increment cross-selling.

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

3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

3.1. Banking and financing transactions

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

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

- Banco CTT opened up to the public on 18 March 2016, currently having 201 CTT branches in post offices and a head branch. During this period over 74 thousand accounts were opened for 105 thousand clients, having been captured over €253.9m in deposits. The share capital in December was €85m.
- The company recognised revenues of €9.6m regarding the memorandum of understanding with Altice (€3.2m in the mail segment, €3.2m in the Financial Services segment and €3.2m in the Express & Parcels segment).
- The long-term lease agreement for a vacant building (Conde Redondo) was terminated, generating an effect on EBITDA of +€1.7m.
- Total reversal of the provision for onerous contracts (€6.5m):
 - €2.9m concerning the termination of the long-term lease agreement for a vacant building (Conde Redondo);
 - €3.4m for Casal Ribeiro and Restauradores buildings. Following the restructuring of the CTT Retail network and the new sub-lease agreements, the profitability of these spaces began to exceed the amount of rents paid under the lease agreements in force, thus no longer being considered as onerous contracts.
- As part of the networks integration process in Portugal, CTT Expresso sold, on March 2016, to CTT, S.A. 100% of its share in the subsidiary Tourline. This transaction had no impact on the consolidated accounts.
- The improvements made in the direct allocation method (VAT deduction) had a positive impact of €4.0m in other operating revenues (€3.0m in the Mail segment and €1.0m in the Financial Services segment).
- Staff costs include €4.0m regarding the optimisation programme in CTT, S.A..
- The other long-term employee benefits liabilities decreased by €4.3m, of which should be highlighted the reduction of €2.4m in the benefit “Telephone subscription fee”, as a result of the historical analysis of the average costs per beneficiary and the number of beneficiaries.
- Reversal of labour provisions (€7.0m):
 - €4.9m in CTT, S.A., as a result of the calculation method review, concerning the retributive differences that could be claimed by workers, incorporating more historical data, namely information regarding the outcome of legal proceedings;

- €2.1m in CTTEpresso concerning the lawsuits following the extinction of the assiduity premium, having the probability of its occurrence been reviewed due to the favourable outcome for CTT in court. Accordingly, the entire provision has been cancelled.
- The post-employment benefits / healthcare liabilities increased by €12,3m, due to the reduction of the discount rate from 2.5% to 2%, and the implementation of the healthcare plan in the scope of the optimisation programme, partially offset by the medical expenses decrease.

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

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

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

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

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

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

The reported earnings before interest and taxes reached €90.9m, €19,0m (-17.3%) below those recorded in 2015. Excluding the effect of Banco CTT this result would have reached €120.5m, i.e. a decrease of €1.1m (-0.9%) regarding the same period of the previous year, also excluding Banco CTT.

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

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

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

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

Note: Revenues exclude non-recurring values.

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

3.1.1. Revenues

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

Note: Revenues exclude non-recurring items.

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

The business of CTT is organised in the following segments:

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

2016 – Revenues by segment

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

Note: Revenues exclude non-recurring items.

2015 – Revenues by segment

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

Note: Revenues exclude non-recurring items.

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

Services rendered decreased by €16.7m (-3.4%) as a result of the decrease of €14.7m (-3.2%) in addressed mail affected by the 4.2% fall in volumes, despite the 1.1% average increase in the prices

of the USO services in 2016. This evolution was also penalized by the fall in the mail with higher added value, i.e. registered mail (-8.8%).

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

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

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

- - €0.6m from revenues resulting from the improvements made in the direct allocation method (VAT deduction), allowing a lower VAT cost;
- -€1.1m (-68.0%) in the exchange rate differences of SDR (*Special Drawing Rights*) reflecting a reduction of the exchange rate (*appreciation of SDR vs euro*) in 2016 (-0.2% vs December 2015), which contrasts with the devaluation of SDR (*growth in exchange rate*) registered in the same period of 2015 (+6.7% vs December 2014). This situation also impacts the decrease of other costs.
- +€1.4m in earnings resulting from the memorandum of understanding with Altice²⁵.

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

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

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

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

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

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

Other operating income increased by €0.4m (+8.0%), justified by the recognised earnings resulting from the memorandum of understanding with Altice of +€1.4m compared to the same period of last

²⁵ The memorandum of understanding with Altice affected three segments (Mail, Express & Parcels and Financial Services).

year, which was partially offset by the decrease of €0.7m from the improvements made in the direct allocation method of VAT deduction.

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

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

3.1.2. Operating costs²⁶

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

Note: Excluding non-recurring items.

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

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

- a) The recurring **cost of sales** decreased by 14.8% (-€2.4m) following the sales evolution, namely in what concerns lottery and merchandising products.
- b) The recurring **external supplies and services** costs decreased by 0.6% (-€1.4m) when compared to the same period of the previous year. The cost reduction from initiatives of optimisation and rationalisation of operations, from the distribution networks integration, as well as other efficiency measures, allowed to absorb the recurring external supplies and services of Banco CTT which amounted to €11.8m (+€9.5m than in 2015).
- c) The recurring **staff costs** reached €328.4m, decreasing €3.3m (-1.0%) when compared to the same period of the previous year, mainly due to the following reductions:
 - (i) -€8.6m resulting from the remuneration policy, emphasising the variable component, as profit sharing;
 - (ii) -€2.4m in the "telephone subscription fee" benefit resulting from the analysis of the historical average monthly costs per beneficiary as well as the number of associated beneficiaries associated with this benefit;
 - (iii) -€2.9m in staff costs of Tourline, as a result of the restructuring measures implemented in 2015.

²⁶ Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

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

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

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

The operating costs by segment are as follows:

2016 - Operating costs by segment

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

Note: excludes non-recurring items.

2015 - Operating costs by segment

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

Note: Excluding non-recurring items.

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

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

The **Express & Parcels segment** recorded a decrease of €11.1m (-8.7%) in recurring operating costs, of which it is worth mentioning the reduction in Spain of Tourline's staff, transport and delivery

costs as a result of the restructuring measures and, in Portugal, the decline in the EMS delivery subcontracting costs due to the ongoing process of the network integration and optimisation.

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

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

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

3.1.3. Recurring EBITDA

The recurring EBITDA²⁷ amounted to €119.5m, 17.0% (-€24.5m) lower than the 2015 value, as a result of the revenue decline (-4.4%) that exceeded the decline in operating recurring costs (-1.3%), largely justified by the ramp-up period of Banco CTT which represented an increase over 2015.

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

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

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

²⁷ Recurring EBITDA = Operating results + amortisation and depreciation + net change of provisions and impairment losses (does not include non-recurring revenues and expenses, such as company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies).

2016 - Recurring EBITDA by segment

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

2015 - Recurring EBITDA by segment

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

3.1.4. Non-recurring results

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

- (i) Other operating income:
 - +€1.8m, of which €1.7m regarding the recognition of deferred gains related to Conde Redondo building lease contract early termination.
- (ii) External supplies and services:
 - -€8.8m of costs associated with studies and strategic projects especially those related to the launch of Banco CTT (-€6.8m) and also with the management information improvement plan (-€0.3m) and other consulting matters (-€1.6m).
- (iii) Staff costs:
 - -€8.4m of staff costs in the scope of the transformation programme, including: -€2.8m concerning compensations following the 2015 Company Agreement; -€0.7m related to the termination of employment contracts by mutual agreement; -€0.9m of indemnities for Suspension Agreements (net of the reversal of their liability) and €4.0m related to the human resources optimisation programme in CTT,S.A. implemented in the fourth quarter of the year.
 - -€1.6m net of the reduction of the discount rate in other post-retirement employee benefits, the decrease of medical expenses and the implementation of the healthcare plan in the scope of the optimisation programme.
- (iv) Other costs:
 - -€0.4m, of which -€0.01m are related to Banco CTT project and -€0.4m refer to the protocol signed with "Nova School of Business and Economics" university.
- (v) Net depreciations/amortisations, impairments and provisions, with a net reversal of increased values by €13.6m, related to:
 - -€0.9m in depreciations/amortisations regarding the Banco CTT project and impairment of investments.

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

2016 Non-recurring results

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

2015 Non-recurring results

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

3.1.5. Financial results

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

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

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

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

3.1.6. Net profit and profitability and Gross Added Value

In 2016 CTT achieved a consolidated net profit attributable to equity holders of €62.2m, 13.7% lower than the one obtained in the same period of last year, corresponding to consolidated earnings of €0.42 per share and a net margin of 8.9% (9.9% in 2015). If the non-recurring effects in both years were excluded, the net profit would have decreased by 21.6%.

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

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

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

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

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

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

Returns on Capital

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

⁽¹⁾ Net profit/average Equity

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

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

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

The gross added value amounted to €419.8m corresponding to a GAV/average number of employees of about of 33.9 thousand euros, 4.6% lower than that of the previous year, due to the reduction of the net profit and income tax for the period. This indicator highlights the effort to optimise operations and maximise the productivity of resources.

Gross Added Value (GAV)

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

3.1.7. Capex

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

3.1.8. Financial position and Cash flow

Consolidated statement of financial position

Thousand Euros	31.12.2016	31.12.2015	$\Delta\%$ 16/15
Non-current assets	452,618	354,906	27.5
Current assets	864,080	764,566	13.0
Total assets	1,316,697	1,119,472	17.6
Equity	233,327	251,835	-7.3
Total liabilities	1,083,370	867,637	24.9
Non-current liabilities	269,533	292,668	-7.9
Current liabilities	813,837	574,970	41.5
Total equity and liabilities	1,316,697	1,119,472	17.6

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

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

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

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

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

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

- Deposits from Banco CTT clients of €253.9m;
- Increase in short-term debt of €2.6m, mainly due to the funding obtained by Tourline via cash pooling;
- Decrease of €9.6m in current deferrals, reflecting the amount booked in the 2016 results concerning the agreement with Altice;
- Reduction of €4.7m in non-current deferrals, of which €1.7m refer to the recognition of deferred capital gains of Conde de Redondo building lease contract early termination; and
- Reduction of €26.6m in provisions, of which €9.0m refer to the early termination of the Conde de Redondo building lease contract, €4.4m concerning Casal Ribeiro and Restauradores buildings and €7.0m related to labour provisions.

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

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

3.1.9. Cash flow

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

- +€225.8m in Banco CTT cash flow;
- +€43.6m in cash flows from operating activities (excluding financial services and Banco CTT flows);
- -€29.5m in payments concerning investments in tangible fixed assets and intangible assets;

- -€164.8m in Banco CTT financial assets (includes available-for-sale financial assets, held-to-maturity investments and investments in credit institutions held by Banco CTT);
- -€70.3m in payment of dividends.

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

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

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

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

3.1.10. Financing

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

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

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

* Includes share plan recorded in equity.

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

3.1.11. Financial ratios

Financial indicators			
	2016	2015	Δ% 16/15
Current liquidity ratio (1)	106.2%	133.0%	-26.8 p.p.
Solvency ratio (2)	21.5%	29.0%	-7.5 p.p.
Adjusted solvency ratio (3)	30.7%	46.4%	-15.7 p.p.
Net debt (€m)	(90,275)	(82,590)	9.3
Net debt/EBITDA(4)	-0.8 x	-0.6 x	0.2 x
Tangible fixed asset coverage (5)	230.4%	237.0%	-6.6 p.p.
Dividend/Net profit (6)	115.8%	97.8%	18.0 p.p.
Dividend/ Adjusted operating free cash flows (6)	86.0%	103.2%	-17.2 p.p.

(1) Current assets/ Current liabilities

(2) Equity/ Total liabilities

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

(4) If negative indicates positive net cash situation

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

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

3.1.12. Impact of Banco CTT results on the consolidated results

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

Consolidated income statement

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

Consolidated statement of financial position

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

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

- +€27.0m of operating income ;
- -€21.4m of financial results, which reflect the equity method of Banco CTT, due to the negative net profit.

Impact of the exclusion of Banco CTT from the consolidation perimeter on the financial position (Balance Sheet) in 2016:

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

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

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

Returns on Capital

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

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

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

Financial indicators

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

⁽¹⁾ Current assets / Current liabilities

⁽²⁾ Equity / Total liabilities

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

3.2. CTT share performance

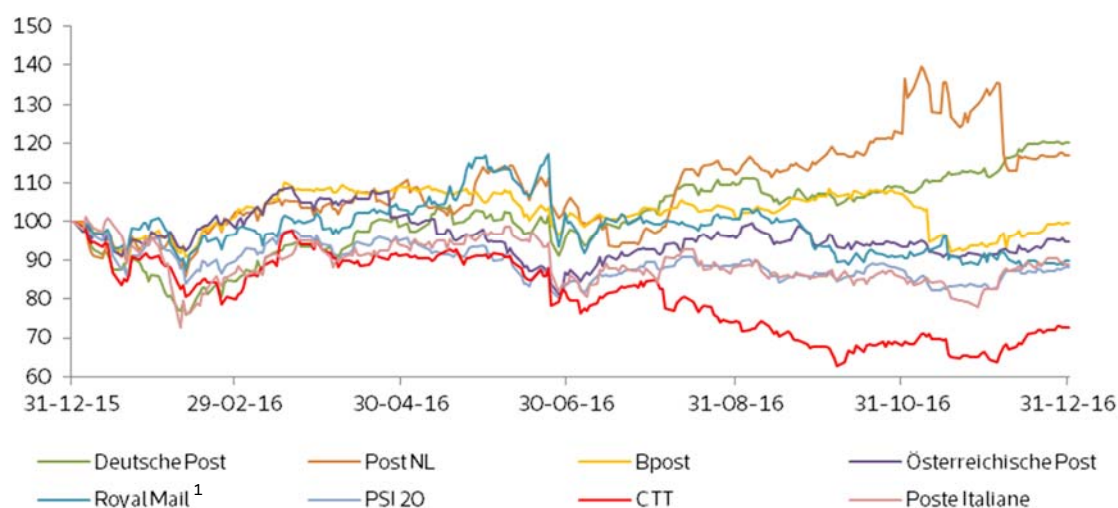
In 2016, CTT paid a dividend of €0.47 per share and the CTT share price depreciated by 27.21%. Hence, the total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2015) was 22.86%. During the period, the PSI 20 also had a negative total shareholder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

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

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

CTT share price performance vs PSI 20 & sector

(Year 2016 - rebased at 100 as at 31 Dec 2015)



¹ Royal Mail share price in euros.

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

4. HUMAN RESOURCES

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

Current activity

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

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

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

No. of Employees

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

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

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

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

Development of human capital

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

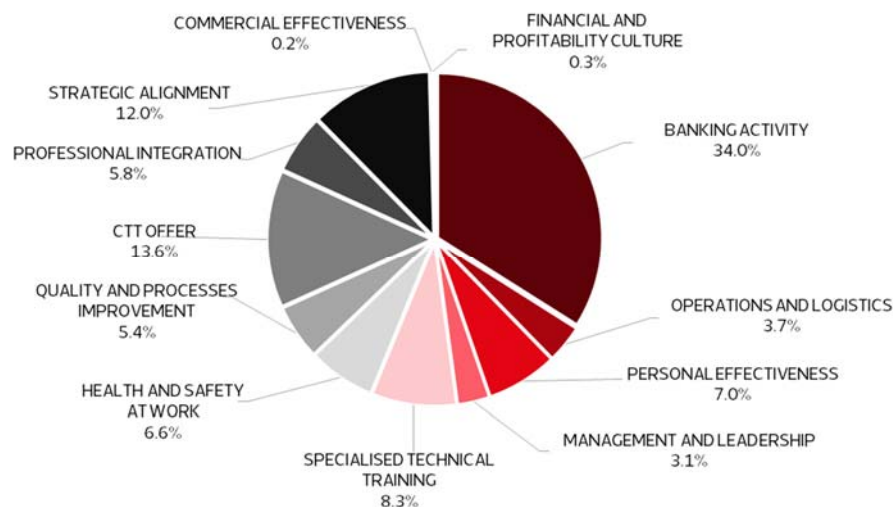
In this regard, the selection process for the **2nd edition of the Trainee Programme** was launched with a view to attract and retain young people of high-potential, promote their development within a structured overall programme, contribute to the **rejuvenation of staff**, foster a **mobility culture**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

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

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

In terms of **training**, 2016 saw a strong investment in training that sought to bolster and promote skills geared toward i) attaining the stipulated goals and addressing new challenges, ii) gaining or developing knowledge in the new areas of growth, as is the case in the banking business, iii) professional and personal development, and iv) motivation, involvement and strengthening the commitment of employees to the company, its culture and values.

Training Volume per Programme



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

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

Talent Management Plan

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

The goals of the Talent Management Plan are to:

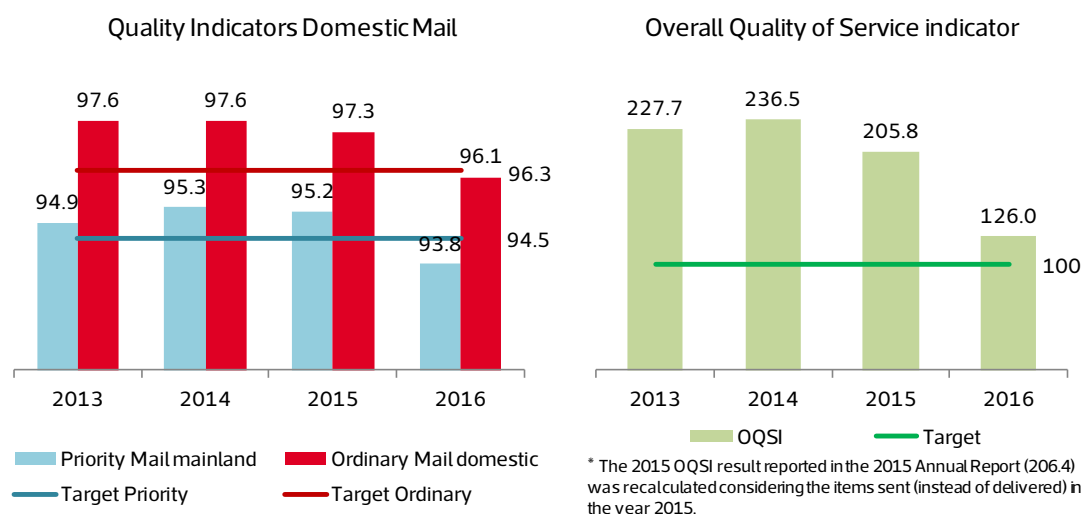
- guide employees towards the main business challenges and desired culture;
- provide CTT with the best market practices in terms of Talent Management;
- reinforce the Value Proposal for employees, positioning CTT as one of the best and most attractive companies to work for;
- ensure business sustainability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

5. QUALITY, INNOVATION AND SUSTAINABILITY IN CTT'S ACTIVITIES

5.1. Quality of Service

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

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



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

Notes:

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

⁽²⁾ Indicators calculated by IPC - International Post Corporation based on the weighted average of the 4th quarter of 2015 and 9 months 2016 figures.

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

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

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

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

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

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

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

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

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

Contact Centre

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

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

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

CTT App

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

5.2. Innovation and development

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

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

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

Development of solutions, products and services

- Regarding **e-commerce** (already addressed in section 2.3 Express & Parcels) and, as a driver of that business, we highlight the following:
 - 1st operational testing for the flow of e-commerce products between China and Brazil, using CTT's London Extra Territorial Office of Exchange with the support of its partnerships in these geographies,
 - launching the "Express2Me" service that allows Portuguese consumers to access online shopping on U.S.-based websites by attributing a 1st-mile virtual address,
 - implementation of the InterConnect programme (IPC), involving more than 30 postal operators in order to create a postal network with an integrated offer of cross-border e-commerce service,
 - holding CTT's 1st "E-commerce Day" on 11 November.
- Reinforcement of the **Mail** business:
 - developing the self-service Cttads.pt platform to create advertising campaigns,

- analysis of potential opportunities that the IOPT (*Internet of Postal Things*) may come to offer CTT,
 - availability of the Postage Stamp Digital Platform, with information on all issues since 1853.
- Optimising the **Mail business from an operational standpoint** (and also the Parcels business by operationally integrating the delivery networks), through innovative initiatives / services, of which we highlight:
 - conclusion of the RMS (Rest Mail Sorting) automated item sorting project,
 - development of new automated sorting algorithm for CTT Espresso's parcel sorting equipment,
 - operation of a new Shopping Network service that enables simultaneous in-store delivery and collection in Tiffosi stores located in Shopping Malls,
 - carrying out a survey of the citizens of the municipality of Vizela that are not connected to the public water and sewage system.

Corporate initiatives

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

5.3. Sustainability

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

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

Company and Employees

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

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

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

Society and the environment

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

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

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

The use of 100% green electricity as of 2015, caused scope 1 and 2 emissions to fall by approximately 15 ktons of CO₂ a year. The insourcing of outsourced routes, and the launch of Banco CTT's operations caused fuel consumption to rise by 2.8%. Electricity consumption stabilised (-0.3%), the falls in gas and air conditioning contained the overall rise in energy to 1.0% (+1.0% emissions). The use of 43 electric vehicles and the delivery of another 28 expanded the **electric fleet, the largest in the country**, to 320 vehicles.

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

Customers and consumers

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

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

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

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

Retail Customers

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

The features that earned greater levels of satisfaction were:

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

Basis: 2,053 individuals

Business Customers

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

- Large Customers (carried out by Equação Lógica, in January 2016) obtained an Overall Satisfaction Average of 8.42 (on a scale from 1 to 10, where 1 is "Not at All Satisfied" and 10 is "Very Satisfied").

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

Shareholders and investors

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

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

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

6. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

Subsequent events

Postal service price update

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

Acquisition of Transporta

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

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

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

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

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

Share award

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

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

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

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

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

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

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

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

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

Future Perspectives

The Transformation Programme²⁸ initiatives implemented between 2013 and 2016, allow CTT to face the year 2017 with the expectation of continuing to pursue the defined strategy, namely to achieve growth in the consolidated revenues based on the growth levers and the unique networks of CTT, as means to sustain the generation of value for the shareholders.

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

Growth in electronic commerce will continue to be the main driver of growth in the parcels business for the B2C segment (business to consumer) while internal economic activity promotes the growth of the parcels market for the B2B segment (business to business), both in Portugal and Spain. Iberian retailers are expected to migrate or adopt online sales platforms in greater numbers, along with a change in consumer habits. E-commerce originated in local retailers will have more weight as is the case in northern European countries. For this purpose, CTT is undertaking various initiatives to increasingly become the leader in logistic solutions offered to this market and that include (i) the modular offer in the parcels business tailored for this segment with various levels of service, features and flexibility, (ii) the integration and now optimisation of the delivery networks in Portugal and also Spain, allowing greater competitiveness in the offer geared toward this market where capillarity and convenience are key factors and (iii) the development of a new technological platform to support this type of ever changing and increasingly sophisticated flexible modular offer.

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

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

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

²⁸ Transformation Programme: a set of projects selected annually as fundamental to implementing CTT's strategy.

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

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

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

7. PROPOSAL FOR THE APPROPRIATION OF RESULTS

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

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

Under the terms of article 295(1) of the Portuguese Companies Code (“PCC”), a minimum of 5% is intended for the constitution of the legal reserve and, if necessary, its reintegration until this reserve reaches 20% of the share capital. As the share capital is €75,000,000.00, 20% is calculated at €15,000,000.00, whereby the legal reserve as at 31 December 2016 exceeds the minimum amount required by the Articles of Association and the PCC.

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

Distributable profits are the financial year’s net profits after the constitution or increase of the legal reserve and after negative retained earnings have been covered, if applicable. As at 31 December 2016, the legal reserve is fully constituted and retained earnings are positive. For the financial year ended on 31 December 2016, net profits for the year, in the individual accounts, amounted to €62,160,395.00.

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

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

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

Dividends*	€60,805,324.00
Reserves**	€1,355,071.00
- b) distributable reserves in the amount of €11,194,676.00 that are booked as retained earnings are appropriated in the form of dividends*.
- c) the allocation of a maximum amount of €3,046,676.00 (already assumed in the individual financial statements) to CTT employees and Executive Directors as bonuses.

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

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

Lisbon, 9 March 2017

The Board of Directors,

8. DECLARATION OF CONFORMITY

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

Lisbon, 9 March 2017

The Board of Directors

The Chairman & CEO

Francisco José Queiroz de Barros de Lacerda

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

António Sarmiento Gomes Mota

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

Manuel Cabral de Abreu Castelo-Branco

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

André Manuel Pereira Gorjão de Andrade Costa

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

Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

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

Dionizia Maria Ribeiro Farinha Ferreira

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

Nuno de Carvalho Fernandes Thomaz

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

Diogo José Paredes Leite de Campos

The Member of the Board of Directors

Rui Manuel de Oliveira Horta e Costa

The Member of the Board of Directors

José Manuel Baptista Fino

The Member of the Board of Directors

Manuel Carlos de Melo Champalimaud

The Member of the Board of Directors

Céline Dora Judith Abecassis-Moedas

PART II – FINANCIAL STATEMENTS

Consolidated and individual financial statements

CTT – CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED AND INDIVIDUAL STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 AND 31 DECEMBER 2015

Euros

	NOTES	Group		Company		
		31.12.2016	31.12.2015	31.12.2016	Restated 31.12.2015	Restated 01.01.2015
ASSETS						
Non-current assets						
Tangible fixed assets	5	208,921,781	209,940,886	192,866,766	193,843,668	196,761,737
Investment properties	7	9,291,983	19,783,095	9,291,983	19,783,095	23,329,763
Intangible assets	6	38,916,723	27,624,015	14,803,744	12,960,678	8,934,087
Goodwill	9	7,700,739	8,058,656	-	-	-
Investments in subsidiary companies	10	-	-	102,976,700	65,166,836	42,644,640
Investments in associated companies	11	296,260	255,695	295,779	255,214	937,732
Other investments	13	1,503,572	1,106,812	1,503,572	1,106,812	1,106,812
Investments held to maturity	14	93,986,115	-	-	-	-
Shareholders	51	-	-	5,125,000	6,750,000	9,103,098
Other non-current assets	24	1,306,148	601,103	1,110,991	586,741	790,601
Financial assets available for sale	15	4,473,614	-	-	-	-
Deferred tax assets	50	86,220,762	87,535,941	85,578,604	86,330,601	90,547,447
Total non-current assets		452,617,698	354,906,203	413,553,139	386,783,645	374,155,917
Current assets						
Inventories	18	5,407,685	5,455,115	4,721,728	4,671,709	5,002,908
Accounts receivable	19	122,113,270	124,355,641	94,323,683	97,684,021	96,513,372
Credit to bank clients	20	7,103,905	-	-	-	-
Shareholders	51	-	-	3,722,399	3,291,221	733,318
Income taxes receivable	37	3,587,614	-	3,569,641	-	-
Deferals	21	6,128,931	8,168,589	4,937,995	7,002,270	4,670,967
Investments held to maturity	14	1,108,428	-	-	-	-
Other current assets	24	30,033,571	22,936,943	27,784,833	21,862,237	20,049,456
Financial assets available for sale	15	1,973,711	-	-	-	-
Other banking financial assets	16	59,054,303	-	-	-	-
Cash and cash equivalents	23	618,811,099	603,649,717	475,068,122	559,542,719	649,688,918
		855,322,515	764,566,004	614,128,399	694,054,177	776,658,939
Non-current assets held for sale	22	8,756,999	-	8,756,999	-	-
Total current assets		864,079,515	764,566,004	622,885,398	694,054,177	776,658,939
Total assets		1,316,697,213	1,119,472,208	1,036,438,537	1,080,837,822	1,150,814,856
EQUITY AND LIABILITIES						
Equity						
Share capital	26	75,000,000	75,000,000	75,000,000	75,000,000	75,000,000
Own shares	27	(5,097,536)	(1,873,125)	(5,097,536)	(1,873,125)	-
Reserves	27	34,891,671	33,384,112	34,878,197	33,384,652	31,773,966
Retained earnings	27	93,589,211	91,727,994	93,602,685	91,727,994	84,374,563
Other changes in equity	27	(27,137,824)	(18,644,832)	(27,137,824)	(18,644,832)	(18,786,310)
Net profit		62,160,395	72,065,283	62,160,395	72,065,283	77,171,128
Equity attributable to equity holders		233,405,918	251,659,432	233,405,918	251,659,972	249,533,347
Non-controlling interests	30	(79,135)	175,322	-	-	-
Total equity		233,326,782	251,834,754	233,405,918	251,659,972	249,533,347
Liabilities						
Non-current liabilities						
Accounts payable	34	375,379	-	375,379	-	-
Medium and long term debt	31	127,145	1,035,522	-	724,845	1,187,975
Employee benefits	32	250,445,608	241,306,773	250,445,608	241,306,773	255,527,808
Provisions	33	14,127,483	40,732,332	20,327,302	36,725,302	41,715,256
Deferals	21	334,191	5,016,576	328,093	5,016,576	6,076,311
Deferred tax liabilities	50	4,123,146	4,576,598	4,086,530	4,534,199	4,788,768
Total non-current liabilities		269,532,952	292,667,801	275,562,913	288,307,695	309,296,118
Current liabilities						
Accounts payable	34	444,863,700	435,891,677	426,559,977	420,406,149	484,451,611
Banking client deposits and other loans	35	253,944,840	-	-	-	-
Shareholders	51	-	-	7,341,360	1,613,944	295,103
Employee benefits	32	17,390,573	18,538,572	17,390,573	18,499,767	21,594,809
Income taxes payable	37	-	7,922,942	-	7,923,944	6,171,287
Short term debt	31	9,679,829	7,078,155	724,749	462,968	460,098
Deferals	21	4,177,609	13,745,430	4,169,848	10,550,227	5,853,426
Other current liabilities	36	82,562,725	91,792,877	71,283,201	81,413,156	73,159,057
Other banking financial liabilities	16	1,218,205	-	-	-	-
Total current liabilities		813,837,479	574,969,653	527,469,707	540,870,155	591,985,391
Total liabilities		1,083,370,431	867,637,454	803,032,619	829,177,850	901,281,509
Total equity and liabilities		1,316,697,213	1,119,472,208	1,036,438,537	1,080,837,822	1,150,814,856

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL INCOME STATEMENT FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015
Euros

	NOTES	Group			Company			
		Twelve months ended		Three months ended	Twelve months ended		Three months ended	
		31.12.2016	31.12.2015	31.12.2016	31.12.2016	31.12.2015	31.12.2016	Restated 31.12.2015
Revenues		696,821,564	727,179,760	177,995,598	581,972,346	600,888,329	145,777,234	156,826,015
Sales and services rendered	4/40	669,668,571	705,168,863	172,407,094	531,057,316	550,979,438	134,466,373	138,165,711
Financial margin	41	26,051	-	57,443	-	-	-	-
Other operating income	42	27,126,942	22,010,897	5,531,061	50,915,030	49,908,911	11,310,861	18,660,303
Operating costs		(605,938,692)	(617,247,815)	(157,474,393)	(479,459,501)	(490,922,262)	(123,541,799)	(127,202,343)
Cost of sales	38	(13,906,189)	(16,316,346)	(3,644,134)	(10,974,792)	(13,874,596)	(2,778,799)	(3,802,546)
External supplies and services	43	(23,037,064)	(23,084,139)	(6,196,757)	(14,577,382)	(153,012,109)	(38,080,518)	(39,730,090)
Staff costs	45	(338,387,481)	(331,772,879)	(910,27,468)	(301,774,716)	(297,029,310)	(81,609,379)	(76,500,933)
Impairment of accounts receivable, net	46	(45,623)	(1,410,434)	19,735	547,695	517,245	182,638	295,402
Impairment of non-depreciable assets	9	-	623,123	-	(2,402,186)	-	-	-
Provisions, net	33	16,343,680	(277,313)	8,877,961	13,805,988	246,722	6,738,555	(60,022)
Depreciation/amortisation and impairment of investments, net	47	(27,468,094)	(23,573,001)	(7,562,231)	(22,479,167)	(19,441,277)	(6,148,896)	(5,831,377)
Other operating costs	48	(10,437,910)	(11,436,825)	(2,170,681)	(8,604,940)	(8,328,937)	(184,540)	(157,277)
Earnings before financial income and taxes		90,882,873	109,931,945	20,521,205	102,512,845	109,966,067	22,235,435	29,623,672
Financial results		(5,638,167)	(5,321,964)	(1,658,727)	(16,612,738)	(9,152,413)	(3,691,998)	(18,38,776)
Interest expenses	49	(6,540,106)	(6,861,401)	(1,737,672)	(6,466,598)	(6,774,705)	(1,788,438)	(1,693,146)
Interest income	49	671,599	1,485,163	78,945	733,475	1,681,077	95,628	316,406
Gains/losses in associated companies	10/11/12	230,340	54,274	-	(10,879,615)	(4,058,785)	(2,069,188)	(462,036)
Income tax for the period	50	85,244,706	104,609,981	18,862,478	85,900,107	100,813,654	18,543,437	27,764,896
Earnings before taxes		(23,347,639)	(32,539,346)	(2,761,819)	(23,739,712)	(28,748,371)	(2,417,717)	(6,354,569)
Net profit for the period		61,897,067	72,070,635	16,100,659	62,860,395	72,065,283	16,125,720	21,430,326
Net profit for the period attributable to:								
Equity holders		62,160,395	72,065,283	16,125,720	62,160,395	72,065,283	16,125,720	21,430,326
Non-controlling interests	30	(263,328)	5,352	(25,061)	(263,328)	(25,061)	(263,328)	(25,061)
Earnings per share:	29	0.42	0.48	0.11	0.42	0.48	0.11	0.14

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015
Euros

	NOTES	Group			Company				
		Twelve months ended		Three months ended		Twelve months ended		Three months ended	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Net profit for the period		61,897,067	72,070,635	16,100,659	21,427,801	62,160,395	72,065,283	16,125,720	21,430,327
Adjustments from application of the equity method (non re-Classifiable adjustment to profit and loss)		19,820	444,637	19,820	109,622	19,820	-	19,820	-
Changes to fair value reserves		14,014	-	3,820	-	-	-	-	-
Employee benefits (non re-Classifiable adjustment to profit and loss)		(11,827,990)	114,181	(11,827,990)	3,290,351	(11,827,990)	114,181	(11,827,990)	3,290,351
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)		3,334,998	27,297	3,334,998	(866,477)	3,334,998	27,297	3,334,998	(866,477)
Other changes in equity		49,777	(18,661)	(24,738)	(145,681)	54,380	(67,697)	(18,459)	(36,059)
Other comprehensive income for the period after taxes		(8,409,381)	567,454	(8,494,090)	2,387,815	(8,418,792)	73,781	(8,491,631)	2,387,815
Comprehensive income for the period		53,487,686	72,638,089	7,606,569	23,815,616	53,741,603	72,139,064	7,634,089	23,818,142
Attributable to non-controlling interests		(254,457)	499,025	(27,519)	(2,525)				
Attributable to shareholders of CTT		53,742,143	72,139,064	7,634,089	23,818,141				

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

CTT - CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 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		-	-	-	-	-	-	-	-
Dividends	28/30	-	-	-	-	77,171,128	(77,171,128)	-	(69,750,000)
Acquisition of own shares	27	-	(1,873,125)	-	-	(69,750,000)	-	-	(1,873,125)
Share plan	27/30	-	-	1,610,685	-	-	-	-	1,610,685
		-	(1,873,125)	1,610,685	-	7,421,128	(77,171,128)	-	(70,012,440)
Other movements	27/30	-	-	-	-	(177,319)	-	158,658	(18,661)
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	141,478	-	-	-	141,478
Changes to fair value reserves	27	-	-	(540)	-	-	-	-	(540)
Adjustments from the application of the equity method	27	-	-	-	-	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)	-	(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		-	-	-	-	-	-	-	-
Dividends	28/30	-	-	-	-	72,065,283	(72,065,283)	-	(70,264,792)
Acquisition of own shares	27	-	(3,224,411)	-	-	(70,264,792)	-	-	(3,224,411)
Share plan	27/30	-	-	1,493,546	-	-	-	-	1,493,546
		-	(3,224,411)	1,493,546	-	1,800,491	(72,065,283)	-	(71,995,658)
Other movements	27/30	-	-	-	-	40,906	-	8,871	49,777
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(8,492,992)	-	-	-	(8,492,992)
Changes to fair value reserves	27	-	-	14,014	-	-	-	-	14,014
Adjustments from the application of the equity method	27	-	-	-	-	19,820	-	-	19,820
Net profit for the period		-	-	-	-	-	62,160,395	(263,328)	61,897,067
Comprehensive income for the period		-	-	-	-	60,726	62,160,395	(254,457)	53,487,686
Balance on 31 December 2016		75,000,000	(5,097,536)	34,891,671	(27,137,824)	93,589,111	62,160,395	(79,135)	233,326,782

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

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

	NOTES	Share capital	Own Shares	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Total
Balance on 1 January 2015		75,000,000	-	31,773,967	(18,786,310)	84,374,563	77,171,128	249,533,347
Appropriation of net profit for the year of 2014		-	-	-	-	-	-	-
Dividends	28	-	-	-	-	77,171,128	(77,171,128)	-
Acquisition of own shares	27	-	(1,873,125)	-	-	(69,750,000)	-	(69,750,000)
Share plan	27	-	-	1,610,685	-	-	-	(1,873,125)
		-	-	1,610,685	-	-	-	1,610,685
		-	(1,873,125)	1,610,685	-	7,421,128	(77,171,128)	(70,012,440)
Other movements	27	-	-	-	-	(67,697)	-	(67,697)
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	141,478	-	-	141,478
Net profit for the period		-	-	-	-	-	72,065,283	72,065,283
		-	-	-	141,478	(67,697)	72,065,283	72,139,064
Comprehensive income for the period		-	-	-	-	-	72,065,283	72,139,064
Balance on 31 December 2015		75,000,000	(1,873,125)	33,384,652	(18,644,832)	91,727,994	72,065,283	251,659,972
Balance on 1 January 2016		75,000,000	(1,873,125)	33,384,652	(18,644,832)	91,727,994	72,065,283	251,659,972
Appropriation of net profit for the year of 2015		-	-	-	-	-	-	-
Dividends	28	-	-	-	-	72,065,283	(72,065,283)	-
Acquisition of own shares	27	-	(3,224,411)	-	-	(70,264,792)	-	(70,264,792)
Share plan	27	-	-	1,493,545	-	-	-	(3,224,411)
		-	-	1,493,545	-	-	-	1,493,545
		-	(3,224,411)	1,493,545	-	1,800,491	(72,065,283)	(71,995,658)
Other movements	27	-	-	-	-	54,380	-	54,380
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(8,492,992)	-	-	(8,492,992)
Changes to fair value reserves	27	-	-	-	-	-	-	-
Adjustments from the application of the equity method	27	-	-	-	-	19,820	-	19,820
Net profit for the period		-	-	-	-	-	62,160,395	62,160,395
		-	-	-	-	74,200	62,160,395	62,160,395
Comprehensive income for the period		-	-	-	(8,492,992)	74,200	62,160,395	53,741,603
Balance on 31 December 2016		75,000,000	(5,097,536)	34,878,197	(27,137,824)	93,602,685	62,160,395	233,405,918

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL CASH FLOW STATEMENT FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015
Euro

		Group		Company	
	NOTES	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Operating activities					
Collections from customers		635,704,808	696,039,358	528,435,377	563,510,468
Payments to suppliers		(248,660,942)	(230,578,621)	(162,807,260)	(158,179,087)
Payments to employees		(320,864,833)	(328,407,436)	(286,160,731)	(297,169,839)
Banking customer deposits and other loans		253,545,420	-	-	-
Credit to bank clients		(7,103,546)	-	-	-
Cash flow generated by operations		312,620,906	137,053,302	79,467,386	108,161,542
Payments/receivables of income taxes		(29,664,480)	(26,881,091)	(25,009,386)	(22,257,569)
Other receivables/payments		(14,738,983)	(77,340,046)	(13,506,804)	(67,832,724)
Cash flow from operating activities (1)		268,217,444	32,832,164	40,951,196	18,071,249
Investing activities					
Receivables resulting from:					
Tangible fixed assets		1,739,510	515,316	1,739,510	515,316
Investment properties		5,944,750	-	5,944,750	-
Financial investments		-	24,870	-	24,870
Financial assets available for sale		28,916,956	-	-	-
Investments held to maturity		19,579,730	-	-	-
Other banking financial assets		136,480,000	-	-	-
Interest income		994,839	2,283,289	858,239	2,168,561
Dividends		-	-	7,930,641	7,500,373
Loans granted		-	-	9,649,364	-
Payments resulting from:					
Tangible fixed assets		(13,347,974)	(16,689,137)	(10,680,428)	(10,814,488)
Intangible assets		(16,165,688)	(11,254,311)	(5,428,345)	(1,574,138)
Financial investments		-	(418,622)	(52,726,000)	(34,418,622)
Financial assets available for sale		(35,421,240)	-	-	-
Investments held to maturity		(115,350,055)	-	-	-
Demand deposits at Bank of Portugal		(3,792,333)	-	-	-
Other banking financial assets		(195,180,000)	-	-	-
Loans granted		-	-	(8,024,364)	-
Cash flow from investing activities (2)		(185,601,505)	(25,538,595)	(50,736,632)	(36,598,129)
Financing activities					
Receivables resulting from:					
Loans obtained		8,343,271	9,031,873	-	-
Payments resulting from:					
Loans repaid		(5,480,000)	(3,800,884)	-	-
Interest expenses		(805,675)	(853,263)	(736,893)	(583,121)
Finance leases		(988,800)	(984,955)	(463,064)	(460,260)
Acquisition of own shares	27	(3,224,411)	(1,873,125)	(3,224,411)	(1,873,125)
Dividends	28	(70,264,792)	(69,750,000)	(70,264,792)	(69,750,000)
Cash flow from financing activities (3)		(72,420,408)	(68,230,355)	(74,689,161)	(72,666,506)
Net change in cash and cash equivalents (1+2+3)		10,195,531	(60,936,786)	(84,474,597)	(91,193,388)
Changes in the consolidation perimeter		-	16,758	-	-
Cash and equivalents at the beginning of the period		603,649,717	664,569,744	559,542,719	649,688,918
Cash and cash equivalents at the end of the period	23	613,845,248	603,649,717	475,068,122	559,542,719
Cash and cash equivalents at the end of the period					
Sight deposits at Bank of Portugal		613,845,248	603,649,717	-	-
Outstanding checks of Banco CTT / Checks clearing of Banco CTT		-	-	3,792,334	-
Cash and cash equivalents (Balance sheet)		613,845,248	603,649,717	3,792,334	-

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

CTT – CORREIOS DE PORTUGAL, S.A.

Notes to the consolidated and individual financial statements
(Amounts expressed in Euros)

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1. INTRODUCTION

1.1- CTT – Correios de Portugal, S.A. (parent company)

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-organizations 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 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 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 onward 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 October 10, 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 book building process. The Equity Offering was addressed exclusively to institutional investors.

The shares of CTT are listed on Euronext Lisbon.

The financial statements attached herewith are expressed in Euros, as this is the functional currency of the **Group** and the **Company**.

These financial statements were approved by the Board of Directors and authorised for issue on 9 March 2017.

1.2- Business

The main activity of CTT and its subsidiaries ("CTT Group" or "Group"): CTT – Expresso – Serviços Postais e Logística, S.A., Payshop (Portugal), S.A., CTT Contacto, S.A., Mailtec Comunicação, S.A., Corre – Correio Expresso de Moçambique, S.A., Banco CTT, S.A., Escrita Inteligente, S.A. and Tourline Express Mensajería, SLU and its subsidiaries, is to ensure the provision of universal postal services, to render postal services and financial services. During 2015, within the scope of its financial services, CTT Group extended the scope of its activity with the establishment of Banco CTT, S.A., whose main activity is performing banking activities, including all the accessory, connected and similar operations compatible with the banking activity and allowed by law. The CTT Group also provides complementary services, such as the marketing of goods or provision of services on its own account or on behalf of third parties, provided that they are related with the normal operations of the public postal network, namely, the provision of information services, electronic communication networks and services, in which the Group acts as a Mobile Virtual Network Operator ("MVNO"), and the provision of public interest or general interest services.

The postal service is provided by CTT under the Concession contract of the Universal Postal Service signed on 1 September 2000 between the Portuguese State and CTT. In addition to the concessioned services, CTT can provide other postal services as well as develop other activities, particularly those which enable the use of the universal service network in a profitable manner, either directly or through incorporation or interests in companies or other forms of cooperation between companies. Within these activities it should be highlighted the provision of services of public interest or general interest subject to conditions to be agreed with the State.

Following the amendments introduced by Directive 2008/6/EC of 20 February 2008 of the European Parliament and of the Council to the regulatory framework that governs the provision of postal services, in 2012 the transposition into the national legal order took place through the adoption of Law no. 17/2012, of 26 April ("new Postal Law"), with the changes introduced in 2013 by Decree-Law no. 160/2013, of 19 November and by Law no. 16/2014, of 4 April, revoking the Law no. 102/99, of 26 July.

The new Postal Law establishes the legal regime for the provision of postal services in full competition in the national territory, as well as international services originating or terminating in the country.

Since the new Postal Law has become effective, the postal market in Portugal has been fully open to competition, eliminating areas within the universal service that were still reserved to the provider of the universal postal service, CTT – Correios de Portugal, S.A.. However, for reasons of general interest, the following activities and services remained reserved: placement of mailboxes on public roads for the acceptance of mail, issuance and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.

According to the new Postal Law the universal postal service includes the following services, of national and international scope:

- A postal service for letter mail (excluding direct mail), books, catalogues, newspapers and other periodicals up to 2 kg;
- A postal service for postal parcels up to 10 kg, as well as delivery in the country of parcels received from other Member States of the European Union weighing up to 20kg; and
- A delivery service for registered items and a service for insured items.

As a result of the new Postal Law, the Portuguese Government has revised the basis of the concession, through the publication of Decree-Law no. 160/2013, of 19 November, after which the

Fourth Amendment to the concession contract of the universal postal service came into effect on 31 December 2013.

The concession contract signed between the Portuguese State and CTT on 1 September 2000, subsequently amended on 1 October 2001, 9 September 2003, 26 July 2006 and 31 December 2013, covers:

- The universal postal service as defined above;
- The reserved services: (i) the right to place mailboxes on public roads for the acceptance of mail, (ii) the issuance and sale of postage stamps with the word "Portugal" and (iii) the service of registered mail used in legal or administrative proceedings;
- The provision of special payment orders which allows the transference of funds electronically and physically, at national and international level, designated by postal money order service; and
- Electronic Mailbox Service, on a non-exclusive basis.

As the Universal Postal Service incumbent operator, CTT remains the provider of universal postal services until 2020, ensuring the exclusivity of the reserved activities and services mentioned above.

Once the concession ends, in the event that it is not renewed to CTT, CTT may provide, together with any other operators, all the postal services, in a system of free competition, in accordance with a strategic and commercial policy, excluding the services granted by concession on an exclusive basis.

In summary, considering the legal and regulatory framework in force, CTT considers that there are no grounds for the introduction of any relevant change to the accounting policies of the **Group** and the **Company**.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the **Group** and the **Company** in the preparation of the consolidated and individual financial statements are those mentioned hereinafter.

2.1 Basis of presentation

The consolidated and individual financial statements were prepared under the assumption of going concern and are prepared under the historical cost convention, in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2016.

These standards include the IFRS issued by the International Accounting Standards Board ("IASB"), the IAS issued by the International Accounting Standards Committee ("IASC") and the respective interpretations – IFRIC and SIC, issued, respectively, by the International Financial Reporting Interpretation Committee ("IFRIC") and by the Standing Interpretation Committee ("SIC"). Hereinafter, these standards and interpretations are generally referred to as "IFRS".

In addition to the standards that became effective as of 1 January 2016, described in Note 2.1.1, and which are set out in the accounting policies adopted in the preparation of the consolidated and individual financial statements as at 31 December 2016 and described in Note 2.2 through Note 2.30, there are additional issued standards and interpretations, described in Note 2.1.2, which did not become mandatory in the year starting on 1 January 2016.

2.1.1 New standards or amendments adopted by the Group

The standards and amendments recently issued, already effective and adopted by the **Group** and the **Company** in the preparation of these financial statements, are as follows:

- **IAS 19 (Revised) – Defined Benefit Plans: Employee Contributions** – The IASB, issued this amendment on 21 November 2013, effective (with retrospective application) for annual periods beginning on or after 1 July 2014. These amendments were endorsed by EU Commission Regulation no. 29/2015 of 17 December 2014 (defining entry into force at the latest as from the commencement date of first financial year starting on or after 1 February 2015). The amendment clarifies the guidance on attributing employee or third party contributions linked to service and requires entities to attribute the contributions linked to service in accordance with paragraph 70 of IAS 19 (2011). Therefore, such contributions are attributed using plan's contribution formula or on a straight line basis. The amendment addresses the complexity by introducing a practical expedient that allows an entity to recognise employee or third party contributions linked to service that are independent of the number of years of service (for example a fixed percentage of salary), as a reduction in the service cost in the period in which the related service is rendered. The **Group** and the **Company** had no relevant impact from the adoption of this amendment on their financial statements.
- **Improvements to IFRS (2010-2012)** – The annual improvements cycle 2010-2012, issued by IASB on 12 December 2013, introduce amendments, with effective date on, or after, 1 July 2014, to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. These amendments were endorsed by EU Commission Regulation no. 28/2015 of 17 December 2014 (defining entry into force at the latest, as from the commencement date of first financial year starting on or after 1 February 2015).
 - IFRS 2 – Definition of vesting condition – The amendment clarifies the definition of 'vesting conditions' in Appendix A of IFRS 2 Share-Based Payment by separating the definition of performance condition and service condition from the definition of vesting condition to make the description of each condition clear.
 - IFRS 3 – Accounting for contingent consideration in a business combination – The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination, namely classification of contingent consideration in a business combination and subsequent measurement, taking into account if such contingent consideration is a financial instrument or a non-financial asset or liability.
 - IFRS 8 – Aggregation of operation segments and reconciliation of the total of the reportable segments' assets to entity's assets – The amendment clarifies the criteria for aggregation of operating segments and requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. To achieve consistency, reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker.
 - IFRS 13 – Short-term receivables and payables – IASB amends the basis of conclusion in order to clarify that, by deleting AG79 from IAS39, IASB did not intend to change the measurement requirements for short-term receivables and payables with no interest that should be discount if such discount is material. It is worth noting that IAS 8.8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.
 - IAS 16 & IAS 38 – Revaluation method – proportionate restatement accumulated depreciation or amortization – In order to clarify the calculation of the accumulated depreciation or amortization at the date of the revaluation, IASB amended paragraph 35 of IAS 16 and paragraph 80 of IAS 38 clarify that: (i) the determination of the

accumulated depreciation (or amortization) does not depend on the selection of the valuation technique; and (ii) the accumulated depreciation (or amortization) is calculated as the difference between the gross and the net carrying amounts.

- IAS 24 – Related Party Transactions – Key management personal services –
 - In order to address the concerns about the identification of key management personal (KMP) costs, when KMP services of the reporting entity are provided by entities (management entity e.g. in mutual funds), IASB clarifies that, the disclosure of the amounts incurred by the entity for the provision of KMP services that are provided by a separate management entity shall be disclosed but it is not necessary to present the information required in paragraph 17.
 - The **Group** and the **Company** had no impact from the adoption of their amendments on its financial statements.
- **Improvements to IFRS (2012-2014)** – The annual improvements cycle 2012-2014, issued by IASB on 25 September 2014, introduced amendments, with effective date on or after, 1 January 2016, to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. These amendments were endorsed by EU Commission Regulation no. 2343/2015 of 15 December 2015.
- IFRS 5 Non-current Assets held for Sale and Discontinued Operations: Change of Disposal Method – The amendments to IFRS 5 clarify that if an entity reclassifies an asset (or disposal group) directly from being ‘held for sale’ to being ‘held for distribution to owners’ (or vice versa) then the change in classification is considered a continuation of the original plan of disposal. Therefore, no re-measurement gain or loss is accounted for in the statement of profit or loss or other comprehensive income due to such change.
 - IFRS 7 Financial Instruments: Disclosures: Servicing contracts – The amendments to IFRS 7 Financial Instruments: Disclosures: Servicing contracts clarify – by adding additional application guidance – when servicing contracts constitute continuing involvement for the purposes of applying the disclosure requirements in paragraph 42C of IFRS 7.
 - IFRS 7 Financial Instruments: Disclosures: Applicability of the Amendments to IFRS 7 on offsetting financial assets and financial liabilities to condensed interim financial statements – The amendment to IFRS 7 clarifies that the additional disclosures required that were introduced in December 2011 by the Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities – are not required in interim periods after the year of their initial application unless IAS 34 Interim Financial Reporting requires those disclosures.
 - IAS 19 Employee Benefits: Discount rate: regional market issue – The amendments to IAS 19 Employee Benefits clarify that the high quality corporate bonds used to estimate the discount rate should be determined considering the same currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at currency level rather than at country level. If such a deep market does not exist, the market yield on government bonds denominated in that currency shall be used.
 - IAS 34 Interim Financial Reporting: Disclosure of information ‘elsewhere in the interim financial report’ – The amendments clarify that the ‘other disclosures’ required by paragraph 16A of IAS 34 shall be presented either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or a risk report) that is available to users of the financial statements on the same terms as the interim financial statements and at the same time. The amendments to IAS 34 also clarify that if users of the financial statements do not have access to the information incorporated by cross-reference on the same terms and at the same time, the interim financial report is incomplete.

- The **Group** and the **Company** had no impact from the adoption of their amendments on its financial statements.
- **IAS 27: Equity Method in Separate Financial Statements** – The IASB issued on 12 August 2014, amendments to IAS 27, with an effective date of application for periods beginning on or after 1 January 2016, introducing an option for the measurement of subsidiaries, associates or joint ventures the equity method in the separate financial statements. These amendments were endorsed by EU Commission Regulation no. 2441/2015 of 18 December 2015. The **Company** adopted this option in its separate accounts.
- **Consolidation Exception (amendments to IFRS 10, IFRS 12 and IAS 28)** – The IASB, issued on 18 December 2014, with an effective date of application for periods beginning on or after 1 January 2016, amendments to IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception. The application exemption on consolidation is permitted to investment companies that comply with certain requirements. These amendments were endorsed by EU Commission Regulation no. 1703/2016 of 22 September 2016. These amendments are not applicable to the **Group**.
- **Other Amendments** – It was also issued by IASB in 2014, with an effective date of application for periods beginning on or after 1 January 2016, the following amendments:
 - Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014 and endorsed by EU Commission Regulation no. 2113/2015 of 23 November)
 - Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (issued on 12 May 2014 and endorsed by EU Commission Regulation no. 2231/2015 of 2 December)
 - Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014 and endorsed by EU Commission Regulation no. 2173/2015 of 24 November)
 - Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014 and was endorsed by EU Commission Regulation no. 2406/2015 of 18 December)
 - The **Group** and the **Company** had no impact from the adoption of these amendments on their financial statements.

2.1.2 New standards, amendments and interpretations issued, but without effective application to years starting on 1 January 2016 or not early adopted

2.1.2.1 The Group decided to opt for not having an early application of the following standards and/or interpretations endorsed by the EU:

- **IFRS 9 Financial instruments (issued in 2009 and revised in 2010, 2013 and 2014)** – IFRS 9 was endorsed by EU Commission Regulation no. 2067/2016 of 22 December 2016 (with an effective date of application for periods beginning on or after 1 January 2018). IFRS 9 (2009 and 2010) introduces new requirements for the classification and measurement of financial assets and financial liabilities. Under this new approach, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IASB published IFRS 9 (2013) addressing the new requirements for hedge accounting. It was also published IFRS 9 (2014) that introduced limited amendments to the classification and measurement requirements of IFRS 9 (including enlarge the instruments measured at fair value with the changes present in other comprehensive income, from some investments in equity instruments to other investments such as bonds) and added new requirements to address the impairment of financial assets, under the expected loss model. The mandatory effective date of IFRS 9 is 1 January 2018 (with option for early application). The **Group** and the **Company** have not carry out a full

analysis of the application of the impact of the standard yet. Considering the reformulation in the treatment of financial instruments, namely with Banco CTT's operation, a material impact could occur in future financial statements of the Group.

- **IFRS 15 – Revenue from Contracts with Customers** – The IASB, issued on 28 May 2014, IFRS 15 – Revenue from Contracts with Customers, which was endorsed by EU Commission Regulation no. 1905/2016 of 22 September 2016, with an effective date of application for periods beginning on or after 1 January 2018. An early applications is allowed. This standard will revoke IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognised and the amount. The model specifies that the revenue should be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognised: (i) At a time when the control of the goods or services is transferred to the customer; or (ii) Over the period, to the extent that represents the performance of the entity. The **Group** and the **Company** are still evaluating the impact from the adoption of this standard.

2.1.2.2 Standards, amendments and interpretations issued that are not yet effective for the Group

- **IFRIC 22 – Foreign Currency Translations and Advance Consideration** – It has been issued on 8 December 2016, IFRIC 22, being effective for annual periods beginning on or after 1 January 2018. This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date). The **Group** and the **Company** do not expect a significant impact form this interpretation.
- **IFRS 16 – Leases** – The IASB, issued on 13 January 2016, IFRS 16 – Leases, effective for annual periods beginning on or after 1 July 2019. The early application is possible if IFRS 15 is applied at the same time. This new standard replaces IAS 17 – Leases. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements. The **Group** and the **Company** are carrying out a full analysis of the impacts of the application of this standard, which are estimated to be significant.
- **Other Amendments** – It was also issued by IASB:
 - On 19 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 12 clarifying the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice.
 - On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 7 Disclosure initiative require companies to provide information about changes in their financing liabilities in order to provide information that helps the investors to better understand changes in a company's debt.

- On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 on Classification and Measurement of Share-based Payment Transactions.
- On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 on Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40.
- The annual improvements cycle 2014–2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value) and amendments, with effective date on, or after, 1 January 2017 to IFRS 12 (clarification of the scope of the Standard).
- The **Group** and the **Company** expect no impact from the adoption of this amendment on their financial statements.

2.2 Consolidation principles

Investments in companies in which the Group holds the control, in other words, when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee, were consolidated in these financial statements by the full consolidation method. The companies consolidated by the full consolidation method are shown in Note 8.

Equity and net profit for the period corresponding to third-party participation in subsidiaries are reflected separately in the consolidated balance sheet and consolidated income statement in the caption Non-controlling interests. The gains and losses attributable to non-controlling interests are allocated to them.

The assets and liabilities of each Group company are recorded at fair value as of the date of acquisition, as established in IFRS 3. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill. If the difference between the cost and the fair value of the assets and liabilities acquired is negative, it is recorded as a profit and loss.

Transaction costs directly attributable to business combinations are immediately recognised in profit and loss.

Non-controlling interests include the third parties portion of the fair value of the identifiable assets and liabilities as of the date of acquisition of the subsidiaries.

The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of acquisition up to the date of disposal.

Whenever necessary, adjustments are made to the financial statements of the subsidiaries to be in accordance with the Group's accounting policies. Transactions (including unrealised gains and losses on sales between Group companies), balances and dividends distributed between Group companies are eliminated in the consolidation process.

2.3 Segment reporting

The Group presents the operational segments based on internal management information.

In accordance with IFRS 8, an operating segment is a Group component:

- (i) that engages in business activities from which it may earn revenues and incur expenses;
- (ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance; and,
- (iii) for which discrete financial information is available.

2.4 Transactions and balances in foreign currency

Transactions in foreign currency (a currency different from the **Group** and **Company** functional currency) are recorded at the exchange rates in force on the transaction date. At each reporting date, the carrying values of the monetary items in foreign currency are updated at the exchange rates on that date. The carrying values of non-monetary items recorded at historical cost in foreign currency are not updated.

Favourable and unfavourable currency translation differences arising from the use of different exchange rates in force on the transaction dates and those in force on the recovery, payment or reporting dates are recognised in the profit or loss for the year.

The exchange rates used in the translation of the financial statements expressed in foreign currency are the closing exchange rates for assets and liabilities and the average exchange rate for the year for income and expenses.

The following exchange rates were used in the translation of the balances and financial statements in foreign currency:

	2016		2015	
	Close	Average	Close	Average
Mozambican Metical (MZM)	74.54000	69.82333	49.29000	43.53417
United States Dollar (USD)	105430	110661	108870	110963
Special Drawing Right (SDR)	127534	125621	127283	126147

Source: Bank of Portugal

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly attributable to the purchase, and (iii) the estimated costs of dismantlement or removal of the asset and restoration of the location (Notes 2.20 and 33). Under the exception of IFRS 1 – First-time Adoption of the International Financial Reporting Standards, the revaluation of tangible assets made in accordance with the Portuguese legislation applying monetary indices, for the years up to 1 January 2009, was maintained, and the revalued amounts were referred to as “deemed cost” for IFRS purposes and were included under Retained earnings.

The depreciation of tangible assets, minus their residual estimated value, is calculated in accordance with the straight line method, from the month when the assets are available for use, over their useful lives, which are determined according to their expected economic utility. The depreciation rates that

are applied correspond, on average, to the following estimated useful lives for the different categories of assets:

	Years of useful life
Buildings and other constructions	10 – 50
Basic equipment	4 – 10
Transport equipment	4 – 7
Tools and utensils	4
Office equipment	3 – 10
Other tangible fixed assets	5 – 10

Land is not depreciated.

Depreciation terminates when the assets are re-classified as held for sale.

On each reporting date, the **Group** and the **Company** assess whether there is any indication that an asset might be impaired. Whenever such indicators exist, the tangible fixed assets are subject to impairment tests, where any excess of the carrying value relative to the recoverable amount, should this exist, is recognised in the consolidated income statement. The recoverable amount corresponds to the highest amount between the fair value of an asset minus the costs of selling it and its value in use.

Tangible fixed assets in progress correspond to tangible assets that are still under construction/production, and are recorded at acquisition or production cost. These assets are depreciated from the month when they fulfil the necessary conditions to be used for their intended purpose.

Costs related to maintenance and repair of current nature are recorded as costs in the period these are incurred. Major repairs which lead to increased benefits or increased in expected useful lives are recorded as tangible assets and depreciated at the rates corresponding to their expected useful life. Any replaced component is identified and written off.

The gain or loss arising from the disposal of tangible fixed assets is defined by the difference between the sale proceeds and the carrying amount of the assets and is recorded in the consolidated income statement under the heading Other revenues and operating gains or Other operating costs and losses.

2.6 Intangible assets

Intangible assets are registered at acquisition cost, minus amortisation and impairment losses, when applicable. Intangible assets are only recognised when it is probable that they will result in future economic benefits for the **Group** and the **Company**, and they can be measured reliably.

Intangible assets are essentially composed of expenses related to patents, software (whenever this is separable from the hardware and associated to projects where the generation of future economic benefits is quantifiable), licenses and other user rights. Also included are expenses related to the development of R&D projects whenever the intention and technical capacity to complete this development is demonstrated, for the purpose of the projects being available for marketing or use. Research costs incurred in the search of new technical or scientific knowledge or aimed at the search of alternative solutions, are recognised through profit or loss when incurred.

Intangible assets are amortised through the straight line method, from the month when they are available for use, during their expected useful life, which varies between 3 and 20 years:

	Years of useful life
Development projects	3
Industrial property	3 – 20
Software	3 – 10

The exceptions to the above are assets related to industrial property, which are amortised over the period of time during which their exclusive use takes place and intangible assets with indefinite useful life, which are not amortised, but, rather, are subject to impairment tests on an annual basis and whenever there is indication that they might be impaired.

The **Group** and the **Company** perform impairment reviews whenever events or circumstances may indicate that the book value of the asset exceeds its recoverable amount, any impairment being recognised in the consolidated income statement. The recoverable amount is the higher of net selling price and value in use, the latter being calculated by the present value of the estimated future cash flows obtained from continued use of the asset and its sale at the end of its useful life.

Gains or losses arising from the divestment of tangible fixed assets, determined by the difference between the sales proceeds and the respective carrying value on the date of the divestment, are included in the consolidated income statement under the heading Other operating revenues or Other operating costs.

2.7 Investment properties

Investment properties are properties (land or buildings) held by the **Group** and **Company** to obtain rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes, or
- sale in the ordinary course of business.

Investment properties comprise mainly properties that the **Group** and **Company** did not affect to the rendering of services and holds to earn rentals or for capital appreciation.

An Investment property is initially measured at its acquisition or production cost, including any transaction costs which are directly attributable to it. After their initial recognition, investment properties are measured at cost less any accumulated depreciation and accumulated impairment losses, when applicable.

The depreciation rates are between 10 and 50 years.

The **Group** and **Company** ensure that an annual assessment of assets qualified as investment properties is carried out in order to determine any impairment and to disclose their fair value.

Costs incurred in relation to investment properties, namely with maintenance, repairs, insurance and property taxes are recognised as costs for the period in which they are incurred. Improvements which are expected to generate additional future economic benefits are capitalised.

2.8 Impairment of tangible fixed assets and intangible assets, except goodwill

The **Group** and the **Company** carry out impairment assessments of its tangible and intangible assets, whenever any event or situation occurs, which may indicate that the amount by which the asset is recorded might not be recovered. In case there is any indication of the existence of such evidence, the recoverable amount of the asset is estimated in order to measure the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, then the recoverable amount of the cash generating unit to which this asset belongs is estimated.

The recoverable amount of the asset or cash generating unit is the highest value between (i) its fair value minus the costs of selling it and (ii) its value in use. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The value in use arises from the future estimated discounted cash flows of the assets during their estimated useful life. The discount rate used in the discounted cash flows reflects the current market assessments of the time value of money and the specific risk of the asset.

Whenever the carrying amount of the asset or cash generating unit is higher than its recoverable amount, an impairment loss is recognised. The impairment loss is recorded in the Consolidated and individual income statement.

The reversal of impairment losses recognised in prior years is recorded whenever there is evidence that the recognised impairment losses no longer exist or have decreased, being recognised in the Consolidated and individual income statement. However, the reversal of the impairment loss is made up to the amount that would have been recognised (net of amortisation or depreciation) if the impairment loss had not been recorded in the previous years.

2.9 Goodwill

Goodwill represents the excess of the acquisition cost compared with the fair value of the identifiable assets, liabilities and contingent liabilities of each entity that is acquired and included by the full consolidation method, or subsidiary, on the respective acquisition date, in accordance with IFRS 3 (Revised) – Business Combinations. Under the exception provided by IFRS 1 – First-time Adoption of the International Financial Reporting Standards, the Group has applied the provisions of IFRS 3 only for the acquisitions made after 1 January 2009. The amounts of the goodwill corresponding to acquisitions before 1 January 2009 were kept at the net amounts presented on that date and, since this date, have been subject to impairment tests on an annual basis.

Goodwill is not amortised. In the assessment of the goodwill impairment, this value is allocated to the cash generating unit or units it refers to. The value in use is determined by discounting the estimated future cash flows of the cash generating unit. The recoverable amount of the cash generating units to which the goodwill refers is determined based on the assets' value in use and is calculated using valuation methodologies which are supported by discounted cash flow techniques, considering the market conditions, the time value and business risks. The discount rate used for discounting cash flows corresponds to the WACC before taxes ("Weighted Average Cost of Capital") estimated according to the rates and capital structures of the entities sector. The impairment tests are carried out on each reporting date, or earlier if impairment risk indicators were identified.

Impairment losses are not reversible.

In the sale of a cash generating unit, the corresponding goodwill is included in the determination of the capital gain or loss.

2.10 Concentration of corporate activities

Subsidiary and Associated companies

Investments in subsidiary and associated companies are recorded in the consolidated and individual balance sheet by the equity method (Note 10 and 11).

A subsidiary company is an entity over which the **Group** and/or the **Company** has significant influence, through participation in decisions concerning its financial and operating policies, having control or joint control, usually represented by more than half the voting rights.

On the other hand, an associated company is an entity over which the **Group** and/or the **Company** has significant influence, through participation in decisions concerning its financial and operating policies, but where the **Group** or the **Company** does not have control or joint control, which in general happens whenever the investment is between 20% and 50%.

In accordance with the equity method, the investments are initially recorded at their cost and subsequently adjusted by the value corresponding to the investment in the net profit or loss of the subsidiary and associated companies against Gain/losses in subsidiary and associated companies, and by other changes in equity in Other comprehensive income. Additionally, investments in subsidiary and associated companies may also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, an assessment is carried out and the existing impairment losses are recorded in the income statement.

The excess of cost in relation to the fair value of the identifiable assets and liabilities of each subsidiary and/or associated company at the date of acquisition is recognised as goodwill and presented as part of the financial investment in the caption Investments in subsidiaries and/or associates. If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised in the income statement under Gains/ losses in subsidiary and associated companies, after confirmation of the fair value.

Whenever the losses in subsidiary and/or associated companies exceed the investment made in these entities, the investment carrying value is reduced to zero and the recognition of future losses will be discontinued, except in what concerns the part in which the **Group** and/or the **Company** incurs in any legal or constructive obligation of assuming all these losses on behalf of the subsidiary and/or associated company, in which case a provision is recorded.

The dividends received from subsidiary and associated companies are recorded as a decrease in the carrying value of Investments in subsidiary companies and Investments in associated companies, respectively.

With the exception of goodwill impairment, if the impairment losses recorded in previous years are no longer applicable, these are reversed.

Unrealised gains and losses on transactions with subsidiary and associated companies are eliminated in proportion to the Group's interest in the subsidiary and/or associated companies, recorded against the investment in the same entity. Unrealised losses are also eliminated but only up to the point that the losses do not reflect that the transferred asset is impaired.

Joint Ventures

Investments in joint ventures are recorded in the balance sheet by the equity method. The classification of the investments in joint ventures is determined based on the existence of a contractual agreement, which demonstrates and rules the joint control. In accordance with the equity method, the investments are initially recorded at their cost and subsequently adjusted by the value corresponding to the investment in the net profit or loss of the joint ventures against Gains/losses in joint ventures, and by other changes in equity in Other comprehensive income.

Additionally, investments in joint ventures may also be adjusted through the recognition of impairment losses. Whenever there are indications that the assets may be impaired, an assessment is carried out and the existing impairment losses are recorded as costs in the consolidated income statement.

Unrealised gains and losses on transactions with joint ventures are eliminated in proportion to the Group's interest in the entities, recorded against the investment in the same entity. Unrealised losses are also eliminated but only up to the point that the losses do not reflect that the transferred asset is impaired.

2.11 Financial assets

2.11.1 Classification

The **Group** and the **Company** classify their financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets on initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The **Group** and the **Company** loans and receivables comprise Accounts receivable, Cash and cash equivalents, Other non-current assets and Other current assets in the balance sheet.

Financial assets at fair value through profit and loss

This category includes: (i) financial assets recognised at fair value through profit and loss acquired mainly for the purpose of being traded in the short term and (ii) other financial assets designated upon initial recognition at fair value with changes recognised in profit and loss ("fair value option").

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.

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** and the **Company** both intend and have 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.

2.11.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the **Group** and the **Company** commit to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and have transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value, with the variation's counterpart of the fair value being presented in comprehensive income. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the right to receive payments is established.

2.12 Equity

Costs related to the issuance of new shares are recognised directly in the share capital as a deduction from the value of the cash inflow.

Costs related to an issue of equity which has not been completed are recognised as expenditure.

2.13 Financial liabilities

Debt

Loans are recorded as liabilities at the carrying value received, net of issuance expenses, corresponding to the respective fair value on that date. They are subsequently measured at

amortised cost, with the corresponding financial costs calculated based on the effective interest rate and stated through the income statement according to the accrual basis assumption, with the due and unpaid amounts as at the reporting date being classified under the item of Accounts payable (Note 34).

The effective interest rate is the rate that discounts future payments over the expected life of the financial instrument to the net carrying amount of the financial liability.

Accounts payable

Accounts payable classified as current liabilities are registered at their nominal value, which is substantially equivalent to their fair value.

Accounts payable classified as non-current liabilities, for which there is no contractual obligation to pay interest, are initially measured at their net present value and subsequently measured at their respective amortised cost, determined in accordance with the effective interest rate method.

Accounts payable (balances of suppliers and other creditors) are liabilities related to the acquisition of goods or services, in the normal course of its business. If their payment falls due within one year or less, then they are classified as current liabilities. Otherwise, they are classified as non-current liabilities.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

2.15 Impairment of financial assets

Assets carried at amortised cost

The **Group** and **Company** assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indicators that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows.

For the Loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets classified as available for sale

The **Group** and **Company** assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, minus any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the income statement in equity instruments are not reversed through the income statement.

2.16 Inventories

Goods and raw materials, subsidiary materials and consumables are valued at the lowest cost between the acquisition cost and net realisable value, using the weighted average cost as the method of assigning cost.

The acquisition cost includes the invoice price and transport and insurance costs.

Net realisable value corresponds to the normal selling price less costs to complete production and costs to sell.

Whenever cost exceeds net realizable value, the difference is recorded in the operating costs caption "Cost of sales".

2.17 Non-current assets held for sale and discontinued operations

Non-currents assets are classified as held for sale, if the respective carrying value is expected to be realized through their sale rather than through continued use. It is considered that this situation occurs only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition, (ii) there is a commitment to sell, and (iii) the sale is expected to be completed within a 12-month period.

Non-current assets, which are classified as held for sale, are measured at the lowest between the carrying value before this classification and fair value minus costs to sell. Whenever the fair value is less than the carrying value, the difference is recognised in the item Depreciation / amortisation and impairment of investments, net in the consolidated income statement.

Non-current assets held for sale are presented in a separate caption in the balance sheet.

Non-current assets held for sale are not depreciated or amortised.

Earnings from discontinued operations are presented on a specific line, in the income statement, after Income tax and before net profit for the year.

Whenever the **Group** and **Company** are committed to a plan to sell a subsidiary, which involves the loss of control over it, all the assets and liabilities of that subsidiary are classified as held for sale, provided they meet the above requirements, even if, after the sale, the **Group** and **Company** still keep a residual interest in the subsidiary.

2.18 Distribution of dividends

The distribution of dividends, when approved by the shareholders at the Annual General Meeting of the Company, is recognised as a liability.

2.19 Employee benefits

The **Group** and the **Company** adopt the accounting policy for the recognition of its responsibilities for the payment of post-retirement healthcare and other benefits, the criteria set out in IAS 19, namely using the Projected unit credit method (Note 32).

In order to obtain an estimate of the value of the liabilities (Present value of the defined benefit obligation) and the cost to be recognised in each period, an annual actuarial study is prepared by an independent entity under the assumptions considered appropriate and reasonable. The present value of the defined benefit obligation is recorded as a liability under Employee benefits.

Post-employment benefits - healthcare

Workers who are integrated in "Caixa Geral de Aposentações" ("CGA") and workers who are beneficiaries of the Portuguese state pension scheme (recruited as permanent staff of the Company after 19 May 1992 and up to 31 December 2009) are entitled to the healthcare benefits established in the CTT Social Works Regulation. These benefits are extended to all permanent workers of the company, whether they are still working, or are pensioners, or in a situation of pre-retirement or retirement.

Workers hired by the company after 31 December 2009, are only entitled to the benefits provided for in the state pension scheme while they remain bound to the Company by an individual employment contract, having no rights when they become pensioners, or in a situation of pre-retirement or retirement.

Healthcare benefits include contributions to the cost of medication, medical and surgical and nursing services, as well as auxiliary diagnostic means and hospital services, as defined in the CTT Social Works Regulation.

The financing of the post-retirement healthcare plan is ensured mostly by the Company and by the beneficiaries' co-payment upon the use of certain services, and the remaining costs are covered by the fees paid by the beneficiaries.

The maintenance of the post-employment healthcare plan benefits requires that the beneficiaries (retirees and pensioners) pay a fee corresponding to 2.25% of their respective pension. Resulting from the amendment to the Healthcare Plan, the fee was unified and the same fee is paid for each family member enrolled. In certain special situations, an exemption from the payment of the fee may be granted, either for the beneficiaries or for family members.

The management of the healthcare plan is ensured by the IOS – Instituto das Obras Sociais (Institute of Social Works) and regulated by the CTT's Regulation of the Social Works, which in turn, hired Médis – Companhia Portuguesa de Seguros de Saúde, S.A. (Médis – Portuguese healthcare insurance company) to provide healthcare services. The contract with Médis has been in force since 1 January 2015.

Other long-term benefits

The **Group** and the **Company** also assumed, towards certain groups of workers, a series of constructive and contractual obligations, namely:

- **Suspension of contracts, redeployment, pre-retirement contracts, and release from employment**

The liability for the payment of salaries to employees in the above mentioned situations or equivalent, is fully recognised in the income statement at the time they move into these conditions.

- **Telephone subscription fee**

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (4,724 beneficiaries as at 31 December 2016 and 7,326 beneficiaries as at 31 December 2015), of the telephone rental charges, to a monthly amount of 15.30 Euros. During the year ended 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment was replaced by a benefit in kind.

- **Pensions for work accidents**

The liabilities related to the payment of pensions for work accidents is restricted to workers integrated in CGA.

According to the legislation in force concerning employees integrated in CGA, CTT is liable for the costs incurred with pensions that have been attributed for damages resulting from accidents at work, and which have resulted in permanent disability or death of the worker. The value of these pensions is updated pursuant to a legal diploma.

The liabilities incurred up to 31 December 2015 will continue to be borne by CTT. As of 1 January 2016, CTT contracted an insurance policy to cover these responsibilities, as is already the case for Social Security workers.

As at 31 December 2016 and 31 December 2015 there were 67 and 64 beneficiaries, respectively, receiving this type of pension.

- **Monthly life annuity**

This is an annuity provided for in the family benefits legal system set out in Decree-Law no. 133-B/97 of 30 May, as amended by the Declaration of Rectification no. 15-F/97, of 30 September, amended by Decree-Law no. 248/99, of 2 July, no. 341/99 of 25 August, no. 250/2001, of 21 September, and no. 176/2003, of 2 August.

Beneficiaries are workers, still working or retired, who have descendants over 24 years old, with physical, organic, sensorial, motor or mental disabilities, who are in a situation that prevents them from normally providing for their subsistence through the exercise of professional activity. In the case of beneficiaries integrated in the CGA, the cost of the monthly life annuity is the responsibility of CTT.

As at 31 December 2016 there were 44 beneficiaries under these conditions (44 beneficiaries as at 31 December 2015), receiving a monthly amount of 176.76 Euros, 12 months a year. This value is updated by Implementing Order of the Ministry of Finance and the Ministry of Labour and Social Security.

- **Support for termination of professional activity**

This benefit was granted to employees who retired with at least 5 years of seniority at the Company. Its amount depended on the seniority on the retirement date. As at 31 December 2012, the scheme in force determined a maximum amount of 1,847.16 Euros for 36 or more years of service. In 2012, the Board of Directors decided to discontinue the compensation awarded to the workers who have reached the end of their active life at the service of CTT. It has also ruled that, in situations of

disconnection and retirement that may occur as a result of the requests for retirement submitted until 31 March 2013, the benefit referred to above would be maintained.

The last amounts regarding this benefit were paid up until 31 December 2015 and thus there are no liabilities associated to this benefit.

- **Defined contribution plan – Open Pension Fund or Retirement Savings Plan**

Following the new remuneration model of the Statutory Bodies defined by the Remuneration Committee (elected by the General Meeting of 24 March 2014 and composed of independent members), it was determined that the allocation of a fixed monthly amount for an Open Pension Fund or Retirement Savings Plan to executive members of the Board of Directors.

This contribution falls into the definition of a defined contribution plan. Under a defined contribution plan, fixed contributions are paid into a fund but there is no legal or constructive obligation to further payments being made if the fund does not have sufficient assets to pay all of the employees' entitlements to post-employment benefits. The obligation is therefore effectively limited to the amount agreed to be contributed to the fund and the actuarial and investment risk is effectively placed on the employee. For defined contribution plans, the amount recognised in the period is the contribution payable in exchange for services rendered by employees during the period. Contributions to a defined contribution plan which are not expected to be wholly settled within 12 months after the end of the annual reporting period in which the employee renders the related service are discounted to their present value.

2.20 Share-based payments

The benefits granted to the executive members of the Board of Directors under the long-term remuneration plans are recorded in accordance with the requirements of IFRS 2 – Share-based payments.

In accordance with IFRS 2, the benefits granted to be paid on the basis of own shares (equity instruments), are recognised at fair value at the date of allocation.

Since it is not possible to estimate reliably the fair value of the services received from employees, their value is measured by reference to the fair value of equity instruments.

The fair value determined at the date of allocation of the benefit is recognised as a linear cost over the period in which it is acquired by the beneficiaries as a result of their services, with the corresponding increase in equity.

2.21 Provisions and contingent liabilities

Provisions (Note 33) are recognised when, cumulatively: (i) there is a present obligation (legal or constructive) arising from a past event, (ii) it is probable that its payment will be demanded, and (iii) there is a reliable estimate of the value of this obligation.

The amount of the provisions corresponds to the present value of the obligation, with the financial updating being recorded as a financial cost under the heading Interest expenses (Note 49).

The provisions are reviewed on every reporting date and are adjusted in order to reflect the best estimate at that date.

Provision for financial investments

Whenever losses in the subsidiaries or associated companies exceed the investment made in these entities, the carrying value is reduced to zero and the recognition of future losses is discontinued, except in what concerns the part in which the Company incurs in any legal or constructive obligation to assume all these losses on behalf of the associated or subsidiary company, in which case a Provision is recorded for investments in associated companies.

Restructuring provisions

Restructuring provisions are made whenever a detailed formal restructuring plan has been approved by the Company and it has been launched or publicly disclosed, which identifies:

- The business or part of the business concerned;
- The main affected locations;
- The location, function and approximate number of employees who will be compensated for the cease of their services;
- The expenditures that will be undertaken;
- When the plan will be implemented; and
- It raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The restructuring provision includes direct expenditures arising from the restructuring, which are those entailed by the restructuring, or not associated with the ongoing activities of the entity.

The restructuring provision does not include the costs of retraining or relocating continuing staff, marketing and investments in new systems and distribution networks and are recognised on the same basis as if they appeared independently of a restructuring in the period that they occur.

The expected gains on assets disposals are not taken into account in a restructuring provision measurement, even if the assets sale is seen as part of the restructuring.

Dismantling costs provisions

Provisions are made for dismantling costs, costs of removal of the asset and costs of restoration of the site of certain assets, when these assets are in use and it is possible to reliably estimate the respective obligation, or when there is a contractual commitment to restore the spaces rented by third parties. When the time value effect is material, the environmental liabilities that are not expected to be settled in the near future are measured at their present value.

Provisions for litigations in progress

A provision for litigation in progress is recorded when there is a reliable estimate of costs to be incurred due to legal actions brought by third parties, based on the evaluation of the probability of payment based on the opinion of the lawyers.

Provision for onerous contracts

A provision for onerous contracts is measured at the present cost whenever the unavoidable costs to satisfy the contract's obligations exceeds the expected financial benefits that will be received under the same.

Contingent assets and liabilities

Whenever any of the conditions for the recognition of provisions is not met, the events are disclosed as contingent liabilities (Note 33). Contingent liabilities are: (i) possible obligations which arise from past events and whose existence will only be confirmed by the occurrence, or not, of one or more future events that are uncertain and not fully under the Company's control, or (ii) present obligations which arise from past events, but which are not recognised because it is not probable that an outflow of resources which incorporates economic benefits will be necessary to settle the obligation, or the

value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

Contingent assets and liabilities are evaluated continuously to assure that the developments are reflected properly in the financial statements.

If it becomes probable that an outflow of future economic benefits will be demanded for an item previously treated as a contingent liability, a provision is recognised in the financial statements of the period when that change in probability occurs.

If it becomes virtually certain that an economic benefits inflow will occur, the asset and related revenue are recognised in the financial statements of the period when the change will probably occur.

The Company does not recognise contingent assets and liabilities.

2.22 Revenue

The revenue relative to sales, services rendered, royalties, interest and dividends (from investments not accounted for by the equity method), arising from the Company's normal business activity is measured at the fair value of the consideration that has been or will be received, which is defined as the sums established freely between the contractual parties on an independent basis, where, in relation to sales and services rendered, their fair value reflects any discounts granted and does not include Value Added Tax.

The recognition of revenue requires that (i) it is probable that the economic benefits associated to the transaction will flow to the Company, (ii) the amount of the revenue may be measured reliably, (iii) the costs that have been or will be incurred with the transaction may also be measured reliably, and (iv) the stage of completion of the services rendered/transaction can be measured reliably, in the case of the services rendered being recognised based on the percentage of completion.

Revenue from the sale of merchandising products and from postal business is recognised when the risks and benefits of ownership of the products are transferred to the buyer, which usually occurs at the time of the transaction.

Revenue from postal services is recognised at the moment the customer requests the service, since CTT has no information that would allow a reliable estimate of the amount concerning deliveries not made by the financial reporting date, although it is understood that this issue is not materially relevant, as the date of the service request does not significantly differ from the date of delivery.

The prices of the services rendered in the scope of the concession of the Universal Postal Service have been subject to regulation under a price agreement signed between CTT and ICP-ANACOM.

Fees from collections made and from the sale of financial products are recognised on the date that the client is charged. Only the fee from collections charged by CTT is recognised as revenue, as CTT acts as an agent.

Revenue from PO Boxes is recognised over the term of the contracts.

Revenue from the recharging of prepaid mobile phone services is deferred and recognised in earnings, according to the traffic of the specific client, during the period when the service is rendered.

Revenue and costs relative to international mail services, estimated based on surveys and indexes agreed with the corresponding postal operators, are recognised in provisional accounts in the month that the traffic occurs. Differences between the estimated and final amounts determined in agreement with those operators, which are not usually significant, are recognised in the consolidated income statement when the accounts become final.

Revenue from interest is recognised using the effective interest rate method, provided that it is probable that economic benefits will flow into the **Group** and the **Company**, and their amount can be measured reliably.

The **Group** and the **Company** register a portion of the interest received from deposits in other operating income, specifically interest from short-term deposits in the Financial Services segment. The **Group** and the **Company** consider the temporary investment of funds received and to be paid to third parties as one of the main operational objectives of its Financial Services segment. In the cash flow statement, this portion of interest is recognised as operational cash flow.

2.23 Subsidies obtained

Subsidies are recognised when there is reasonable assurance that they will be received and that the **Group** and the **Company** will comply with the conditions required for their attribution.

Investment subsidies associated to the acquisition or production of tangible fixed assets are initially recognised in non-current liabilities and are subsequently allocated, on a systematic basis, as revenue for the period, consistent and proportional to the depreciation of the assets acquired through these subsidies.

Operating subsidies, namely those for employee training, are recognised in the consolidated income statement, within the periods necessary to match them with the expenses incurred, to the extent that these subsidies are not refundable.

2.24 Leases

The classification of leases is done according to the substance of the transaction and not the form of the contract. Leases are classified as financial whenever their terms imply the substantial transfer to the lessee of all the risks and rewards associated to the ownership of the asset. All other leases are classified as operating leases.

Tangible assets acquired through financial leasing contracts, as well as the corresponding liabilities payable to the lessor, are recorded in the balance sheet at the beginning of the lease at the lowest value between the fair value of the assets and the present value of the minimum lease payments. The discount rate used is the rate implicit in the lease. If this rate is not known, then the Group's financing rate for this type of investment is used. The policy for depreciation of these assets follows the rules applicable to tangible fixed assets owned by the **Group** and the **Company**. The interest included in the rents and in amortisation of fixed tangible assets is recognised in the consolidated income statement in the period to which they refer to.

For operating leases, the instalments that are owed are recognised as a cost in the income statement over the lease period (Note 44).

2.25 Borrowing costs

Financial charges related to loans are recognised in net profit, when incurred. However, interest expenses are capitalised when loans are directly attributable to the acquisition or construction of an asset that requires a substantial period of time (over one year) to reach its intended use.

2.26 Taxes

Corporate income tax ("IRC")

Corporate income tax corresponds to the sum of current taxes and deferred taxes. Current taxes and deferred taxes are recorded under net income, unless they refer to items recorded directly in equity. In these cases, deferred taxes are also recorded under equity.

Current tax payable is based on the taxable income for the period of the Group companies included in the consolidation, calculated in accordance with the tax criteria prevailing at the financial reporting date. Taxable income differs from accounting income, since it excludes various costs and revenues which will only be deductible or taxable in other financial years. Taxable income also excludes costs and revenues which will never be deductible or taxable.

Deferred taxes refer to temporary differences between the amounts of assets and liabilities for accounting purposes and the corresponding amounts for tax purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for deductible temporary differences. However, this recognition only takes place when there are reasonable expectations of sufficient future taxable profits to use these deferred tax assets, or when there are deferred tax liabilities whose reversal is expected in the same period that the deferred tax assets may be used. On each reporting date, a review is made of these deferred tax assets, which are adjusted according to expectations on their future use.

Deferred tax assets and liabilities are measured using the tax rates which are in force on the date of the reversal of the corresponding temporary differences, based on the taxation rates (and tax legislation) which are enacted, formally or substantially, on the reporting date.

CTT is covered by the special regime applicable to the taxation of groups of companies, which includes all companies in which CTT holds, directly or indirectly, at least 90% of the share capital and which are simultaneously resident in Portugal and taxed under IRC. The remaining companies are taxed individually according to their respective taxable income at the applicable tax rates.

Value Added Tax ("VAT")

For purposes of VAT, the Company follows the normal monthly regime, in accordance with the provisions of paragraph a) of no. 1 of article 41 of the Portuguese VAT Code, having various exempted operations in its activity that fall under the provisions of article 9 of the Portuguese VAT Code, as well as to other non-exempted operations which are subject to VAT, and for this reason, using the effective allocation method and the pro rata method. The other Group companies, with fiscal residence in Portugal, also follow the normal monthly regime, in accordance with the provisions of paragraph a) of no. 1 of article 41 of the Portuguese VAT Code, practicing mostly non-exempted operations, thus being subject to VAT.

2.27 Accrual basis

Revenues and costs are recorded according to the accrual basis, and therefore, are recognised as they are generated, regardless of the time they are received or paid. Differences between the revenues and costs generated and the corresponding amounts invoiced are recorded in "Other

current assets" or in "Other current liabilities". Deferred revenues and costs paid in advance are recorded under the heading Deferrals, under liabilities and assets, respectively.

2.28 Judgements and estimates

In the preparation of the financial statements, judgements and estimates were used which affect the reported amounts of assets and liabilities, as well as the reported amounts of revenues and costs during the reporting period. The estimates and assumptions are determined based on the best existing knowledge and on the experience of past and/or current events considering certain assumptions relative to future events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Changes to estimates which occur after the date of the financial statements will be corrected prospectively. For this reason and in view of the associated degree of uncertainty, the real outcome of the situations in question might differ from their corresponding estimates.

The main judgements and estimates made in the preparation of the financial statements arise in the following areas:

(i) Tangible fixed and intangible assets / estimated useful lives

Depreciation/amortisation is calculated on the acquisition cost using the straight line method, from the month when the asset is available for use. The depreciation/amortisation rates that are applied reflect the best knowledge on the estimated useful life of the assets. The residual values of the assets and their respective useful lives are reviewed and adjusted, when deemed necessary.

(ii) Impairment of Goodwill

Goodwill is tested at least once a year, with the purpose of verifying if it is impaired, in accordance with the policy referred in Note 2.9. The calculation of the recoverable amounts of the cash generating units involves a judgment and substantially relies on the analysis of the Management related to the future developments of the respective subsidiary. The assessment underlying the calculations that have been made uses assumptions based on the available information, both concerning the business and macro-economic environment. The variations of these assumptions can influence the results and consequent recording of impairments.

(iii) Impairment of accounts receivable

Impairment losses relative to bad debts are based on the assessment of the probability of recovery of balances of accounts receivable. This assessment is made according to the period of time of default, the credit history of the customer and other debtors, and the deterioration of the credit situation of the main customers and other debtors. Should the customers' financial conditions deteriorate, the impairment losses might be higher than expected.

(iv) Deferred taxes

The recognition of deferred tax assets assumes the existence of future net profit and taxable income. The deferred tax assets and liabilities were determined based on the tax legislation currently in force, or on legislation that has already been published for future application. Amendments to tax legislation may influence the value of the deferred taxes.

(v) Employee benefits

The determination of the liabilities related to the payment of post-employment benefits, namely with healthcare plans, requires the use of assumptions and estimates, including the use of actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 32,

will have an impact in the carrying amount of the employees' benefits. CTT has a policy of periodically reviewing the major actuarial assumptions.

(vi) Provisions

The **Group** and **Company** exercise considerable judgement in the measurement and recognition of provisions. Judgement is required in order to assess the probability of litigation having a successful outcome. Provisions are recorded when the current lawsuits are expected to lead to the outflow of funds, the loss is probable and may be estimated reasonably. Due to the uncertainties inherent to the process of assessment, actual losses might be different from those originally estimated in the provision. These estimates are subject to changes as new information becomes available. Reviews to the estimates of these losses might affect future results.

2.29 Cash Flow Statement

The Cash Flow Statement is prepared according to the direct method, through which cash receipts and payments relative to operating, investment and financing activities are disclosed.

The cash flow statement discloses the cash receipts and cash payments from operating, financing and investing activities.

Operating activities cover receipts from customers, payments to suppliers, payments to staff and other related to operating activity, namely income tax. Investment activities namely include acquisitions and divestments in participated companies, payments and receipts arising from the purchase and sale of assets, and receipts of interest and dividends. Financing activities include payments and receipts relative to loans received, financial lease contracts, interest paid and payments of dividends.

2.30 Subsequent events

Events occurring after the closing date until the date of approval of the financial statements by the Board of Directors, and which provide additional information about conditions existing at the date of the financial reporting, are reflected in the financial statements. Events occurring after the closing date, which indicate conditions arising after the date of the financial reporting, are disclosed in the notes to the financial statements, if considered relevant.

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

In the year ended 31 December 2016 the Group adopted the International Financial Reporting Standards (IFRS) in the individual accounts for CTT and for the subsidiaries on national territory. Until 31 December 2015 the Company prepared, approved and disclosed, for the purpose of complying with the current commercial legislation, the individual financial statements in accordance with the generally accepted accounting principles in Portugal until that date as established in Sistema de Normalização Contabilística (SNC) and other complementary legislation.

Therefore, the statement of financial position as at 31 December of 2015, the income statement and the statement of changes in equity, as well as the related notes (to the individual financial statements) regarding the year ended 31 December 2015, presented for comparative purposes, were adjusted in accordance with IFRS. The adjustments/reclassifications made with effect as at 1

January 2015, the transition date, were made in accordance with the provisions of IFRS 1 – First-time adoption of International Financial Reporting Standards.

The main differences, following the adoption of the IFRS, with impact on the individual statement of financial position as of 1 January 2015 are the following:

Statement of financial position - 01.01.2015

Caption	Reported amount	Adjustments		Reclassifications							Restated amount
		Investment subsidies ⁽¹⁾	Investments in associated companies ⁽²⁾	Investments in subsidiary companies ⁽³⁾	Other current assets ⁽⁴⁾	Reserves ⁽⁵⁾	Retained earnings ⁽⁶⁾	Accounts payable ⁽⁷⁾	Income taxes payable ⁽⁸⁾	Other current liabilities ⁽⁹⁾	
Investment in subsidiaries and associated companies	35,876,915	-	(937,732)	(34,939,183)	-	-	-	-	-	-	-
Goodwill	7,705,457	-	-	(7,705,457)	-	-	-	-	-	-	-
Investments in subsidiary companies	-	-	-	42,644,640	-	-	-	-	-	-	42,644,640
Investments in associated companies	-	-	937,732	-	-	-	-	-	-	-	937,732
Other accounts receivable	20,049,456	-	-	-	(20,049,456)	-	-	-	-	-	-
Other current assets	-	-	-	-	20,049,456	-	-	-	-	-	20,049,456
Other assets' captions	1,087,383,028	-	-	-	-	-	-	-	-	-	1,087,383,028
Total assets	1,50,834,856	-	-	-	-	-	-	-	-	-	1,50,834,856
Other equity instruments	(18,526,395)	(259,915)	-	-	-	-	-	-	-	-	(18,786,310)
Legal reserves	18,072,559	-	-	-	-	(18,072,559)	-	-	-	-	-
Other reserves	13,701,407	-	-	-	-	(13,701,407)	-	-	-	-	-
Reserves	-	-	-	-	-	31,773,966	-	-	-	-	31,773,966
Adjustments in investments	21,622,320	-	-	-	-	-	(21,622,320)	-	-	-	-
Retained earnings	62,752,243	-	-	-	-	-	21,622,320	-	-	-	84,374,563
Other equity's captions	152,171,128	-	-	-	-	-	-	-	-	-	152,171,128
Total equity	249,793,262	(259,915)	-	-	-	-	-	-	-	-	249,533,347
Deferrals	11,568,040	361,697	-	-	-	-	-	-	-	-	11,929,737
Deferred tax liabilities	4,890,550	(101,782)	-	-	-	-	-	-	-	-	4,788,768
Accounts payable	66,845,568	-	-	-	-	-	-	(66,845,568)	-	-	-
Portuguese State and other public entities	38,247,579	-	-	-	-	-	-	-	(6,171,287)	(12,076,292)	-
Other accounts payable	478,688,808	-	-	-	-	-	-	(417,606,043)	-	(61,082,765)	-
Accounts payable	-	-	-	-	-	-	-	484,451,611	-	-	484,451,611
Income taxes payable	-	-	-	-	-	-	-	-	6,171,287	-	6,171,287
Other current liabilities	-	-	-	-	-	-	-	-	-	73,159,057	73,159,057
Other liabilities' captions	320,781,049	-	-	-	-	-	-	-	-	-	320,781,049
Total liabilities	901,021,594	259,915	-	-	-	-	-	-	-	-	901,281,509

- (1) According to IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance the investment subsidies are recorded as deferred income.
- (2) The investments in associated companies are reclassified to a specific caption.
- (3) The investments in subsidiary companies are reclassified to a specific caption. Goodwill is included in the investment's value.
- (4) The balances are now presented in the caption "Other current assets".
- (5) The balances are now presented in the caption "Reserves".
- (6) The balances are now presented in the caption "Retained earnings".
- (7) The caption "Accounts payable" includes accounts payable and part of caption "Other accounts payable" (except the accrual's amount considered as "Other current liabilities" as referred in note (9)).
- (8) The caption "Income taxes payable" includes the Income tax.
- (9) The "Other current liabilities" includes withholding income tax, social security contributions and other taxes (except the amount of Income tax considered as "Income taxes payable" as referred in note (8)) and the accruals.

The impacts on the individual statement of financial position and income statement as of 31 December 2015 are as follows:

Statement of financial position - 31.12.2015

Caption	Reported amount	Adjustments		Reclassifications							Restated amount
		Investment subsidies ⁽¹⁾	Investments in associated companies ⁽²⁾	Investments in subsidiary companies ⁽³⁾	Other current assets ⁽⁴⁾	Reserves ⁽⁵⁾	Retained earnings ⁽⁶⁾	Accounts payable ⁽⁷⁾	Income taxes payable ⁽⁸⁾	Other current liabilities ⁽⁹⁾	
Investment in subsidiaries and associated companies	57,363,394	-	(255,234)	(57,108,180)	-	-	-	-	-	-	-
Goodwill	8,058,656	-	-	(8,058,656)	-	-	-	-	-	-	-
Investments in subsidiary companies	-	-	-	65,366,836	-	-	-	-	-	-	65,366,836
Investments in associated companies	-	-	255,234	-	-	-	-	-	-	-	255,234
Portuguese State and other public entities	2,502,386	-	-	-	(2,502,386)	-	-	-	-	-	-
Other accounts receivable	19,360,051	-	-	-	(19,360,051)	-	-	-	-	-	-
Other current assets	-	-	-	-	21,862,237	-	-	-	-	-	21,862,237
Other assets' captions	993,553,535	-	-	-	-	-	-	-	-	-	993,553,535
Total assets	1,080,837,822	-	-	-	-	-	-	-	-	-	1,080,837,822
Other equity instruments	(18,393,737)	(251,095)	-	-	-	-	-	-	-	-	(18,644,832)
Legal reserves	19,945,684	-	-	-	-	(19,945,684)	-	-	-	-	-
Other reserves	13,438,968	-	-	-	-	(13,438,968)	-	-	-	-	-
Reserves	-	-	-	-	-	33,384,652	-	-	-	-	33,384,652
Adjustments in investments	18,858,577	-	-	-	-	-	(18,858,577)	-	-	-	-
Retained earnings	72,869,417	-	-	-	-	-	18,858,577	-	-	-	91,727,994
Other equity's captions	145,182,458	-	-	-	-	-	-	-	-	-	145,182,458
Total equity	251,910,667	(251,095)	-	-	-	-	-	-	-	-	251,659,572
Deferrals	15,216,307	350,496	-	-	-	-	-	-	-	-	15,566,803
Deferred tax liabilities	4,633,600	(99,401)	-	-	-	-	-	-	-	-	4,534,199
Accounts payable	64,887,846	-	-	-	-	-	-	(64,887,846)	-	-	-
Portuguese State and other public entities	17,001,342	-	-	-	-	-	-	-	(7,923,944)	(9,077,398)	-
Other accounts payable	427,854,061	-	-	-	-	-	-	(355,538,303)	-	(72,335,758)	-
Accounts payable	-	-	-	-	-	-	-	420,406,149	-	-	420,406,149
Income taxes payable	-	-	-	-	-	-	-	-	7,923,944	-	7,923,944
Other current liabilities	-	-	-	-	-	-	-	-	-	81,413,156	81,413,156
Other liabilities' captions	299,333,599	-	-	-	-	-	-	-	-	-	299,333,599
Total liabilities	828,926,755	251,095	-	-	-	-	-	-	-	-	829,177,850

- (1) According to IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance the investment subsidies are recorded as deferred income.

- (2) The investments in associated companies are reclassified to a specific caption.
- (3) The investments in subsidiary companies are reclassified to a specific caption. Goodwill is included in the investment's value.
- (4) The balances are now presented in the caption "Other current assets".
- (5) The balances are now presented in the caption "Reserves".
- (6) The balances are now presented in the caption "Retained earnings".
- (7) The caption "Accounts payable" includes accounts payable and part of caption "Other accounts payable" (except the accrual's amount considered as "Other current liabilities" as referred in note (9)).
- (8) The caption "Income taxes payable" includes the Income tax.
- (9) The "Other current liabilities" includes withholding income tax, social security contributions and other taxes (except the amount of Income tax considered as "Income taxes payable" as referred in note (8)) and the accruals mentioned in note (7).

Income Statement – 31.12.2015

Caption	Reported amount	Reclassifications					Restated amount
		Staff costs ⁽²⁾	Impairment of inventories and accounts receivable, net ⁽²⁾	Depreciation/amortisation and impairment of investments, net ⁽²⁾	Other operating income ⁽³⁾	Interest income ⁽⁴⁾	
Own work capitalised	306,257	(306,257)	-	-	-	-	-
Staff costs	(297,335,567)	306,257	-	-	-	-	(297,029,310)
Impairment of inventories, net	268,616	-	(268,616)	-	-	-	-
Impairment of accounts receivable, net	248,629	-	(248,629)	-	-	-	-
Impairment of inventories and accounts receivable, net	-	-	517,245	-	-	-	517,245
Depreciation and amortisation, net	(19,732,394)	-	-	19,732,394	-	-	-
Impairment of depreciable/amortisable assets, net	291,117	-	-	(291,117)	-	-	-
Depreciation/amortisation and impairment of investments, net	-	-	-	(19,441,277)	-	-	(19,441,277)
Grants – Operation subsidies	8,119	-	-	-	(8,119)	-	-
Other operating revenues	51,298,403	-	-	-	(49,900,792)	(139,761)	-
Other operating income	-	-	-	-	49,908,911	-	49,908,911
Interest and similar income received	283,466	-	-	-	-	(283,466)	-
Interest income	-	-	-	-	-	168,107	168,107
Other captions	336,428,637	-	-	-	-	-	336,428,637
Net profit for the period	72,065,283	-	-	-	-	-	72,065,283

- (10) Staff costs are presented net of own work capitalised.
- (11) Impairment of inventories and impairment of accounts receivable are jointly presented.
- (12) Depreciation and amortisation are jointly presented with Impairment of depreciable/amortisable assets, net.
- (13) Operating subsidies and other operating revenues not considered as Interest income, are presented as "Other operating income".
- (14) "Interest income" include interest and similar income received, except the interest arising from financial float which are presented in caption "Other operating income".

The impacts on the individual income statement regarding the three months ended 31 December 2015 were as follows:

Income Statement – Three months ended 31.12.2015

Caption	Reported amount	Reclassifications					Restated amount
		Staff costs ⁽³⁾	Impairment of inventories and accounts receivable, net ⁽²⁾	Depreciation/amortisation and impairment of investments, net ⁽³⁾	Other operating income ⁽⁴⁾	Interest income ⁽⁵⁾	
Own work capitalised	115,303	(115,303)	-	-	-	-	-
Staff costs	(76,616,236)	115,303	-	-	-	-	(76,500,933)
Impairment of inventories, net	347,441	-	(347,441)	-	-	-	-
Impairment of accounts receivable, net	(52,039)	-	52,039	-	-	-	-
Impairment of inventories and accounts receivable, net	-	-	295,402	-	-	-	295,402
Depreciation and amortisation, net	(5,698,056)	-	-	5,698,056	-	-	-
Impairment of depreciable/amortisable assets, net	(133,321)	-	-	133,321	-	-	-
Depreciation/amortisation and impairment of investments, net	-	-	-	(5,831,377)	-	-	(5,831,377)
Grants – Operation subsidies	18,906,806	-	-	-	(18,660,303)	(246,503)	-
Other operating revenues	-	-	-	-	18,660,303	-	18,660,303
Other operating income	69,904	-	-	-	-	(69,904)	-
Interest and similar income received	-	-	-	-	-	316,406	316,406
Interest income	84,490,525	-	-	-	-	-	84,490,525
Other captions	21,430,327	-	-	-	-	-	21,430,327
Net profit for the period	21,430,327	-	-	-	-	-	21,430,327

- (1) Staff costs are presented net of own work capitalised.
- (2) Impairment of inventories and impairment of accounts receivable are jointly presented.
- (3) Depreciation and amortisation are jointly presented with Impairment of depreciable/amortisable assets, net.
- (4) Operating subsidies and other operating revenues not considered as Interest income, are presented as "Other operating income".
- (5) "Interest income" include interest and similar income received, except the interest arising from financial float which are presented in caption "Other operating income".

The adjustments made, with impact in individual Equity, reported as of 1 January and 31 December 2015, for the purposes of conversion into IFRS purposes, were as follows:

Equity		
	31.12.2015	01.01.2015
Individual equity - SNC	251,911,067	249,793,262
Reserves (Investment Subsidies)	(251,095)	(259,915)
Individual equity - IFRS	251,659,972	249,533,347

Additionally, no material errors were identified relative to estimates made in preparing the financial statements of prior years.

The underlying estimates and assumptions were determined based on the best knowledge of the on-going events and transactions, at the time the financial statements were approved, as well as on the experience of past and/or current events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Changes to estimates which occur after the date of the financial statements will be corrected prospectively. For this reason and in view of the associated degree of uncertainty, the real outcome of the transactions in question might differ from their corresponding estimates.

4. SEGMENT REPORTING

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

The Board of Directors regularly reviews segmental reports, using these 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 and business solutions, 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 the allocation in the segments of the 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 affected 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 affected to each of these segments.

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

2016								
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	533,586,673	120,809,947	70,760,726	961,734	108,910,984	(138,208,500)	-	696,821,564
Sales and services rendered	490,837,845	115,956,403	65,944,099	-	11,030	(3,080,807)	-	669,668,571
Sales	19,247,627	837,524	-	-	-	(2,893)	-	20,082,259
Services rendered	471,590,218	115,118,878	65,944,099	-	11,030	(3,077,914)	-	649,586,312
Financial Margin	-	-	-	26,051	-	-	-	26,051
Operating revenues external customers	26,390,268	4,853,544	4,733,667	935,682	17,651,463	(27,437,682)	-	27,126,942
Internal services rendered	16,358,560	-	82,960	-	40,060,406	(56,501,927)	-	-
Allocation to CTT central structure	-	-	-	-	51,188,085	(51,188,085)	-	-
Operating costs	448,411,842	116,302,249	32,948,637	26,403,442	108,910,984	(138,208,500)	-	594,768,654
External supplies and services	100,938,902	92,749,459	9,830,286	16,439,019	42,561,221	(30,481,823)	-	232,037,064
Staff costs	242,375,793	21,363,008	4,601,590	9,626,317	60,420,774	-	-	338,387,481
Other costs	15,673,374	2,189,782	1,365,657	338,106	4,813,856	(36,666)	-	24,344,109
Internal services rendered	38,588,353	-	16,798,440	-	1,115,133	(56,501,927)	-	-
Allocation to CTT central structure	50,835,421	-	352,664	-	-	(51,188,085)	-	-
EBITDA⁽¹⁾	85,174,831	4,507,698	37,812,090	(25,441,708)	-	-	-	102,052,910
Depreciation/amortisation and impairment of investments, net	(15,698,721)	(2,736,099)	(354,204)	(1,541,550)	(6,683,109)	-	(454,412)	(27,468,094)
Impairment of accounts receivable, net	-	-	-	-	-	-	-	(45,623)
Provisions net	-	-	-	-	-	-	-	16,343,680
Interest expenses	-	-	-	-	-	-	-	(6,540,106)
Interest income	-	-	-	-	-	-	-	671,599
Gains/losses in associated companies	-	-	-	-	-	-	-	230,340
Earnings before taxes								85,244,706
Income tax for the period	-	-	-	-	-	-	-	(23,347,639)
Net profit for the period								61,897,067
Non-controlling interests	-	-	-	-	-	-	-	(263,328)
Equity holders of parent company								62,160,395

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

2015								
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	554,637,064	131,256,297	75,314,955	1,673	105,477,237	(139,507,467)	-	727,179,760
Sales and services rendered	511,166,685	127,014,261	70,854,457	-	-	(3,866,541)	-	705,168,863
Sales	22,892,730	915,975	-	-	-	(1,334)	-	23,807,371
Services rendered	488,273,956	126,098,286	70,854,457	-	-	(3,865,207)	-	681,361,492
Operating revenues external customers	26,373,250	4,242,035	4,380,458	1,673	16,626,648	(29,613,167)	-	22,010,897
Internal services rendered	17,097,129	-	80,040	-	55,968,284	(73,145,454)	-	-
Allocation to CTT central structure	-	-	-	-	32,882,305	(32,882,305)	-	-
Operating costs	451,648,885	130,477,384	37,117,452	7,396,698	105,477,237	(139,507,467)	-	592,610,190
External supplies and services	103,439,453	100,134,379	14,789,649	5,066,117	43,109,017	(33,454,476)	-	233,084,139
Staff costs	241,974,873	26,796,905	3,555,387	2,252,303	57,193,411	-	-	331,772,879
Other costs	19,503,763	3,546,100	598,685	78,279	4,051,577	(25,233)	-	27,753,171
Internal services rendered	54,105,814	-	17,916,408	-	1,123,231	(73,145,454)	-	-
Allocation to CTT central structure	32,624,981	-	257,323	-	-	(32,882,305)	-	-
EBITDA⁽¹⁾	102,988,179	778,913	38,197,503	(7,395,025)	-	-	-	134,569,570
Depreciation/amortisation and impairment of investments, net	(14,775,094)	(3,213,473)	(552,154)	(137,081)	(4,433,952)	-	(461,248)	(23,573,001)
Impairment of accounts receivable, net	-	-	-	-	-	-	-	(1,410,434)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	623,123
Provisions net	-	-	-	-	-	-	-	(277,313)
Interest expenses	-	-	-	-	-	-	-	(6,861,401)
Interest income	-	-	-	-	-	-	-	1,485,163
Gains/losses in associated companies	-	-	-	-	-	-	-	54,274
Earnings before taxes								104,609,981
Income tax for the period	-	-	-	-	-	-	-	(32,539,346)
Net profit for the period								72,070,635
Non-controlling interests	-	-	-	-	-	-	-	5,352
Equity holders of parent company								72,065,283

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

The revenues are detailed as follows:

Thousand Euros	2016	2015
Mail	533,587	554,637
Transactional mail	403,684	416,806
Editorial mail	15,952	15,738
Parcels (USO)	6,608	6,892
Advertising mail	29,596	31,712
Retail	17,758	19,505
Philately	7,480	8,155
Business Solutions	9,960	11,524
Other	42,549	44,305
Express & Parcels	120,810	131,256
Financial Services	70,761	75,315
Banco CTT	962	-
CTT Central Structure	108,911	105,477
Intragroup eliminations	(138,208)	(139,507)
	696,822	727,180

The assets by segment are detailed as follows:

Assets (Euros)	2016						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	
Intangible assets	2,688,799	3,989,255	383,266	18,455,823	7,853,454	5,546,126	38,916,723
Tangible fixed assets	172,040,917	13,822,493	711,568	59,727	14,920,468	7,366,608	208,921,781
Investment properties						9,291,983	9,291,983
Goodwill	7,294,638		406,101				7,700,739
Deferred tax assets						86,220,762	86,220,762
Accounts receivable						122,113,270	122,113,270
Credit to bank clients				7,103,905			7,103,905
Investments held to maturity				95,094,543			95,094,543
Financial assets available for sale				6,447,325			6,447,325
Other banking financial assets				59,054,303			59,054,303
Other assets						48,263,780	48,263,780
Cash and cash equivalents						618,811,099	618,811,099
Non-current assets held for sale						8,756,999	8,756,999
	182,024,355	17,811,748	1,500,934	186,215,627	22,773,922	906,370,627	1,316,697,213

Assets (Euros)	2015						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	
Intangible 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)	2016					Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	
Medium and long-term debt		127,145				127,145
Bank loans		87,202				87,202
Leasings		39,943				39,943
Short-term debt	724,749	8,955,080				9,679,829
Bank loans		8,726,161				8,726,161
Leasings	724,749	228,919				953,668
	724,749	9,082,224				9,806,973

Other information (Euros)	2015					Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	
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	2016	2015
Revenue - Portugal	594,380	624,709
Revenue - other countries	75,289	80,406
	669,669	705,169

5. TANGIBLE FIXED ASSETS

During the years ended 31 December 2016 and 31 December 2015, the movements occurred in Tangible fixed assets, as well as the respective accumulated depreciation, regarding the **Group** were as follows:

Group	2016								Total
	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	
Tangible fixed assets									
Opening 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
Acquisitions	-	313,458	6,625,240	9,719	4,156,018	1,937,614	8,381,884	2,888,955	24,312,888
Disposals	(526,637)	(3,885,980)	(1,503,859)	-	(52,919)	-	-	-	(5,969,395)
Transfers and write-offs	123,778	675,516	(2,289,200)	(8,174)	51,751	(115,897)	(5,337,034)	(812,692)	(7,711,951)
Adjustments	-	(175,240)	(399,323)	(5,800)	(94,314)	(36,644)	-	(123,265)	(834,586)
	-	-	-	-	-	-	-	-	-
Closing balance	36,903,717	334,909,766	140,435,200	3,269,073	59,021,936	25,037,425	5,016,467	3,351,405	607,944,989
Accumulated depreciation									
Opening balance	3,888,322	192,743,987	118,629,681	3,154,422	50,187,217	19,306,751	-	-	387,910,380
Depreciation for the period	-	9,180,124	7,410,835	66,457	2,621,487	1,111,546	-	-	20,390,450
Disposals	(36,827)	(2,390,937)	(1,481,994)	-	(52,919)	-	-	-	(3,962,677)
Transfers and write-offs	-	(2,172,820)	(2,533,931)	(8,174)	(487,515)	(173,533)	-	-	(5,375,973)
Adjustments	-	(604)	(89,968)	(3,709)	(12,465)	(5,280)	-	-	(112,027)
	-	-	-	-	-	-	-	-	-
Closing balance	3,851,494	197,359,750	121,934,624	3,208,996	52,255,806	20,239,484	-	-	398,850,154
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	173,055	-	-	173,055
Net Tangible fixed assets	33,052,223	137,550,016	18,500,576	60,077	6,766,130	4,624,886	5,016,467	3,351,405	208,921,781

Group	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
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
Acquisitions	-	241,625	6,037,562	1,981	1,694,892	929,960	3,505,594	2,137,061
Disposals	(2,881)	(206,610)	(3,453,459)	-	(10,823)	-	-	-
Transfers and write-offs	477,748	7,295,485	(8,159,431)	647,245	(634,229)	(139,395)	(3,271,776)	(1,168,066)
Adjustments	-	-	(57,723)	4,016	(34,707)	(29,544)	-	(1,991)
Changes in the consolidation perimeter	-	-	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
Accumulated depreciation								
Opening balance	3,888,710	181,856,867	124,532,096	2,539,928	48,417,343	18,220,445	-	-
Depreciation for the period	-	8,999,999	6,576,631	65,894	2,392,151	1,244,129	-	-
Disposals	(388)	(116,904)	(3,449,206)	-	(10,823)	-	-	-
Transfers and write-offs	-	2,004,296	(8,961,765)	548,540	(602,122)	(154,648)	-	-
Adjustments	-	(271)	(70,002)	60	(9,332)	(3,176)	-	-
Changes in the consolidation perimeter	-	-	1,927	-	-	-	-	-
Closing balance	3,888,322	192,743,987	118,629,681	3,154,422	50,187,217	19,306,750	-	-
Accumulated impairment								
Opening balance	-	-	-	-	-	420,483	-	-
Other variations	-	-	-	-	-	(123,714)	-	-
Closing balance	-	-	-	-	-	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

The depreciation recorded in the **Group** amounting to 20,390,450 Euros (19,278,804 Euros on 31 December 2015), is booked under the heading Depreciation/amortisation and impairment of investments, net (Note 47).

During the years ended 31 December 2016 and 31 December 2015, the movements occurred in Tangible fixed assets, as well as the respective accumulated depreciation, regarding the **Company** were as follows:

Company	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
Tangible fixed assets								
Opening balance	35,489,705	322,733,582	107,351,937	2,479,246	48,332,318	21,472,842	1,971,617	1,398,407
Acquisitions	-	-	5,552,134	-	3,444,701	1,988,240	8,376,038	2,032,080
Disposals	(526,637)	(3,885,980)	(1,492,276)	-	-	-	-	-
Transfers and write-offs	123,778	669,671	(2,070,172)	-	94,512	40,006	(5,331,888)	(812,692)
Adjustments	-	(172,289)	(146,612)	-	(67,780)	(19,984)	-	(123,265)
Closing balance	35,086,846	319,344,985	109,395,030	2,479,246	51,783,751	23,411,104	5,036,467	2,494,530
Accumulated depreciation								
Opening balance	3,888,321	184,477,527	94,533,371	2,369,138	44,176,849	17,624,015	-	-
Depreciation for the period	-	8,747,835	5,417,745	62,589	2,246,253	1,076,778	-	-
Disposals	(36,827)	(2,390,937)	(1,470,418)	-	-	-	-	-
Transfers and write-offs	-	(2,172,839)	(2,314,904)	-	(445,217)	(17,367)	-	-
Adjustments	-	-	-	-	-	-	-	-
Closing balance	3,851,494	188,661,587	96,365,800	2,431,726	45,977,885	18,683,626	-	-
Accumulated impairment								
Opening balance	-	-	-	-	-	296,769	-	-
Other variations	-	-	-	-	-	(123,714)	-	-
Closing balance	-	-	-	-	-	173,055	-	-
Net Tangible fixed assets	31,235,351	130,683,399	13,029,230	47,520	5,805,866	4,554,423	5,036,467	2,494,530

Company	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
Tangible fixed assets								
Opening balance	35,034,836	315,636,144	113,261,739	1,645,511	46,543,817	20,574,950	1,737,799	264,291
Acquisitions	-	-	3,683,675	1,981	1,436,934	892,426	3,505,594	2,137,061
Disposals	(2,881)	(206,610)	(2,133,753)	-	(10,823)	-	-	-
Transfers and write-offs	477,748	7,288,834	(8,237,720)	831,755	(52,712)	(7,862)	(3,271,776)	(1,168,066)
Adjustments	-	-	(57,723)	-	(34,209)	(30,046)	-	(1,991)
Mergers	-	35,235	833,509	-	429,307	43,375	-	-
Closing balance	35,489,704	322,733,584	107,351,938	2,479,248	48,332,318	21,472,844	1,971,616	1,398,407
Accumulated depreciation								
Opening balance	3,888,711	174,091,789	99,782,739	1,593,991	41,734,094	16,385,542	-	-
Depreciation for the period	-	8,420,076	4,380,955	53,402	2,079,555	1,195,715	-	-
Disposals	(388)	(116,904)	(2,133,753)	-	(10,823)	-	-	-
Transfers and write-offs	-	2,047,352	(8,128,882)	721,745	(35,991)	-	-	-
Mergers	-	35,235	832,322	-	430,133	42,757	-	-
Closing balance	3,888,322	184,477,527	94,533,371	2,369,138	44,176,849	17,624,014	-	-
Accumulated impairment								
Opening balance	-	-	-	-	-	420,483	-	-
Other variations	-	-	-	-	-	(123,714)	-	-
Closing balance	-	-	-	-	-	296,769	-	-
Net Tangible fixed assets	31,601,381	138,256,056	12,838,567	110,110	4,135,469	3,552,061	1,971,616	1,398,407

The depreciation recorded in the **Company** amounting to 17,551,181 Euros (15,929,703 Euros on 31 December 2015), is booked under the heading Depreciation/amortisation and impairment of investments, net (Note 47).

In the **Group** and the **Company**, as at 31 December 2016, Land and natural resources and Buildings and other constructions include 650,717 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..

During 2016, an exchange with MEO – Serviços de Comunicações e Multimédia, S.A. was performed and were accounted gains in the amount of 485,134 Euros.

In the year ended 31 December 2015, the **Company** reclassified to tangible fixed assets one property, which became a part of the operational activity, of 4,517,053 Euros and respective accumulated depreciation of 2,047,352 Euros, as a result of the retail network's development model.

According to the concession contract in force, after the latest amendments of 31 December 2013 (Note 1) at the end of the concession, the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported on CTT's accounting records and the statement of Directorate General of Treasury and Finance ("Direção Geral do Tesouro e Finanças"), the entity responsible for the Information System of Public Buildings ("Sistema de Informação de Imóveis do Estado" – SIIE) believes that CTT's assets do not include any public or private domain assets of the Portuguese State.

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

During the year ended 31 December 2015, the most significant movements in Tangible Fixed Assets were the following:

Buildings and other constructions:

The movements associated to additions and transfers relate mostly to the capitalisation of repairs in own and third-party buildings of CTT, CTT Expresso and Tourline.

It also includes the exchange made with MEO – Serviços de Comunicações e Multimédia, S.A., of 4 properties that were in joint ownership.

Basic equipment:

The amount of additions relates to the acquisition of motorcycles, tricycles and quadricycles in the amount of 912 thousand Euros, vans and trucks worth approximately 1,867 thousand Euros, tractors and trailers in the amount of 234 thousand Euros, pallet trucks for 35 thousand Euros, ATMs amounting to 336 thousand Euros, several operational equipment for a total amount of 40 thousand Euros, IT equipment worth 1,158 thousand Euros, scales amounting to 42 thousand Euros, postal containers in the amount of 90 thousand Euros and upgrades to mail sorting machines in the amount of 643 thousand Euros by CTT. CTT Expresso has recognised the upgrade to parcel sorting machines worth about 371 thousand Euros and the purchase of pallet truck of 76 thousand Euro. Payshop acquired 839 payment terminals in the amount of 155 thousand Euros and 1,250 scanners in the amount of 88 thousand Euros.

Office equipment:

The amount of acquisitions relates essentially to the purchase of safes and security doors totalling 729 thousand Euros, various office equipment worth about 1,003 thousand Euros, medium and large size equipment for about 1,161 thousand Euros and the acquisition of several micro-computing equipment for approximately 537 thousand Euros by CTT. CTT Expresso acquired a system of file and virtualization backup in a total value of 308 thousand Euros. In Tourline the acquisitions refer to several office equipment worth about 27 thousand Euros.

Other tangible fixed assets:

The amount of acquisitions relates essentially to the acquisition of prevention and safety equipment in the amount of 1,653 thousand Euros, essentially regarding the **Company**.

Tangible fixed assets in progress:

The amounts under this heading are related to costs of improvements in own and third-party property.

The amounts recorded under write-offs, in the year ended 31 December 2016, with particular emphasis in Basic equipment, are mainly due to the write-offs of CTT assets that were fully depreciated.

In the **Group** and in the **Company**, as at 31 December 2016, the amount recorded under transfers of Land and natural resources and Buildings and other constructions include the total amount, net of depreciations, of 2,344,233 Euros regarding the transfer of real estate to non-current assets held for sale (Note 22).

The **Group** and the **Company** contractual commitments, related to Tangible fixed assets, are as follows:

	Group	Company
Servers upgrades	18,450	18,450
Shelving equipment	46,740	46,740
Scale, digitizer and micrometer	5,235	5,235
Upgrades to mail sorting machines	11,754	11,754
Desktops and monitors	2,260	2,260
Safes and security doors	100,072	100,072
Pallets	18,770	18,770
	203,280	203,280

6. INTANGIBLE ASSETS

During the years ended 31 December 2016 and 31 December 2015, the movements which occurred in the main categories of the **Group** Intangible assets, as well as the respective accumulated amortisation, were as follows:

	2016						
Group	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Advance payments to suppliers	Total
Intangible assets							
Opening balance	4,372,923	48,455,024	12,004,296	444,739	12,175,413	-	77,452,395
Acquisitions	-	7,715,502	17,573	-	10,114,453	-	17,847,528
Disposals	-	(15,490)	-	-	-	-	(15,490)
Transfers and write-offs	-	13,235,156	1,893	-	(13,419,588)	-	(182,539)
Adjustments	-	(15,640)	(301,202)	-	-	-	(316,843)
Other movements	-	357,918	-	-	-	-	357,918
Closing balance	4,372,923	69,732,469	11,722,559	444,739	8,870,277	-	95,142,968
Accumulated amortisation							
Opening balance	4,350,412	36,912,898	8,120,329	444,739	-	-	49,828,379
Amortisation for the period	9,647	6,277,006	336,578	-	-	-	6,623,231
Disposals	-	(15,490)	-	-	-	-	(15,490)
Transfers and write-offs	-	(150,959)	(454)	-	-	-	(151,413)
Adjustments	-	(2,289)	(56,173)	-	-	-	(58,463)
Other movements	-	-	-	-	-	-	-
Closing balance	4,360,060	43,021,166	8,400,280	444,739	-	-	56,226,245
Net intangible assets	12,863	26,711,303	3,322,280	-	8,870,277	-	38,916,723

2015						
Group	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 amortisation in the **Group**, for the year ended 31 December 2015, amounting to 6,623,231 Euros (3,832,949 Euros as at 31 December 2015) was recorded under Depreciation / amortisation and impairment of investments, net (Note 47).

During the years ended 31 December 2016 and 31 December 2015, the movements which occurred in the main categories of the **Company** Intangible assets, as well as the respective accumulated amortisation, were as follows:

2016						
Company	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	3,717,326	38,719,172	3,566,374	-	2,009,357	48,012,229
Acquisitions	-	679,023	17,573	-	5,664,626	6,361,222
Disposals	-	-	-	-	-	-
Transfers and write-offs	-	2,094,837	1,893	-	(2,127,856)	(31,126)
Adjustments	-	(15,640)	-	-	-	(15,640)
Closing balance	3,717,326	41,477,392	3,585,840	-	5,546,126	54,326,686
Accumulated amortisation						
Opening balance	3,694,816	28,347,075	3,009,661	-	-	35,051,552
Amortisation for the period	9,647	4,423,323	40,604	-	-	4,473,575
Disposals	-	-	-	-	-	-
Transfers and write-offs	-	-	-	-	-	-
Adjustments	-	(2,289)	105	-	-	(2,184)
Closing balance	3,704,463	32,768,108	3,050,370	-	-	39,522,942
Net intangible assets	12,863	8,709,284	535,470	-	5,546,126	14,803,744

2015						
Company	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	3,717,326	28,465,655	3,223,072	-	4,710,797	40,116,850
Acquisitions	84,441	4,654,861	326,469	-	1,775,205	6,840,977
Transfers and write-offs	(84,441)	4,783,837	-	-	(4,476,645)	222,750
Mergers	-	814,821	16,833	-	-	831,654
Closing balance	3,717,326	38,719,174	3,566,374	-	2,009,357	48,012,230
Accumulated amortisation						
Opening balance	3,685,169	24,541,759	2,955,835	-	-	31,182,763
Amortisation for the period	12,060	3,001,272	36,994	-	-	3,050,326
Transfers and write-offs	(2,413)	2,413	-	-	-	-
Mergers	-	801,631	16,833	-	-	818,464
Closing balance	3,694,816	28,347,074	3,009,662	-	-	35,051,553
Net intangible assets	22,510	10,372,099	556,712	-	2,009,357	12,960,678

The amortisation in the **Company**, for the year ended 31 December 2015, amounting to 4,473,575 Euros (3,050,326 Euros as at 31 December 2015) was recorded under Depreciation / amortisation and impairment of investments, net (Note 47).

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

The transfers occurred in the year ended 31 December 2016 from Intangible assets in progress to Computer software refer to IT projects, which were completed during the year.

The amounts of 798,888 Euros and 306,256 Euros were capitalised in computer software or in intangible assets in progress as at 31 December 2016 and 31 December 2015, respectively, related to **Company** staff costs incurred in the development of these projects.

During the year ended 31 December 2015, the most significant movements of the Group companies in Intangible assets were the following:

Computer software:

The amount of acquisitions relates essentially to the purchase of software "IBM Datacap" in the amount of 118 thousand Euros, the acquisition of "SAFT-T Viewer" for 53 thousand Euros, "Management information software" in the amount of 207 thousand Euros and software "IBM Websphere (WSRR)" in the amount of 59 thousand Euros by CTT. In Banco CTT the acquisitions relate to software "TLM Corona" in the amount of 147 thousand Euros, software "SAC - Card management system" in the amount of 81 thousand Euros, "Reg Pro - Banking reports system" in the amount of 257 thousand Euros, "App account opening" in the amount of 416 thousand Euros and upgrades to "CBS - Core Banking System" in the amount of 4,113 thousand Euros.

As at 31 December 2016 the **Group** and the **Company** Intangible assets in progress, relate to IT projects which are under development, of which the most relevant are:

	Group	Company
SGEE - System Management Express Shipping	1,473,116	-
Management information - Software	1,061,580	727,776
International (E-CIP)	728,084	728,084
CBS - Core banking system	444,927	-
OPICS - Treasury mangement	631,122	-
NAVE evolution	380,583	380,583
Mail products evolution	349,801	349,801
Digital platform - advertising mail	455,995	455,995
RAID - Software	163,131	163,131
Financial consolidation - Software	150,431	150,431
Audit management - software	102,150	-
DOL - Treatment and generation of scales	90,038	90,038
CIA - New portal of treatment	97,049	97,049
Mobility - Application Software	104,626	104,626
CTT Mobile	109,647	109,647
Virtualization platform	122,901	122,901
Setup Fujitsu	361,351	361,351
Simple Finance	468,377	468,377
Reg Pro - Banking report system	46,296	-
	7,341,205	4,309,789

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 the **Group** and the **Company** Intangible assets are as follows:

	Group	Company
CBS – Core Banking System	7,078,870	-
Card management system	35,566	-
APP Mobile CTT Espresso	9,970	-
Videoconferencing upgrade	29,608	29,608
SADIP – Dynamics Change Plans	18,670	18,670
	<u>7,172,684</u>	<u>48,278</u>

7. INVESTMENT PROPERTIES

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** have the following assets classified as investment properties:

	2016					
	Group			Company		
	Land and natural resources	Buildings and other constructions	Total	Land and natural resources	Buildings and other constructions	Total
Investment properties						
Opening balance	7,079,433	40,895,219	47,974,653	7,079,433	40,895,219	47,974,653
Additions	-	-	-	-	-	-
Disposals	(890,140)	(8,088,615)	(8,978,754)	(890,140)	(8,088,615)	(8,978,754)
Transfers and write-offs	(2,268,245)	(14,433,825)	(16,702,070)	(2,268,245)	(14,433,825)	(16,702,070)
Closing balance	<u>3,921,049</u>	<u>18,372,780</u>	<u>22,293,828</u>	<u>3,921,049</u>	<u>18,372,780</u>	<u>22,293,828</u>
Accumulated depreciation						
Opening balance	239,427	26,669,509	26,908,936	239,427	26,669,509	26,908,936
Depreciation for the period	-	569,250	569,250	-	569,250	569,250
Disposals	(25,824)	(5,432,025)	(5,457,848)	(25,824)	(5,432,025)	(5,457,848)
Transfers and write-offs	(3,506)	(10,306,485)	(10,309,991)	(3,506)	(10,306,485)	(10,309,991)
Closing balance	<u>210,097</u>	<u>11,500,249</u>	<u>11,710,347</u>	<u>210,097</u>	<u>11,500,249</u>	<u>11,710,347</u>
Accumulated impairment						
Opening balance	-	1,282,622	1,282,622	-	1,282,622	1,282,622
Transfers/ Adjustments	-	8,876	8,876	-	8,876	8,876
Closing balance	<u>-</u>	<u>1,291,498</u>	<u>1,291,498</u>	<u>-</u>	<u>1,291,498</u>	<u>1,291,498</u>
Net Investment properties	<u>3,710,951</u>	<u>5,581,032</u>	<u>9,291,983</u>	<u>3,710,951</u>	<u>5,581,032</u>	<u>9,291,983</u>

	2015					
	Group			Company		
	Land and natural resources	Buildings and other constructions	Total	Land and natural resources	Buildings and other constructions	Total
Investment properties						
Opening balance	7,716,058	45,722,963	53,439,021	7,716,058	45,722,963	53,439,021
Additions	14,500	43,500	58,000	14,500	43,500	58,000
Disposals	(173,376)	(854,186)	(1,027,562)	(173,376)	(854,186)	(1,027,562)
Transfers and write-offs	(477,748)	(4,017,057)	(4,494,805)	(477,748)	(4,017,057)	(4,494,805)
Closing balance	<u>7,079,434</u>	<u>40,895,220</u>	<u>47,974,654</u>	<u>7,079,434</u>	<u>40,895,220</u>	<u>47,974,654</u>
Accumulated depreciation						
Opening balance	259,501	28,399,732	28,659,233	259,501	28,399,732	28,659,233
Depreciation for the period	-	752,365	752,365	-	752,365	752,365
Disposals	(20,075)	(435,235)	(455,310)	(20,075)	(435,235)	(455,310)
Transfers and write-offs	-	(2,047,352)	(2,047,352)	-	(2,047,352)	(2,047,352)
Closing balance	<u>239,426</u>	<u>26,669,510</u>	<u>26,908,936</u>	<u>239,426</u>	<u>26,669,510</u>	<u>26,908,936</u>
Accumulated impairment						
Opening balance	-	1,450,025	1,450,025	-	1,450,025	1,450,025
Transfers/ Adjustments	-	(167,403)	(167,403)	-	(167,403)	(167,403)
Closing balance	<u>-</u>	<u>1,282,622</u>	<u>1,282,622</u>	<u>-</u>	<u>1,282,622</u>	<u>1,282,622</u>
Net Investment properties	<u>6,840,008</u>	<u>12,943,087</u>	<u>19,783,095</u>	<u>6,840,008</u>	<u>12,943,087</u>	<u>19,783,095</u>

These assets are not allocated to the **Group** and **Company** operating activities, nor have a specific future use.

The market value of these assets, which are classified as investment property, in accordance with the valuations obtained at the end of the fiscal year 2016 which were conducted by independent entities, amounts to 13,190,970 Euros (29,425,470 Euros as at 31 December 2015).

In the year ended 31 December 2016, the amount of disposals in the **Company** relates to the sale of six properties having the corresponding gains, of 1.2 million Euros, been recorded in the caption Other operating income.

In the year ended 31 December 2015, the **Company** reclassified to tangible fixed assets one property which became a part of the Group's activity in the amount of 4,517,053 Euros and respective accumulated depreciation of 2,047,352 Euros, as a result of the retail network's development model.

In the **Group** and in the **Company**, as at 31 December 2016, the amount recorded under transfers of Land and natural resources and Buildings and other constructions include the total amount, net of depreciations, of 6,412,766 Euros regarding the transfer of real estate to non-current assets held for sale (Note 22).

Depreciation for the year, of 569,250 Euro (752,365 Euros on 31 December 2015) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals) (Note 47).

Impairment losses of the Company for the period amounting to 8,876 Euros (167,403 Euros on 31 December 2015) were recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals) (Note 47) and are explained by the market value reduction observed in same buildings.

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 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	Place of business	Head office	2016			2015		
			Percentage of ownership			Percentage of ownership		
			Direct	Indirect	Total	Direct	Indirect	Total
Parent company:								
CTT - Correios de Portugal, S.A.	Portugal	Av. D. João II N.º 13 1999-0011Lisboa	-	-	-	-	-	-
Subsidiaries:								
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Portugal	Lugar do Quintanilha 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Portugal	Av. D. João II N.º 13 1999-0011Lisboa	100	-	100	100	-	100
CTT Contacto, S.A. ^(a) ("CTT Con")	Portugal	Av. D. João II N.º 13 1999-0011Lisboa	100	-	100	100	-	100
Malltec Comunicação, S.A. ("Malltec TI")	Portugal	Av. D. João II N.º 13 1999-0011Lisboa	100	-	100	100	-	100
Tourline Express Mensajería, SLU. ("TourLine")	Spain	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908) - Barcelona - Spain	100	-	100	-	100	100
Correio Expresso de Moçambique, S.A. ("CORRE")	Mozambique	Av. Zedequias Manganhela, 309 Maputo - Mozambique	50	-	50	50	-	50
Escrita Inteligente, S.A. ("RONL")	Portugal	Av. D. João II N.º 13 1999-0011Lisboa	100	-	100	100	-	100
Banco CTT, S.A. ("BancoCTT")	Portugal	Av. D. João II N.º 11 1999-0011Lisboa	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.

Tourline Express Mensajería, SLU, was, on 5 May 2015, subject to a share capital increase of 1,000,000 Euros.

On 16 May 2016 and 24 October 2016, the share capital of Banco CTT, S.A. has been increased by 26,000,000 Euros and 25,000,000 Euros, respectively, currently totalling 85,000,000 Euros.

In January 2015, a share capital increase occurred in Corre – Correio Expresso de Moçambique, S.A. in the amount of 670,030 Euros. This operation was accomplished through the incorporation of both shareholders' credits in Corre.

On 20 January 2015, but with effect as of 1 January 2015, the merger of Mailtec Holding, SGPS, S.A. into CTT was registered through the global transfer of the assets of Mailtec Holding, SGPS, S.A.. Following this merger, the shareholdings held by Mailtec Holding, SGPS, S.A. in Mailtec Comunicações, S.A., Mailtec Consultoria, S.A. and Mailtec Processos, Lda. are now held entirely by the parent company, CTT – Correios de Portugal, S.A..

On 10 August 2015, but with effect as of 1 January 2015, the merger of Post Contacto, Lda. and Mailtec Processos, Lda. into CTT Gest, S.A. was registered through the global transfer of the assets of Post Contacto, Lda. and Mailtec Processos, Lda.. Following this merger, the corporate name of CTT Gest, S.A. was changed to CTT Contacto, S.A..

During December 2015, a share capital increase occurred in Tourline Express Mensajería, SLU. in the amount of 12,000,000 Euros.

On 28 December 2015, but with effect as of 1 January 2015, the merger of Mailtec Consultoria, S.A. into CTT was registered through the global transfer of the assets of Mailtec Consultoria, S.A..

None of these transactions had an impact on the consolidation perimeter.

Joint ventures

As at 31 December 2016 and 31 December 2015, the Group held the following interests in joint ventures, registered through the equity method:

Company name	Place of business	Head office	2016			2015		
			Percentage of ownership			Percentage of ownership		
			Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestação de Serviços Informáticos, ACE ("Ti-Post")	Portugal	R. do Mar da China, Lote 107.2.3 Lisboa	49	-	49	49	-	49
NewPost, ACE ^(a)	Portugal	Av. Fontes Pereira de Melo, 40 Lisboa	49	-	49	49	-	49
PTP & F, ACE	Portugal	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 31 December 2016 and 31 December 2015, the Group held the following interests in associated companies accounted for by the equity method:

Company name	Place of business	Head office	2016			2015		
			Percentage of ownership			Percentage of ownership		
			Direct	Indirect	Total	Direct	Indirect	Total
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	Portugal	R. do Centro Cultural, 2 Lisboa	20	-	20	20	-	20
Payshop Moçambique, S.A. ^(a)	Mozambique	R. da Sé, 114-4 ^o Maputo - Mozambique	-	35	35	-	35	35
Mafelosa, SL ^(b)	Spain	Castellon - Spain	-	25	25	-	25	25
Urpacsur, SL ^(b)	Spain	Málaga - Spain	-	30	30	-	30	30

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

^(b) Company held by Tourline Mensajería, SLU, which currently has no activity.

Changes in the consolidation perimeter

During the year ended 31 December 2016, there were no changes in the consolidation perimeter.

During the year ended 31 December 2015, the consolidation perimeter changed as a result of the incorporation, on 6 February 2015, of CTT Serviços, S.A. with a share capital of 5,000,000 Euros, in the context of the incorporation process of Banco CTT.

On 24 August 2015, the corporate name of CTT Serviços, S.A. was changed to Banco CTT, S.A., as well as its main activity in order to accommodate the banking activity.

On 17 December 2015, CTT acquired the company Escrita Inteligente, S.A., a start-up company in the digital area dedicated to the development of the solution named "Recibos Online".

Following the acquisition, the Group made an assessment of the fair value of the assets acquired and liabilities assumed in accordance with IFRS 3 - Business Combinations, and no significant differences between the carrying amounts of assets and liabilities and their fair values were identified.

The detail of the net assets of Escrita Inteligente and goodwill recorded related with this transaction as at 31 December 2015 is as follows:

	Book value
Assets acquired	63,469
Liabilities acquired	2,764
Net assets acquired	60,705
Goodwill (Note 9)	357,917
Acquisition value	418,622

During the year ended 31 December 2016 and following a new assessment of the fair value of the assets acquired and in accordance with IFRS 3 - Business Combinations, the initial Goodwill recognition of the purchase of Escrita Inteligente SA was adjusted, having been totally allocated to the IT platform "Recibos Online", as shown below:

	Book value
Assts acquired	421,386
Liabilities acquired	2,764
Net assets acquired	418,622
Goodwill (Note 9)	-
Acquisition value	418,622

9. GOODWILL

As at 31 December 2016 and 31 December 2015, the **Group** Goodwill was made up as follows:

	Year of acquisition	Group	
		2016	2015
Mailtec Comunicação, S.A.	2004	7,294,638	7,294,638
Payshop Portugal, S.A.	2004	406,101	406,101
Escrita Inteligente, S.A.	2015	-	357,917
		7,700,739	8,058,656

During the years ended 31 December 2016 and 31 December 2015, the movements in Goodwill were as follows:

	Group	
	2016	2015
Opening balance	8,058,656	7,705,457
Acquisitions	-	357,917
Adjustments	-	(4,718)
Final measurement of goodwill	(357,917)	-
Closing balance	7,700,739	8,058,656

During the year ended 31 December 2016 in accordance with IFRS 3 - Business Combinations, the initial Goodwill recognition of the purchase of Escrita Inteligente, SA was revised based on information that allowed that amount to be fully assigned to the fair value of the "Recibos Online" computer platform. As a result, the amount of 357,917 Euros was reclassified to Intangible Assets - Computer Programmes.

In the year ended 31 December 2015, the acquisitions relate to the company Escrita Inteligente, S.A., with a corresponding Goodwill of 357,917 Euros.

The adjustments are related to the merger of Mailtec Consultoria, S.A. into CTT, and the corresponding Goodwill.

Goodwill impairment assessment

The recoverable amount of Goodwill is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

During the year ended 31 December 2016, in order to determine the recoverable amount of its investments, the **Group** performed impairment tests as at 31 December 2016 and 31 December 2015 based on the following assumptions:

Company	Activity	2016			
		Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Mailtec Comunicação, SA	Documental services	Equity Value/DCF	5 years	10.00%	0.50%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	10.82%	0.50%

Company	Activity	2015			
		Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetuity rate growth
Tourline Express Mensajeria, SLU	CEP and Logistics	Equity Value/DCF	5 years	10.00%	0.50%
Mailtec Comunicação, SA	Documental services	Equity Value/DCF	5 years	9.02%	0.50%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	9.85%	0.50%

The increase in the discount rate (WACC) for the year ended 31 December 2016 was a result of the increase in the country's risk premium, measured by the yields' spreads of the Portuguese government bonds in relation to the free-risk bonds of the Eurozone.

The cash flow projections were based on the historical performance and the medium and long-term business plans, approved by the Board of Directors. As a consequence of this impairment analysis, the **Group** concluded that as at 31 December 2016 there were no impairment losses.

As at 31 December 2016 and 31 December 2015, the impairment losses registered in the **Group** are as follows:

2016						
	Year of acquisition	Initial value of Goodwill	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value
Tourline Express Mensajeria, SLU	2005	20,671,985	-	20,671,985	-	-
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-	-
		20,907,931	-	20,907,931	-	-

a) Held by Payshop Portugal, S.A., a subsidiary of CTT Group

2015						
	Year of acquisition	Initial value of Goodwill	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value
Tourline Express Mensajeria, SLU	2005	20,671,985	-	20,671,985	-	-
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-	-
		20,907,931	-	20,907,931	-	-

b) Held by Payshop Portugal, S.A., a subsidiary of CTT Group

Sensitivity analyses were performed on the results of these impairment tests, namely regarding the following key assumptions: (i) perpetuity growth rate and (ii) discount rates.

The results of the sensitivity analyses for PayShop and Mailtec Comunicação do not determine that there are indicators of impairment, according to the following tables:

Maitec Comunicação (thousand euros)

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		8.0%	9.0%	10.0%	11.0%	12.0%
g	0.00%	16,431	13,356	10,898	8,889	7,217
	0.25%	17,089	13,855	11,286	9,198	7,467
	0.50%	17,790	14,384	11,696	9,522	7,728
	0.75%	18,540	14,944	12,127	9,861	8,001
	1.00%	19,343	15,539	12,582	10,218	8,286

* impairment if negative

Payshop (thousand euros)

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		8.8%	9.8%	10.8%	11.8%	12.8%
g	0.00%	72,569	64,720	58,330	53,030	48,563
	0.25%	74,471	66,221	59,541	54,024	49,391
	0.50%	76,488	67,803	60,811	55,062	50,253
	0.75%	78,629	69,472	62,143	56,146	51,151
	1.00%	80,907	71,236	63,543	57,281	52,086

* impairment if negative

10. INVESTMENTS IN SUBSIDIARY COMPANIES

During the years ended 31 December 2016 and 31 December 2015, the movements occurred in the **Company** in Investments in subsidiary companies were as follows:

	Company	
	2016	2015
Opening balance	65,166,836	42,644,640
Equity method - proportion of net income	(4,669,220)	(4,087,062)
Distribution of dividends	(8,580,799)	(7,917,720)
Other	51,059,883	34,526,978
Closing balance	102,976,700	65,166,836

The caption Other include the Banco CTT's share capital increases, occurred on 16 May 2016 and 24 October 2016, in the total amount of 51,000,000 Euros.

As at 31 December 2016 and 31 December 2015, the detail by company of Investments in subsidiary of the **Company** was as follows:

Company	% held	Assets	Liabilities	Equity	2016	Goodwill	Investments	Provisions	Proportion of net profit
					Net profit				
CTT Expresso, S.A.	100%	42,644,543	39,083,962	23,560,581	9,821,754	-	23,560,581	-	9,821,754
CTT Contacto, S.A.	100%	4,536,738	2,081,835	2,454,903	1,445,047	-	2,454,903	-	1,445,047
Payshop Portugal, S.A.	100%	9,644,371	2,375,635	7,268,736	5,452,364	406,301	7,268,736	-	5,452,364
Maltrec Comunicação S.A.	100%	6,686,450	2,761,244	3,925,206	245,828	7,294,638	3,925,206	-	245,828
CORRE - Correio Expresso Moçambique, S.A.	50%	1,799,265	1,640,994	(58,279)	(526,656)	-	-	79,135	(184,193)
Escrita Inteligente, S.A.	100%	164,691	95,975	68,716	(11,448)	-	412,316	-	(11,448)
Banco CTT, S.A.	100%	318,633,790	260,979,572	57,654,218	(21,438,570)	-	57,654,218	-	(21,438,570)
Tourline Express Mensajería, SLU	100%	18,724,336	23,851,162	(5,126,846)	(7,833,694)	-	-	6,833,694	-
						7,700,739	95,275,961	6,912,830	(4,669,220)

As referred in Note 8, 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..

Company	% held	Assets	Liabilities	Equity	2015	Goodwill	Investments	Provisions	Proportion of net profit
					Net profit				
CTT Expresso, S.A.	100%	48,851,852	35,113,025	13,738,828	(6,752,366)	-	13,738,828	-	(6,752,366)
CTT Contacto, S.A.	100%	5,056,112	1,879,064	3,177,048	2,367,192	-	3,177,049	-	2,367,192
Payshop Portugal, S.A.	100%	10,220,247	2,513,777	7,706,470	5,890,097	406,301	7,706,469	-	5,890,097
Maltrec Comunicação S.A.	100%	6,845,863	2,642,975	4,202,889	523,510	7,294,638	4,202,889	-	523,510
CORRE - Correio Expresso Moçambique, S.A.	50%	2,154,331	1,801,239	353,092	10,705	-	143,827	-	5,352
Escrita Inteligente, S.A.	100%	63,469	3,125	60,344	(10,639)	357,917	60,344	-	(362)
Banco CTT, S.A.	100%	311,900,030	3,111,235	28,078,775	(5,920,685)	-	28,078,775	-	(5,920,685)
						8,058,656	57,108,180	-	(4,087,062)

For the years ended 31 December 2016 and 31 December 2015, the net income in subsidiary companies arising from the application of the equity method, and stated under Gains/losses from subsidiaries, associated companies and joint ventures in the Income statement were recognised against the following items on the balance sheet:

	Company	
	2016	2015
Investment in subsidiaries		
CTT Expresso, S.A.	9,821,754	(6,752,166)
CTT Contacto, S.A.	1,445,047	2,167,192
Payshop Portugal, S.A.	5,452,364	5,890,097
Mailtec Comunicação S.A.	245,828	523,510
CORRE - Correio Expresso Moçambique, S.A.	(184,193)	5,352
Escrita Inteligente, S.A.	(25,765)	(362)
Banco CTT, S.A.	(21,438,570)	(5,920,685)
Tourline Express Mensajería, SLU	-	-
	<u>(4,683,537)</u>	<u>(4,087,062)</u>
Provisions - Investment in subsidiaries		
CORRE - Correio Expresso Moçambique, S.A.	79,135	-
Tourline Express Mensajería, SLU	6,833,694	-
	<u>6,912,830</u>	<u>-</u>

11. INVESTMENTS IN ASSOCIATED COMPANIES

For the years ended 31 December 2016 and 31 December 2015, the **Group** and the **Company** investments in associated companies had the following movements:

	Group		Company	
	2016	2015	2016	2015
Gross carrying value				
Opening balance	255,695	227,418	255,214	937,732
Equity method - proportion of net income	40,565	28,277	40,565	28,277
Other	-	-	-	(710,795)
Closing balance	<u>296,260</u>	<u>255,695</u>	<u>295,779</u>	<u>255,214</u>

As at 31 December 2016 and 31 December 2015, the detail by company of the **Group** and the **Company** investments in associated companies were as follows:

	Group		Company	
	2016	2015	2016	2015
Multicert, S.A.	295,779	255,214	295,779	255,214
Urpacsur, S.L.	481	481	-	-
	<u>296,260</u>	<u>255,695</u>	<u>295,779</u>	<u>255,214</u>

Group	2016				2016	Investments	Provisions	Proportion of net profit
	% held	Assets	Liabilities	Equity	Net profit			
Multicert - Serviços de Certificação Electrónica, S.A. ^(a)	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	40,565
Payshop Moçambique, S.A. ^(b)	35%	n.d.	n.d.	n.d.	n.d.	-	-	n.d.
Mafelosa, SL ^{(c) (d)}	25%	n.d.	n.d.	n.d.	n.d.	-	-	n.d.
Urpacsur ^{(c) (d)}	30%	n.d.	n.d.	n.d.	n.d.	481	-	n.d.
						<u>296,260</u>	<u>-</u>	<u>40,565</u>

^(a) Data reported as at December 2015

^(b) Company held by Payshop Portugal, which is in liquidation process

^(c) Companies held by Tourline Express Mensajería

^(d) Companies without activity

Group	2015							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. ^(a)	20%	2,767,973	1,491,901	1,162,488	113,584	255,214	-	28,277
Payshop Moçambique, S.A. ^(b)	35%	n.a.	n.a.	n.a.	n.a.	-	189,775	n.a.
Mafelosa, SL ^{(c)(d)}	25%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
Urpacsur ^{(c)(d)}	30%	n.a.	n.a.	n.a.	n.a.	481	-	n.a.
						<u>255,695</u>	<u>189,775</u>	<u>28,277</u>

^(a) Data reported as at December 2014

^(b) Company held by Payshop Portugal, which is in liquidation process

^(c) Companies held by Tourline Express Mensajeria

^(d) Companies without activity

Company	2016							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. ^(a)	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	40,565
						<u>295,779</u>	<u>-</u>	<u>40,565</u>

^(a) Data reported as at December 2015

Company	2015							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. ^(a)	20%	2,767,973	1,491,901	1,162,488	113,584	255,214	-	28,277
						<u>255,214</u>	<u>-</u>	<u>28,277</u>

^(a) Data reported as at December 2014

The amount of 40,565 Euros, recorded in the year ended 31 December 2016 relates to the portion of 2015 income that had not been recognised in that year regarding Multicert, S.A.. No additional movements occurred in this participation since the company does not have updated financial information.

For the years ended 31 December 2016 and 31 December 2015, the net income in associated companies arising from the application of the equity method, and stated under Gains/losses from subsidiaries, associated companies and joint ventures in the Income statement were recognised against the following items on the balance sheet:

	Group		Company	
	2016	2015	2016	2015
Investments in associated companies				
Multicert, S.A.	295,779	255,214	295,779	255,214
Urpacsur, S.L.	481	481	-	-
	<u>296,260</u>	<u>255,695</u>	<u>295,779</u>	<u>255,214</u>

12. INVESTMENTS IN JOINT VENTURES

As at 31 December 2016 and 31 December 2015, the detail of the **Group** and the **Company** investments in joint ventures were as follows:

Group	2016							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
PTP & F, ACE	51%	1,230	1,230	-	-	-	-	-
Ti-Post Prestação Serviços Informáticos, ACE ^(a)	-	-	-	-	-	-	-	-
NewPost, ACE ^(b)	49%	343,360	343,360	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>

^(a) The joint-venture has been dissolved during the year 2016

^(b) Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE

Group	2015							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
PTP & F, ACE	51%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
Ti-Post Prestação Serviços Informáticos, ACE	49%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
NewPost, ACE ^(a)	49%	644,541	644,541	n.a.	n.a.	-	-	n.a.
						<u>-</u>	<u>-</u>	<u>-</u>

^(a) Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE

Company	2016							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Ti-Post Prestação Serviços Informáticos, ACE ^(a)	-	-	-	-	-	-	-	-
NewPost, ACE ^(b)	49%	343,360	343,360	-	-	-	-	-
						<u>-</u>	<u>-</u>	<u>-</u>

^(a) The joint-venture has been dissolved during the year 2016

^(b) Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE

Company	2015							
	% held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Ti-Post Prestação Serviços Informáticos, ACE	49%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
NewPost, ACE ^(a)	49%	644,541	644,541	n.a.	n.a.	-	-	n.a.
						<u>-</u>	<u>-</u>	<u>-</u>

^(a) Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE

13. OTHER INVESTMENTS

The other investments include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost as at 31 December 2016 and 31 December 2015, in the **Group** and the **Company**, were as follows:

Company	Head office	Group and Company	
		2016	2015
IPC-International Post Corporation	Brussels - Belgium	6,157	6,157
Eurogiro Network	Copenhagen - Denmark	124,435	124,435
Tagus Park	Lisbon - Portugal	1,372,743	975,982
CEPT	Copenhagen - Denmark	237	237
		<u>1,503,572</u>	<u>1,106,812</u>

During the year, no impairment loss was recognised in these investments.

There are no market prices available for the mentioned investments and it is not possible to determine fair value in the period using comparable transactions. These instruments were not measured through discounted cash flows since these could not be reliably determined.

At the reporting date, the Group does not intend to sell any of these investments.

14. INVESTMENTS HELD TO MATURITY

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

	Group	
	2016	2015
Non-current		
Debt securities and other fixed-income securities		
Public issuers	78,863,164	-
Other issuers	15,122,951	-
	93,986,115	-
Current		
Debt securities and other fixed-income securities		
Public issuers	878,115	-
Other issuers	230,313	-
	1,108,428	-
	95,094,543	-

The analysis of the residual maturity of the investments held to maturity as at 31 December 2016, is detailed as follows:

	2016				
	Current	Non-current			Total
	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years	Undetermined
Debt securities and other fixed-income securities					
Public issuers	878,115	-	12,256,862	66,606,302	-
Other issuers	22,818	207,495	-	15,122,951	-
	900,933	207,495	12,256,862	81,729,253	-

15. FINANCIAL ASSETS AVAILABLE FOR SALE

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

	2016	2015
Non-current		
Debt securities and other fixed-income securities		
Public issuers	540,400	-
Other issuers	3,933,214	-
	4,473,614	-
Current		
Debt securities and other fixed-income securities		
Public issuers	139,180	-
Other issuers	1,834,531	-
	1,973,711	-
	6,447,325	-

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

	2016			
	Cost ⁽¹⁾	Fair value reserve		Impairment losses
		Positive	Negative	
Debt securities and other fixed-income securities				
Public-debt securities				
National	679,406	174	-	-
Foreign	-	-	-	-
Other issuers				
National	-	-	-	-
Foreign	5,754,445	13,300	-	-
	6,433,851	13,474	-	-

⁽¹⁾ Acquisition cost regarding shares and other equity instruments and amortised cost regarding debt securities.

	2016				
	Current		Non-current		
	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years	Undetermined
Debt securities and other fixed-income securities					
Public-debt securities					
National	14,866	124,314	-	540,400	-
Foreign	-	-	-	-	-
Other issuers					
National	-	-	-	-	-
Foreign	562,258	1,272,273	3,614,529	318,685	-
	<u>577,124</u>	<u>1,396,587</u>	<u>3,614,529</u>	<u>859,085</u>	<u>6,447,325</u>

16. OTHER BANKING FINANCIAL ASSETS

As at 31 December 2016 and 31 December 2015, the **Group** headings Other banking financial assets and Other banking financial liabilities showed the following composition:

	2016	2015
Current assets		
Investments in credit institutions	58,718,171	-
Other	336,132	-
	<u>59,054,303</u>	<u>-</u>
Current liabilities		
Other	1,218,205	-
	<u>1,218,205</u>	<u>-</u>

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

	2016	2015
Up to 3 months	42,111,692	-
From 3 to 6 months	4,500,135	-
From 6 to 12 months	12,106,344	-
	<u>58,718,171</u>	<u>-</u>

17. FINANCIAL RISK MANAGEMENT

The **Group** and the **Company** activities imply exposure to financial risks. Financial risk is defined as the probability of obtaining results that are different from those expected, whether positive or negative, thus changing the net worth of the Group in a material and unexpected way. Risk management focuses on the unpredictability of financial markets and seeks to mitigate the adverse effects arising from this unpredictability on the **Group** and the **Company's** financial performance.

Under the non-banking activity, financial risk management integrates the Risk Management System of the **Group** and the **Company** reporting directly to the Executive Committee. The departments of Finance and Risk Management and Accounting and Treasury ensure the centralised management of financing operations, investment of surplus liquidity, exchange transactions as well as the counterparty risk management of the Group and the monitoring of the foreign currency exchange rate risk, according to the policies approved by the Executive Committee. Additionally, they are responsible for the identification, assessment, proposal and implementation of mitigating measures of financial risks that the **Group** and the **Company** are exposed to. The **Group** and the **Company** are developing an integrated risk management system.

Under the banking activity, Banco CTT has an independent risk management system, based on a set of concepts, principles, rules and on an organizational model applicable and adjusted to the specificities and to the regulatory framework of its activity.

Banco CTT's risk management and internal control policy aims to maintain an adequate relationship between its equity and the activity developed, as well as the corresponding risk profile assessment / return by line of business.

In this context, it is relevant to monitor and control the main types of financial risks – credit, market, liquidity and operational – to which the Bank's activity is subject to.

The financial risks of particular importance include credit risk, market risk, interest and exchange rate risk as well as liquidity risk.

Credit risk

Credit risk essentially refers to the risk that a third party fails on its contractual obligations, resulting in financial losses to the **Group** and the **Company**. Thus, credit risk basically resides in the accounts receivable from customers and other debtors, related to its operating and treasury activities.

The deterioration of economic conditions or adversities which affect economies may lead to difficulty or incapacity of customers to pay their liabilities, with consequent negative effects on the net income of the Group companies. For this purpose, an effort has been made to reduce the average receivable term and amount of credit granted to clients.

Under the non-banking activity, credit risk management is based on a set of standards and guidelines, part of the Granting of credit to customers Regulation ("Regulamento de Concessão de Crédito a Clientes" (RCCC)) and comprises the processes of credit granting, monitoring and debt recovery.

Considering the guiding principles of the **Group** and the **Company** Risk Management, a methodology of credit risk assessment is defined which allows, a priori, and based on the information available at the time, to evaluate the customer's capacity to comply with all its obligations on time and within the conditions established. Based on this evaluation, a credit limit is defined for the customer, whose progress is regularly monitored.

The credit risk in the accounts receivable is monitored on a regular basis by each business of the Group companies and monthly monitored by the Credit Committee with the purpose of limiting the credit granted to customers, considering the respective profile and the ageing of receivable of each customer, ensuring the follow-up of the evolution of credit that has been granted, and analysing the recoverability of the receivables.

Regarding Banco CTT, it was defined and implemented an impairment model based on IAS 39 and the respective reference criteria of the Bank of Portugal defined in Circular Letter no. 2/2014. In addition, the model takes into account definitions and criteria that have been published by EBA and future IFRS 9 standards.

The monitoring of Banco CTT's credit risk profile, in particular with regard to the evolution of credit exposures and the monitoring of losses, is carried out on a regular basis by the Risk Committee. Compliance with approved credit requirements and limits are also subject to review on a regular basis.

The impairment losses for accounts receivable are calculated considering essentially: (i) the ageing of the accounts receivable; (ii) the risk profile of each client; and (iii) the financial situation of the client. The movement of impairment losses of accounts receivable is disclosed in Notes 25 and 46. As at 31 December 2016, the **Group** and the **Company** believe that impairment losses in accounts receivable are adequately estimated and recorded in the financial statements.

In addition, within the scope of treasury activities, the credit risk essentially results from the cash deposits investments made both by the **Group** and the **Company**. With the purpose of reducing that risk, the **Group** and the **Company** policy is to invest in short/medium-term periods negotiated with several financial institutions, all with a relatively high credit rating (considering the rating of the Portuguese Republic).

The **Group** and the **Company** credit risk quality, as at 31 December 2016, related to these types of assets (Cash and cash equivalents as stated in Note 23, excluding the cash value) whose counterparties are financial institutions are detailed as follows:

Rating ⁽¹⁾	2016	
	Group	Company
A1	4,874	4,874
A3	43,509	0
B ⁽²⁾	2,106	0
B1	119,114,463	113,913,008
B1-	12,739,433	12,429,735
B3	79,947,082	76,643,947
Ba1	56,565,353	30,241,344
Ba3	25,303,595	7,065,504
Baa1	12,418,210	464,426
Baa2	127,593,758	110,455,595
Baa3	35,937,968	8,172,264
BB- ⁽³⁾	10,001,263	10,001,263
BBB+ ⁽⁴⁾	768,763	768,763
Caa1	73,842,770	63,202,377
Outros ⁽⁵⁾	8,721,809	285,636
	<u>563,004,956</u>	<u>433,648,736</u>

⁽¹⁾ Rating assigned by Moody's.

⁽²⁾ Conversion of B rating by Fitch.

⁽³⁾ Conversion of BB- rating by Standard & Poor's.

⁽⁴⁾ Conversion of BBB+ rating by Fitch.

⁽⁵⁾ Others with no rating.

As at 31 December 2016, the **Group** and the **Company** caption Cash and cash equivalents included term deposits of 385,211,431 Euros and 374,203,045 Euros, respectively (508,153,791 Euros and 470,241,000 Euros as at 31 December 2015) (Note 23).

The following table includes the maximum exposure to credit risk associated with financial assets held by the **Group**. These amounts include only financial assets subject to credit risk and do not reconcile with the consolidated balance sheet:

	Group		Company	
	2016	2015	2016	2015
Non-current				
Investments held to maturity	93,986,115	-	-	-
Other assets	1,306,148	601,103	1,110,991	586,741
Financial assets available for sale	4,473,614	-	-	-
Current				
Accounts receivable	122,113,270	124,355,641	94,323,683	97,684,021
Credit to bank clients	7,103,905	-	-	-
Investments held to maturity	1,108,428	-	-	-
Other assets	19,660,308	12,590,310	18,226,686	12,056,248
Financial assets available for sale	1,973,711	-	-	-
Other banking financial assets	59,054,303	-	-	-
Cash and cash equivalents	563,004,956	576,218,894	433,648,736	532,167,006
	<u>873,784,759</u>	<u>713,765,948</u>	<u>547,310,095</u>	<u>642,494,016</u>

Interest rate risk

Interest rate risk is essentially related to the interest obtained from the application of surplus liquidity and to the determination, through the impact of the discount rate, of the estimate of employee benefit liabilities. Gains arising from financial operations are important, therefore changes in interest rates have a direct impact on the **Group** and the **Company** Interest income.

In order to leverage the period/rate relationship on one hand and the risk/yield relationship on the other hand, the **Group** and the **Company** monitor the market trends on a regular and systematic basis. Cash investments follow criteria of financial risk diversification, both at term and institution levels, which are regularly reviewed and updated.

In the **Group** the investment of surplus liquidity, on 31 December 2016 and 31 December 2015, generated interest income of 671,599 Euros and 1,483,388 Euros, respectively (Note 49). Additionally, interest income is recorded for financial services in the caption Other operating income, in the years of 2016 and 2015, amounting to 334,714 Euros and 516,707 Euros, respectively (Note 42).

In the **Company** the investment of surplus liquidity, on 31 December 2016 and 31 December 2015, generated interest income of 923,633 Euros and 1,912,543 Euros, respectively (Note 49). Additionally, interest income is recorded for financial services in the caption Other operating income, in the years of 2016 and 2015, amounting to 334,714 Euros and 516,707 Euros, respectively (Note 42).

The **Group** and the **Company** generally negotiate their deposits at fixed rates, while loans are negotiated at variable rates. Due to the reduced amount of its loans, the **Group** and the **Company** believe that the difference between the financial assets fixed rate and the floating rate of the financial liabilities does not represent a significant potential impact on the income statement.

If the interest rates had a variation of 0.25 b.p., during the year ended 31 December 2016, the effect in the interest would have been 544 thousand Euros in the **Group** and 708 thousand Euros in the **Company** (742 thousand Euros and 885 thousand Euros as at 31 December 2015, respectively).

Foreign currency exchange rate risk

Under the non-banking activity, exchange rate risk is related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing Rights (SDR) and the related changes on the fair value of the financial assets and liabilities, as a result of changes in foreign currency exchange rates.

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with the reference of previously defined objectives based on the evolution of the international business activities.

As at 31 December 2016 and 31 December 2015, the net exposure (assets minus liabilities) of the **Group** amounted to 3,351,568 SDR (4,274,389 Euros at the exchange rate €/SDR 1.27534), and 988,959 SDR (1,258,777 Euros at the exchange rate €/SDR 1.27283), respectively.

As far as the **Company** is concerned, as at 31 December 2016 and 31 December 2015, the net exposure (assets minus liabilities) amounted to 1,902,678 SDR (2,426,561 Euros at the exchange rate €/SDR 1.27534), and 72,075 SDR (91,739 Euros at the exchange rate €/SDR 1.27283), respectively.

In the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2016 and 31 December 2015, assuming an increase / decrease in the exchange rate € / SDR of 10%, the **Group's** profit and losses would have been higher by 427,439 Euros and lower by 125,878 Euros, respectively. The impact on the **Company's** profit and losses would have been higher by 242,656 Euros and lower by 9,174 Euros, respectively

Liquidity risk

Liquidity risk may occur if the funding sources, such as cash balances, operating cash flows and cash flows from divestment operations, credit lines and cash flows obtained from financial operations, do not match the Group's financial needs, such as cash outflows for operating and financing activities and investments and shareholder remuneration. Based on the cash flow generated by operations and the available cash on hand, the **Group** and the **Company** believe that they have the capacity to meet their obligations.

Their main contractual obligations are related to the financing obtained (essentially financial leases) and respective interest, the operating leases and other non-contingent financial commitments.

The following tables detail the expected contractual obligations and financial commitments as at 31 December 2016 and 31 December 2015 for the **Group** and the **Company** and do not reconcile with the balance sheet:

Group	2016			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	9,688,092	137,072	-	9,825,163
Accounts payable	434,568,171	-	-	434,568,171
Banking client deposits and other loans	253,944,840	-	-	-
Other current liabilities	24,036,928	-	-	24,036,928
Non-financial liabilities				
Operating leases (Note 44)	10,401,717	11,439,870	-	21,841,587
Non-contingent financial commitments ⁽¹⁾	7,375,965	-	-	7,375,965
	<u>740,015,712</u>	<u>11,576,941</u>	<u>-</u>	<u>497,647,814</u>
Group	2015			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	7,088,293	1,037,265	-	8,125,558
Accounts payable	426,809,193	-	-	426,809,193
Other current liabilities	30,650,178	-	-	30,650,178
Non-financial liabilities				
Operating leases (Note 44)	10,434,899	16,618,420	-	27,053,319
Non-contingent financial commitments ⁽¹⁾	9,906,104	-	-	9,906,104
	<u>484,888,667</u>	<u>17,655,685</u>	<u>-</u>	<u>502,544,352</u>

⁽¹⁾ The non-contingent financial commitments are essentially related to contracts signed with tangible fixed assets and intangible assets suppliers and a corresponding liability has not been recognised in the balance sheet (Notes 5 and 6).

Company	2016			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	725,593	-	-	725,593
Accounts payable	416,423,188	-	-	416,423,188
Other current liabilities	18,631,427	-	-	18,631,427
Non-financial liabilities				
Operating leases (Note 44)	8,776,335	8,239,453	-	17,015,788
Non-contingent financial commitments ⁽¹⁾	251,559	-	-	251,559
	<u>444,808,102</u>	<u>8,239,453</u>	<u>-</u>	<u>453,047,555</u>

Company	2015			
	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	469,999	726,294	-	1,196,293
Accounts payable	413,516,024	-	-	413,516,024
Shareholders	1613,944	-	-	1,613,944
Other current liabilities	26,166,116	-	-	26,166,116
Non-financial liabilities				
Operating leases (Note 44)	8,963,676	14,144,316	-	23,107,992
Non-contingent financial commitments ⁽¹⁾	696,588	-	-	696,588
	<u>451,426,347</u>	<u>14,870,610</u>	<u>-</u>	<u>466,296,957</u>

⁽¹⁾ The non-contingent financial commitments are essentially related to contracts signed with tangible fixed assets and intangible assets suppliers and a corresponding liability has not been recognised in the balance sheet (Notes 5 and 6).

Capital risk

The **Group** and the **Company** manage their capital to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the **Group** and the **Company** may adjust the amount of dividends paid to shareholders, issue new debt or sell assets to reduce debt.

The balance of capital structure is monitored on the basis of the adjusted solvency ratio, calculated as: Equity / Liabilities.

During the years ended 31 December 2016 and 2015, the **Group** and the **Company** maintained their high solvency ratio.

The solvency ratios at 31 December 2016 and 31 December 2015 were as follows:

	Group		Company	
	2016	2015	2016	2015
Equity	233,326,782	251,834,754	233,405,918	251,659,972
Liabilities	1,080,977,768	867,637,454	803,032,619	829,177,850
Amounts of third parties	323,505,539	324,650,604	323,505,539	324,650,604
Adjusted solvency ratio ⁽¹⁾	<u>30.8%</u>	<u>46.4%</u>	<u>48.7%</u>	<u>49.9%</u>

⁽¹⁾ Equity / (Liabilities - Amounts of third parties in Cash and cash equivalents)

The **Group's** solvency ratio, during the year ended 31 December 2016, was significantly impacted by Banco CTT's liabilities, namely by the caption Credit to banking clients, which justifies the reduction observed in this ratio. Therefore, if the effect of Banco CTT had not been considered the

solvency ratio would be 46.3% and 46.5% in the years ended 31 December 2016 and 2015, respectively.

Regarding Banco CTT, the definition of the strategy to be adopted in terms of capital management is the responsibility of the Board of Directors.

Banco CTT has developed and formalised its methodology for the Internal Capital Assessment Adequacy Process (ICAAP), in order to ensure that the risks to which it is exposed are adequately assessed and that the internal capital it has is adequate in view of its risk profile. The methods and procedures adopted are based on the assessment and quantification of internal capital and the risks through quantitative and qualitative methods.

Banco CTT seeks to achieve high financial solidity by maintaining a total own funds ratio – the ratio between own capital and risk-weighted assets – comfortably above 8.625% (which includes capital preservation buffer), corresponding to the legal minimum as set out in Directive no. 2013/36 / EU and EU Regulation no. 575 / 2013, adopted on 26 June 2013 by the European Parliament and the Council.

The referred EU Regulation no. 575 / 2013 comprises a set of transitional provisions allowing the phased application of the requirements, providing the possibility for credit institutions to gradually accommodate the new requirements both at the level of own funds and at the level of minimum capital ratios .

18. INVENTORIES

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** Inventories are detailed as follows:

	2016					
	Group			Company		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	4,561,582	1,565,187	2,996,395	4,048,936	1,483,947	2,564,990
Raw, subsidiary and consumable materials	2,944,342	579,327	2,365,015	2,642,023	531,560	2,110,463
Advances on purchases	46,275	-	46,275	46,275	-	46,275
	<u>7,552,199</u>	<u>2,144,514</u>	<u>5,407,685</u>	<u>6,737,234</u>	<u>2,015,507</u>	<u>4,721,728</u>

	2015					
	Group			Company		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	4,618,877	1,397,098	3,221,779	4,080,012	1,367,422	2,712,591
Raw, subsidiary and consumable materials	2,670,454	565,513	2,104,940	2,340,692	509,968	1,830,724
Advances on purchases	128,395	-	128,395	128,394	-	128,394
	<u>7,417,726</u>	<u>1,962,611</u>	<u>5,455,115</u>	<u>6,549,098</u>	<u>1,877,390</u>	<u>4,671,709</u>

Cost of sales

During the years ended 31 December 2016 and 31 December 2015, the details of Cost of sales related to the **Group** and the **Company**, were as follows:

	2016					
	Group			Company		
	Merchandise	Raw, subsidiary and consumable materials	Total	Merchandise	Raw, subsidiary and consumable materials	Total
Opening balance	4,618,877	2,670,454	7,289,331	4,080,012	2,340,692	6,420,704
Purchases	10,736,297	3,492,295	14,228,592	9,970,637	1,453,672	11,424,309
Offers	(33,177)	(19,695)	(52,872)	(33,177)	(19,695)	(52,872)
Adjustments	(122,069)	(142,439)	(264,508)	(122,068)	(142,439)	(264,507)
Impairment of inventories	197,765	13,814	211,579	116,525	21,592	138,117
Closing balance	(4,561,581)	(2,944,342)	(7,505,924)	(4,048,936)	(2,642,023)	(6,690,959)
Cost of sales	<u>10,836,112</u>	<u>3,070,087</u>	<u>13,906,199</u>	<u>9,971,173</u>	<u>1,003,619</u>	<u>10,974,792</u>

	2015					
	Group			Company		
	Merchandise	Raw, subsidiary and consumable	Total	Merchandise	Raw, subsidiary and consumable	Total
Opening balance	5,240,512	2,716,730	7,957,242	4,678,616	2,437,601	7,116,217
Purchases	13,256,802	3,206,079	16,462,881	12,351,740	1,447,096	13,798,836
Offers	(128,047)	(22,249)	(150,296)	(128,047)	(22,249)	(150,296)
Adjustments	(358,796)	(305,354)	(664,150)	(217,275)	(252,182)	(469,457)
Closing balance	(4,618,877)	(2,670,454)	(7,289,331)	(4,080,012)	(2,340,692)	(6,420,704)
Cost of sales	13,391,594	2,924,752	16,316,346	12,605,022	1,269,574	13,874,596

Impairment

During the years ended 31 December 2016 and 31 December 2015, the movements in the **Group** Accumulated impairment losses (Note 25) were as follows:

Group	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1397,098	198,203	(438)	(29,676)	1565,187
Raw, subsidiary and consumable materials	565,513	21,592	(7,778)	-	579,327
	<u>1962,611</u>	<u>219,795</u>	<u>(8,216)</u>	<u>(29,676)</u>	<u>2,144,514</u>

Group	2015				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,527,827	36,874	(129,402)	(38,201)	1,397,098
Raw, subsidiary and consumable materials	676,836	35,091	(146,414)	-	565,513
	<u>2,204,663</u>	<u>71,965</u>	<u>(275,816)</u>	<u>(38,201)</u>	<u>1,962,611</u>

For the years ended 31 December 2016 and 31 December 2015, impairment losses of inventories were recorded in the **Group** net of reversals amounting to 211,579 Euros and (203,851) Euros, respectively, in the caption Cost of sales.

In relation to the **Company**, during the years ended 31 December 2016 and 31 December 2015, the movements in Accumulated impairment losses (Note 25) were as follows:

Company	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,367,422	116,525	-	-	1,483,947
Raw, subsidiary and consumable materials	509,968	21,592	-	-	531,560
	<u>1,877,390</u>	<u>138,117</u>	<u>-</u>	<u>-</u>	<u>2,015,507</u>

Company	2015				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,489,626	-	(122,204)	-	1,367,422
Raw, subsidiary and consumable materials	656,380	-	(146,412)	-	509,968
	<u>2,146,006</u>	<u>-</u>	<u>(268,616)</u>	<u>-</u>	<u>1,877,390</u>

For the years ended 31 December 2016 and 31 December 2015, impairment losses of inventories were recorded in the **Company** net of reversals amounting to 138,117 Euros and (268,616) Euros, respectively, in the caption Cost of sales.

19. ACCOUNTS RECEIVABLE

As at 31 December 2016 and 31 December 2015 the **Group** and the **Company** heading Accounts receivable showed the following composition:

	Group		Company	
	2016	2015	2016	2015
Third parties	78,612,864	87,340,805	48,007,420	53,561,385
Postal operators	43,391,679	36,877,789	40,070,049	33,848,638
Group companies ⁽¹⁾	108,726	137,047	6,246,214	10,273,998
	<u>122,113,270</u>	<u>124,355,641</u>	<u>94,323,683</u>	<u>97,684,021</u>

⁽¹⁾ Includes subsidiary, associated and joint-ventures companies.

As at 31 December 2016 and 31 December 2015, the ageing of accounts receivable is detailed as follows:

	2016					
	Group			Company		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
<u>Accounts receivable</u>						
Non-overdue	62,406,680	111,575	62,295,105	45,285,440	111,575	45,173,865
Overdue ⁽¹⁾:						
0-30 days	11,116,694	90,023	11,026,671	7,144,634	90,023	7,054,611
30-90 days	10,764,588	193,049	10,571,539	6,883,729	192,643	6,691,086
90-180 days	2,268,369	476,384	1,791,984	985,243	468,907	516,335
180-360 days	17,090,040	693,249	16,396,791	16,822,857	495,752	16,327,105
> 360 days	48,776,423	28,745,244	20,031,180	21,618,284	3,057,603	18,560,681
	<u>152,422,794</u>	<u>30,309,524</u>	<u>122,113,270</u>	<u>98,740,186</u>	<u>4,416,504</u>	<u>94,323,683</u>
	2015					
	Group			Company		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
<u>Accounts receivable</u>						
Non-overdue	68,617,967	-	68,617,967	50,277,547	-	50,277,547
Overdue ⁽¹⁾:						
0-30 days	10,721,851	-	10,721,851	8,348,386	-	8,348,386
30-90 days	11,622,753	-	11,622,753	8,180,683	-	8,180,683
90-180 days	5,308,371	-	5,308,371	3,754,749	-	3,754,749
180-360 days	11,320,671	875,685	10,444,986	10,114,980	24,923	10,090,057
> 360 days	48,501,197	30,861,483	17,639,714	21,629,663	4,597,065	17,032,598
	<u>156,092,809</u>	<u>31,737,168</u>	<u>124,355,641</u>	<u>102,306,008</u>	<u>4,621,987</u>	<u>97,684,021</u>

⁽¹⁾ The amounts regarding the foreign operators, although being overdue over 360 days, are within the normal period for the presentation and regularisation of the accounts.

The net amount of the accounts receivable balances overdue over 360 days is broken down as follows:

	Group		Company	
	2016	2015	2016	2015
Other accounts receivable	412,718	396,387	443,695	1,227,234
Foreign operators	18,350,981	17,243,327	16,849,505	15,805,365
Total	18,763,699	17,639,714	17,293,200	17,032,599
Foreign operators - payable (Note 34)	(22,974,682)	(16,456,906)	(22,469,414)	(16,026,493)

The caption Foreign Operators relates to receivables associated with the distribution of postal items in Portugal with origin in other countries.

These operations fall within the scope of the regulations of the Universal Postal Union (UPU) that establishes the closing of the accounts on an annual basis which therefore is only made after the year end and originates the significant overdue balance with more than 360 days with these

customers. It should also be mentioned that the referred regulation establishes a period of up to 22 months for the presentation of the accounts and, therefore, the foreign operators balances reflect the expected trend of this specific business.

Regarding UPU regulations, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is mitigated by the accounts payable balances related to these entities and by the advance payments on the net receivables of the year (Note 34).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payable balances and customers with debt payment plans.

For the national customers, the bank guarantees and advance deposits coverage over the customers receivables increased from 0.8% at the end of 2015 to 2.3% on 31 December 2016, in the **Group** and from 1.0% on 31 December 2015 to 2.9% at the end of 2016 in the **Company**.

	Group		Company	
	2016	2015	2016	2015
Advance deposits	1,483,105	647,495	1,466,813	647,495
Bank guarantees	314,478	43,663	81,253	43,663
Total	1,797,583	691,159	1,548,066	691,159

Impairment losses

During the years ended 31 December 2016 and 31 December 2015, the movement in the **Group** Accumulated impairment losses caption (Note 25) was as follows:

Group	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	31,737,169	2,875,921	(2,267,005)	(2,036,561)	30,309,524
	<u>31,737,169</u>	<u>2,875,921</u>	<u>(2,267,005)</u>	<u>(2,036,561)</u>	<u>30,309,524</u>

Group	2015				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	30,498,785	4,625,870	(2,025,960)	(1,361,526)	31,737,169
	<u>30,498,785</u>	<u>4,625,870</u>	<u>(2,025,960)</u>	<u>(1,361,526)</u>	<u>31,737,169</u>

For the years ended 31 December 2016 and 31 December 2015, impairment losses of accounts receivable were recorded in the **Group** (net of reversals) amounting to 608,918 Euros and 2,599,910 Euros, respectively, in the caption Impairment of accounts receivable, net (Note 46).

During the years ended 31 December 2016 and 31 December 2015, the movement in Accumulated impairment losses caption (Note 25) of the **Company** was as follows:

Company	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	4,621,988	352,246	(310,637)	(247,093)	4,416,504
	<u>4,621,988</u>	<u>352,246</u>	<u>(310,637)</u>	<u>(247,093)</u>	<u>4,416,504</u>

Company	2015				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	5,000,427	164,956	(300,472)	(242,923)	4,621,988
	<u>5,000,427</u>	<u>164,956</u>	<u>(300,472)</u>	<u>(242,923)</u>	<u>4,621,988</u>

For the years ended 31 December 2016 and 31 December 2015, impairment losses of accounts receivable were recorded in the **Company** (net of reversals) amounting to 41,609 Euros and (135,516) Euros, respectively, in the caption Impairment of accounts receivable, net (Note 46).

20. CREDIT TO BANKING CLIENTS

As at 31 December 2016 and 31 December 2015, the **Group** caption Credit to banking clients was detailed as follows:

	Group	
	2016	2015
Domestic credit	7,104,322	-
Overdrafts	69,498	-
Factoring	7,034,824	-
Credit risk impairment	(417)	-
	<u>7,103,905</u>	<u>-</u>

Impairment losses

During the year ended 31 December 2016, the movement in the **Group** Accumulated impairment losses caption (Note 25) was as follows:

Group	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Credit to banking clients	-	417	-	-	417
	<u>-</u>	<u>417</u>	<u>-</u>	<u>-</u>	<u>417</u>

For the year ended 31 December 2016, impairment losses of Credit to banking clients were recorded in the **Group** (net of reversals) amounting to 417 Euros, respectively in the caption Impairment of accounts receivable, net (Note 46).

21. DEFERRALS

As at 31 December 2016 and 31 December 2015, the Deferrals included in current assets and current and non-current liabilities of the **Group** and the **Company** showed the following composition:

	Group		Company	
	2016	2015	2016	Restated 2015 *
Assets deferrals				
Current				
Rents payable	1,293,963	1,293,761	1,101,070	1,025,319
Meal allowances	1,668,745	1,701,736	1,668,745	1,701,736
Company Agreement - Supplementary agreement compensation	-	1,457,575	-	1,457,575
Other	3,166,223	3,715,517	2,168,180	2,817,640
	<u>6,128,931</u>	<u>8,168,589</u>	<u>4,937,995</u>	<u>7,002,270</u>
Liabilities deferrals				
Non-current				
Deferred capital gains	-	3,677,282	-	3,677,282
Deferred commissions	-	1,000,000	-	1,000,000
Investment subsidy	334,191	339,294	328,093	339,294
	<u>334,191</u>	<u>5,016,576</u>	<u>328,093</u>	<u>5,016,576</u>
Current				
Deferred capital gains	2,143,378	2,399,029	2,143,378	2,399,029
Phone-ix top ups	158,698	206,329	158,698	206,329
Deferred commissions	799,062	400,000	799,062	400,000
Investment subsidy	17,299	11,201	11,201	11,201
Altice agreement	-	9,583,333	-	6,388,889
Other	1,059,172	1,145,538	1,057,509	1,144,779
	<u>4,177,609</u>	<u>13,745,430</u>	<u>4,169,848</u>	<u>10,550,227</u>
	<u>4,511,800</u>	<u>18,762,007</u>	<u>4,497,941</u>	<u>15,566,803</u>

* Restated values: see note 3

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

During the years ended 31 December 2016 and 31 December 2015, the amounts of 3,394,833 Euros and 1,511,128 Euros, respectively, were recognised under Other operating income in the income statement, in each year, related to the above-mentioned gains.

The amount recognised in the year ended 31 December 2016 includes 1,725,642 Euros regarding Conde Redondo building as a result of the lease contract 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 31 December 2016 an amount of 799,062 Euros related to this contract was deferred.

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 income statement over the exclusive period for the negotiation of the partnerships. In the year ended 31 December 2016, the amounts of 9,583,333 Euros and 6,388,889 Euros, were recognised under Other operating income of the **Group** and the **Company**, respectively, related to this contract.

22. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2016, the amount of 8,756,999 Euros accounted in the caption Non-current assets held for sale relates to real estate located in Rua de S. José, subject to a promissory share-purchase agreement in December 2016 which states the operation's completion within 12 months and were, according to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, reclassified to this caption.

As described in the referred standard, the associated depreciations of the real estate have ceased.

As at 31 December 2016 and 31 December 2015, there were no operations classified as discontinued operations.

23. CASH AND CASH EQUIVALENTS

As at 31 December 2016 and 31 December 2015, Cash and cash equivalents correspond to the value of cash, sight deposits, term deposits and cash investments on the monetary market, net of bank overdrafts and equivalent short-term bank financing, and is detailed as follows:

	Group		Company	
	2016	2015	2016	2015
Cash	55,806,142	27,430,823	41,419,386	27,375,713
Sight deposits	67,627,214	67,920,196	59,445,691	61,926,006
Deposits in other credit institutions	106,373,978	-	-	-
Sight deposits in Banco of Portugal	3,792,334	15,847	-	-
Financial assets available for sale	-	129,060	-	-
Term deposits	385,211,431	508,153,791	374,203,045	470,241,000
Cash and cash equivalents (Balance sheet)	618,811,099	603,649,717	475,068,122	559,542,719
Bank overdrafts	-	-	-	-
Sight deposits at Bank of Portugal	(3,792,334)	-	-	-
Outstanding checks / Checks clearing	(1,173,518)	-	-	-
Cash and cash equivalents (Cash flow statement)	613,845,248	603,649,717	475,068,122	559,542,719

24. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2016 and 31 December 2015, the headings Other non-current assets and Other current assets of the **Group** and the **Company** had the following composition:

	Group		Company	
	2016	2015	2016	Restated 2015*
Non-current				
Advances to staff	420,140	466,086	420,140	466,086
Other receivables from staff	2,136,596	1,558,326	2,136,596	1,558,326
INESC loan	-	347,021	-	347,021
Labour compensation fund	157,157	49,527	107,674	35,165
Other non-current assets	340,541	191,853	-	-
Impairment	(1,748,286)	(2,011,710)	(1,553,419)	(1,819,857)
	<u>1,306,148</u>	<u>601,103</u>	<u>1,110,991</u>	<u>586,741</u>
Current				
Advances to suppliers	426,429	312,05	413,045	17,859
Advances to staff	4,000,289	2,736,705	4,004,036	2,735,621
INESC loan	-	49,740	-	49,740
Postal financial services	8,611,516	6,372,504	8,611,516	6,372,504
State and other public entities	308,834	2,523,671	124	2,502,186
Debtors by accrued revenues	8,143,083	4,784,068	7,232,076	4,251,090
Amounts collected on CTT behalf	1,258,411	1,211,810	1,381,321	1,458,432
Guaranteed	223,370	232,289	-	-
CGA reimbursements	-	11,598	-	11,598
Advances to lawyers	150,041	143,603	-	-
Debtors by asset disposals	111,294	124,734	111,294	124,734
Philatelic agents	-	45,486	-	45,486
Payshop agents	447,961	456,001	-	-
Mobility allowances for Autonomous Regions	3,559,130	2,824,438	3,559,130	2,824,438
Office for media	1,602,406	494,216	1,602,406	494,216
Compensations	84,588	100,588	-	-
Sundry debtors	227,969	169,646	227,969	169,646
Other current assets	9,051,927	9,104,698	7,418,691	7,904,327
Impairment	(8,173,677)	(8,480,056)	(6,776,775)	(7,099,641)
	<u>30,033,571</u>	<u>22,936,943</u>	<u>27,784,833</u>	<u>21,862,237</u>

* Restated values: see note 3

The amounts recorded in the caption Postal financial services refer to receivables from the redemption of saving products and the sale of insurance.

Debtors by accrued revenues

As at 31 December 2016 and 31 December 2015, the debtors by accrued revenues refer to accrued interest, amounts not invoiced namely regarding postal financial services, philatelic products, philatelic agents and other amounts.

Impairment

For the years ended 31 December 2016 and 31 December 2015, the movement in the **Group** Accumulated impairment losses (Note 25) was as follows:

Group	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	10,095,004	524,261	(691,210)	(6,092)	-	9,921,963
INESC loan	396,761	-	(396,761)	-	-	-
	<u>10,491,765</u>	<u>524,261</u>	<u>(1,087,971)</u>	<u>(6,092)</u>	<u>-</u>	<u>9,921,963</u>

Group	2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	10,882,923	539,816	(1,500,571)	(9,530)	182,366	10,095,004
INESC loan	421,631	-	(24,870)	-	-	396,761
	<u>11,304,554</u>	<u>539,816</u>	<u>(1,525,441)</u>	<u>(9,530)</u>	<u>182,366</u>	<u>10,491,765</u>

For the years ended 31 December 2016 and 31 December 2015, impairment losses (increases net of reversals) of Other current and non-current assets amounted to (563,710) Euros and (985,625) Euros, respectively, were booked under the heading Impairment of accounts receivable, net (Note 46).

Regarding the **Company**, during the years ended 31 December 2016 and 31 December 2015, the movement in the Accumulated impairment losses caption (Note 25) was as follows:

Company	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	8,522,736	459,471	(652,013)	-	-	8,330,194
INESC loan	396,761	-	(396,761)	-	-	-
	8,919,497	459,471	(1,048,774)	-	-	8,330,194

Company	2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	8,610,979	379,305	(467,548)	-	-	8,522,736
INESC loan	421,631	-	(24,870)	-	-	396,761
	9,032,610	379,305	(492,418)	-	-	8,919,497

For the years ended 31 December 2016 and 31 December 2015, impairment losses of Other current and non-current assets were recorded in the **Company** (net of reversals) amounting to (589,303) Euros and (113,113) Euros, respectively in the caption Impairment of accounts receivable, net (Note 46).

25. ACCUMULATED IMPAIRMENT LOSSES

During the years ended 31 December 2016 and 31 December 2015, the following movements occurred in the **Group's** impairment losses:

Group	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	296,769	-	(123,714)	-	-	173,055
Investment properties	1,282,622	12,491	(3,615)	-	-	1,291,498
	1,579,391	12,491	(127,329)	-	-	1,464,553
Other non-current assets	1,472,836	83,597	-	-	191,853	1,748,286
INESC loan	347,021	-	(347,021)	-	-	-
	1,819,857	83,597	(347,021)	-	191,853	1,748,286
	3,399,248	96,088	(474,350)	-	191,853	3,212,839
Current assets						
Accounts receivable	31,737,169	2,875,921	(2,267,005)	(2,036,561)	-	30,309,524
Credit to bank clients	-	417	-	-	-	417
Other current assets	8,622,168	440,664	(691,210)	(6,092)	(191,853)	8,173,677
INESC loan	49,740	-	(49,740)	-	-	-
	40,409,077	3,317,002	(3,007,955)	(2,042,653)	(191,853)	38,483,618
Merchandise	1,397,098	198,203	(438)	(29,676)	-	1,565,187
Raw, subsidiary and consumable	565,513	21,592	(7,778)	-	-	579,327
	1,962,611	219,795	(8,216)	(29,676)	-	2,144,514
	42,371,688	3,536,797	(3,016,171)	(2,072,329)	(191,853)	40,628,132
	45,770,936	3,632,885	(3,490,521)	(2,072,329)	-	43,840,971

Group	2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	420,483	-	(123,714)	-	-	296,769
Investment properties	1,450,025	246,789	(414,192)	-	-	1,282,622
	1,870,508	246,789	(537,906)	-	-	1,579,391
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
	3,663,400	298,624	(562,776)	-	-	3,399,248
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
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
	42,215,110	5,185,816	(3,802,347)	(1,409,257)	182,366	42,371,688
	45,878,510	5,484,440	(4,365,123)	(1,409,257)	182,366	45,770,936

Regarding the **Company**, during the years ended 31 December 2016 and 31 December 2015, the movement in the Accumulated impairment losses was as follows:

Company	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	296,769	-	(123,714)	-	-	173,055
Investment properties	1,282,622	119,559	(110,683)	-	-	1,291,498
	<u>1,579,391</u>	<u>119,559</u>	<u>(234,397)</u>	<u>-</u>	<u>-</u>	<u>1,464,553</u>
Other non-current assets	1,472,836	80,582	-	-	-	1,553,418
INESC loan	347,021	-	(347,021)	-	-	-
	<u>1,819,857</u>	<u>80,582</u>	<u>(347,021)</u>	<u>-</u>	<u>-</u>	<u>1,553,418</u>
	3,399,248	200,141	(581,418)	-	-	3,017,971
Current assets						
Accounts receivable	4,621,988	352,246	(310,637)	(247,093)	-	4,416,504
Other current assets	7,049,900	378,889	(652,013)	-	-	6,776,776
INESC loan	49,740	-	(49,740)	-	-	-
	<u>11,721,628</u>	<u>731,135</u>	<u>(1,012,390)</u>	<u>(247,093)</u>	<u>-</u>	<u>11,193,280</u>
Merchandise	1,367,422	116,525	-	-	-	1,483,947
Raw, subsidiary and consumable	509,968	21,592	-	-	-	531,560
	<u>1,877,390</u>	<u>138,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,015,507</u>
	13,599,018	869,252	(1,012,390)	(247,093)	-	13,208,787
	16,998,266	1,069,393	(1,593,808)	(247,093)	-	16,226,758
Company	2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	420,483	-	(123,714)	-	-	296,769
Investment properties	1,450,025	246,789	(414,192)	-	-	1,282,622
	<u>1,870,508</u>	<u>246,789</u>	<u>(537,906)</u>	<u>-</u>	<u>-</u>	<u>1,579,391</u>
Other non-current assets	1,421,001	51,835	-	-	-	1,472,836
INESC loan	371,891	-	(24,870)	-	-	347,021
	<u>1,792,892</u>	<u>51,835</u>	<u>(24,870)</u>	<u>-</u>	<u>-</u>	<u>1,819,857</u>
	3,663,400	298,624	(562,776)	-	-	3,399,248
Current assets						
Accounts receivable	5,000,427	164,956	(300,472)	(242,923)	-	4,621,988
Other current assets	7,189,978	327,470	(467,548)	-	-	7,049,900
INESC loan	49,740	-	-	-	-	49,740
	<u>12,240,145</u>	<u>492,426</u>	<u>(768,020)</u>	<u>(242,923)</u>	<u>-</u>	<u>11,721,628</u>
Merchandise	1,489,626	-	(122,204)	-	-	1,367,422
Raw, subsidiary and consumable	656,380	-	(146,412)	-	-	509,968
	<u>2,146,006</u>	<u>-</u>	<u>(268,616)</u>	<u>-</u>	<u>-</u>	<u>1,877,390</u>
	14,386,151	492,426	(1,036,636)	(242,923)	-	13,599,018
	18,049,551	791,050	(1,599,412)	(242,923)	-	16,998,266

26. EQUITY

As at 31 December 2016, the Company 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 31 December 2016 and 31 December 2015 the Company's shareholders with greater than or equal to 2% shareholdings were as follows:

Shareholder		2016		
		No. of shares	%	Nominal value
Gestmin SGPS, S.A. ⁽¹⁾		14,576,115	9.717%	7,288,058
Manuel Carlos de Melo Champalimaud		284,885	0.190%	142,443
Manuel Carlos de Melo Champalimaud	Total	14,861,000	9.907%	7,430,500
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%	
BNP Paribas Investment Partners Luxembourg S.A. ⁽⁴⁾			2.972%	
BNP Paribas Asset Management SAS ⁽⁴⁾			1197%	
BNP Paribas Investment Partners S.A.	Total	7,502,430	5.002%	3,751,215
Norges Bank	Total	7,422,099	4.948%	3,711,050
BlackRock, Inc. ⁽⁵⁾	Total	4,961,965	3.308%	2,480,983
F&C Asset Management plc ⁽⁶⁾		3,124,801	2.083%	1,562,401
Banco de Montreal ⁽⁶⁾	Total	3,124,801	2.083%	1,562,401
Kames Capital PLC ⁽⁷⁾	Total	3,022,170	2.015%	1,511,085
Wilmington Capital, S.L. ⁽⁸⁾		3,020,368	2.014%	1,510,184
Indumenta Pueri, S.L. ⁽⁸⁾	Total	3,020,368	2.014%	1,510,184
CTT, S.A. (own shares) ⁽⁹⁾	Total	600,531	0.400%	300,266
Other shareholders	Total	87,924,346	58.616%	43,962,173
Total		150,000,000	100.000%	75,000,000

(1) Shareholding directly and indirectly attributable to 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) 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 attachments of the qualifying holding press releases, available at: <http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1#panel2-1>

(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) Kames Capital PLC is acting as investment manager for Scottish Equitable PLC, Royal County of Berkshire Pension Fund, Kames Capital Investment Company (Ireland) PLC and Kames Capital ICVC and is the nominated holder of the voting rights and custodian of the shares to which voting rights are attached.

(8) Wilmington Capital, S.L. is controlled by Indumenta Pueri, S.L..

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

Shareholder		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 L1MULTI-ASSET INCOME ⁽⁵⁾		287,384	0.192%	143,692
BNP PARIBAS SMALLCAP EUROLAND ⁽⁵⁾		1,569,016	10.46%	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 Pensioenfond 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	1363%	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 Pensioenfond 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 324 of the Portuguese Companies Code.

27. 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 31 December 2016, the Company held 600,531 own shares, acquired in June 2015 and in March and August 2016, which represented 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.

In the years ended 31 December 2016 and 31 December 2015, 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 31December 2016	600,531	5,097,536	8.488

	Quantity	Value	Average price
Balance at 31December 2014	-	-	-
Acquisitions	200,177	1,873,125	9.357
Disposals	-	-	-
Balance at 31December 2015	200,177	1,873,125	9.357

Reserves

As at 31 December 2016 and 31 December 2015, the **Group's** and **Company's** heading Reserves showed the following composition:

	2016					2015				
	Group		Company			Group		Company		
	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total
Opening balance	18,072,559	1,873,125	(540)	13,438,968	33,384,112	18,072,559	1,873,125	-	13,438,968	33,384,652
Own shares acquisitions	-	3,224,411	-	(3,224,411)	-	-	3,224,411	-	(3,224,411)	-
Assets fair value	-	-	14,014	-	14,014	-	-	-	-	-
Share Plan	-	-	-	1,493,546	1,493,546	-	-	-	1,493,546	1,493,546
Closing balance	18,072,559	5,097,536	13,474	11,708,102	34,891,671	18,072,559	5,097,536	-	11,708,102	34,878,197

	2015					2015				
	Group					Company*				
	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total
Opening balance	38,072,559	-	-	13,701,408	31,773,967	38,072,559	-	-	13,701,408	31,773,967
Own shares acquisitions	-	1,873,125	-	(1,873,125)	-	-	1,873,125	-	(1,873,125)	-
Assets fair value	-	-	(540)	-	(540)	-	-	-	-	-
Share Plan	-	-	-	1,610,685	1,610,685	-	-	-	1,610,685	1,610,685
Closing balance	38,072,559	1,873,125	(540)	13,438,968	33,384,112	38,072,559	1,873,125	-	13,438,968	33,384,652

* Restated values: see note 3

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 31 December 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.

As at 31 December 2016 and 31 December 2015 and 2014, this heading also records the amount recognised in these years 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 total amount of 4,480,638 Euros.

Retained earnings

During the years ended 31 December 2016 and 31 December 2015, the following movements were made in the **Group** and the **Company** heading Retained earnings:

	Group		Company	
	2016	2015	2016	Restated 2015*
Opening balance	91,727,994	84,374,563	91,727,994	84,374,563
Application of the net profit of the prior year	72,065,283	77,171,128	72,065,283	77,171,128
Distribution of dividends (Note 28)	(70,264,792)	(69,750,000)	(70,264,792)	(69,750,000)
Adjustments from the application of the equity method	19,820	109,622	19,820	109,622
Other movements	40,906	(177,319)	54,380	(177,319)
Closing balance	93,589,211	91,727,994	93,602,685	91,727,994

* Restated values: see note 3

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 32).

Thus, for the years ended 31 December 2016 and 31 December 2015, the movements occurred in this heading in the **Group** and in the **Company** were as follows:

	Group and company	
	2016	Restated 2015*
Opening balance	(18,644,832)	(18,786,310)
Actuarial gains/losses - Healthcare (Note 32)	(11,827,990)	114,181
Tax effect - Healthcare (Note 50)	3,334,998	27,297
Closing balance	(27,137,824)	(18,644,832)

* Restated values: see note 3

28. 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, for the financial year ended 31 December 2015. The dividend was paid on 25 May 2016. The dividend amount assigned to own shares was transferred to Retained earnings, totalling 235,208 Euros.

	2016
Assigned dividends	70,500,000
Dividends assigned to own shares	(235,208)
Dividends paid	<u>70,264,792</u>

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 the financial year ended 31 December 2014 was proposed and approved. The dividend was paid on 29 May 2015.

29. EARNINGS PER SHARE

During the years ended 31 December 2016 and 31 December 2015, the earnings per share were calculated as follows:

	2016	2015
Net income for the period	62,160,395	72,065,283
Average number of ordinary shares	149,527,101	149,883,331
Earnings per share		
Basic	0.42	0.48
Diluted	0.42	0.48

The average number of shares is detailed as follows:

	2016	2015
Shares issued at beginning of the period	150,000,000	150,000,000
Own shares effect	472,899	116,669
Average number of shares during the period	<u>149,527,101</u>	<u>149,883,331</u>

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 31 December 2016, the number of own shares held is 600,531 and its average number for the year ended 31 December 2016 is 472,899, reflecting the fact that the acquisition of own shares occurred in June 2015, March and August 2016.

There are no dilutive factors of earnings per share.

30. NON-CONTROLLING INTERESTS

During the years ended 31 December 2016 and 31 December 2015, the following movements occurred in non-controlling interests:

	2016	2015
Opening balance	175,322	(323,703)
Net profit for the year attributable to non-controlling interest	(263,328)	5,352
Other movements	8,871	493,673
Closing balance	(79,135)	175,322

As at 31 December 2016 and 31 December 2015, non-controlling interests related to the following companies:

	2016	2015
Correio Expresso de Moçambique, S.A.	(79,135)	175,222
	(79,135)	175,222

31. DEBT

As at 31 December 2016 and 31 December 2015, Debt of the **Group** and the **Company** showed the following composition:

	Group		Company	
	2016	2015	2016	2015
Non-current liabilities				
Bank loans	87,202	95,241	-	-
Leasing	39,943	940,281	-	724,845
	127,145	1,035,522	-	724,845
Current liabilities				
Bank loans	8,726,161	6,028,197	-	-
Leasing	953,668	1,049,958	724,749	462,968
	9,679,829	7,078,155	724,749	462,968
	9,806,974	8,113,677	724,749	1,187,813

As at 31 December 2016, the interest rates applied to finance leases were between 0.23% and 0.51% (31 December 2015: between 0.60% and 0.83%) and the interest rates applied to other loans were between 1.09% and 2.25% (31 December 2015: 0.06% and 2.10%).

Bank loans and other loans

As at 31 December 2016 and 31 December 2015, the details of the **Group** bank loans were as follows:

Group	2016			2015		
Financing entity	Limit	Amount used		Limit	Amount used	
		Current	Non-current		Current	Non-current
Bank loans						
Banco Sabadell (Spain)	400,000	-	-	400,000	-	-
BBVA (Spain)	500,000	-	-	500,000	-	-
Millennium BCP	9,750,000	8,726,161	-	9,750,000	5,991,565	-
BIM - (Mozambique)	218,270	-	-	218,270	-	-
BIM - (Mozambique)	131,873	-	87,202	131,873	36,632	95,241
Other loans						
Millennium BCP	-	-	-	5,400,000	-	-
BIM - (Mozambique)	77,861	-	-	77,861	-	-
Moza Banco (Mozambique)	25,954	-	-	25,954	-	-
	11,103,958	8,726,161	87,202	16,503,958	6,028,197	95,241

The financing negotiated with Spanish banks is intended to finance the operating activity of the subsidiary Tourline, subject to Eonia interest rate.

Leasings

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** have the following assets under finance leases:

	2016			2015		
	Group			Company		
	Gross amount	Depreciation/accumulated impairment losses	Carrying amount	Gross amount	Depreciation/accumulated impairment losses	Carrying amount
Land	9,425,895	815,990	8,609,905	7,798,567	815,990	6,982,577
Buildings and other constructions	4,963,685	1,498,212	3,465,473	81,701	33,616	48,085
Transport equipment	19,371	18,854	517	-	-	-
	<u>14,408,951</u>	<u>2,333,056</u>	<u>12,075,895</u>	<u>7,880,268</u>	<u>849,606</u>	<u>7,030,662</u>

	2015			2014		
	Group			Company		
	Gross amount	Depreciation/accumulated impairment losses	Carrying amount	Gross amount	Depreciation/accumulated impairment losses	Carrying amount
Land	9,425,895	815,990	8,609,905	7,798,567	815,990	6,982,577
Buildings and other constructions	4,963,685	1,397,118	3,566,567	81,701	30,162	51,539
Transport equipment	19,371	18,854	517	-	-	-
	<u>14,408,951</u>	<u>2,231,962</u>	<u>12,176,989</u>	<u>7,880,268</u>	<u>846,152</u>	<u>7,034,116</u>

The key contracts are the following:

CTT, S.A. is the lessee, under a leasing contract signed with IMOLEASING – Sociedade de Locação Financeira Imobiliária, S.A., of a property in the municipality of Maia (Porto) where the Mail Sorting Centre is located. The type of lease contract determines its classification as a lease, namely the fact there is an option to buy it for a residual value of approximately 6% of the contract value considered significantly lower than the estimated market value at the end of the contract. There are no contingent rents payable nor any restrictions.

The subsidiary CTT Expresso is the lessee of a property located in Perafita (Matosinhos) where is located the Operating Centre of the Northern Region, which includes an option to buy the asset at the end of the contract for a residual value considered significantly lower than the estimated market value at the end of the contract.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the call option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** liabilities with financial lease contracts presented the following plan of due dates:

	2016			2015		
	Group			Company		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	953,668	8,263	961,931	724,749	844	725,593
Due between 1 to 5 years	39,943	9,927	49,870	-	-	-
Over 5 years	-	-	-	-	-	-
	<u>993,611</u>	<u>18,190</u>	<u>1,011,801</u>	<u>724,749</u>	<u>844</u>	<u>725,593</u>

	2015			2014		
	Group			Company		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	1,049,958	9,996	1,059,954	462,968	4,031	466,999
Due between 1 to 5 years	940,281	1,742	942,023	724,845	1,449	726,294
Over 5 years	-	-	-	-	-	-
	<u>1,990,239</u>	<u>11,738</u>	<u>2,001,977</u>	<u>1,187,813</u>	<u>5,480</u>	<u>1,193,293</u>

For the years ended 31 December 2016 and 31 December 2015, the values paid by the **Group** in relation to leasing interest amounted to 7,014 Euros and 18,201 Euros, respectively. In the **Company**, for the same periods, the amounts paid were 2,958 Euros and 8,084 Euros, respectively.

32. EMPLOYEE BENEFITS

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

During the years ended 31 December 2016 and 31 December 2015, the **Group** and the **Company** liabilities presented the following movement:

	2016					2015				
	Group			Company		Group			Company	
	Liabilities		Total	Equity		Liabilities		Total	Equity	
	Healthcare	Other long-term employee benefits		Other long-term benefits statutory bodies	Total	Healthcare	Other long-term employee benefits		Other long-term benefits statutory bodies	Total
Opening balance	236,806,000	23,039,344	259,845,344	2,987,092	262,832,436	236,806,000	23,000,540	259,806,540	2,987,092	262,793,632
Movement of the period	12,304,399	(4,313,362)	7,990,837	1,493,546	9,484,383	12,304,399	(4,274,558)	8,029,641	1,493,546	9,523,387
Closing balance	249,110,399	18,725,982	267,836,381	4,480,638	272,316,819	249,110,399	18,725,982	267,836,381	4,480,638	272,316,819

	2015					2014				
	Group			Company		Group			Company	
	Liabilities		Total	Equity		Liabilities		Total	Equity	
	Healthcare	Other long-term employee benefits		Other long-term benefits statutory bodies	Total	Healthcare	Other long-term employee benefits		Other long-term benefits statutory bodies	Total
Opening balance	241,366,000	36,125,547	277,291,547	1,376,407	278,667,954	241,366,000	35,956,617	277,322,617	1,376,407	278,499,024
Movement of the period	(4,360,000)	(13,086,203)	(17,446,203)	1,630,685	(15,835,538)	(4,360,000)	(12,956,078)	(17,316,078)	1,630,685	(15,705,393)
Closing balance	236,806,000	23,039,344	259,845,344	2,987,092	262,832,436	236,806,000	23,000,540	259,806,540	2,987,092	262,793,632

The heading Other long-term benefits essentially refers to the on-going staff reduction programme and to the benefit 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 the **Group** and the **Company** liabilities related to employee benefits, considering their classification, are as follows:

	Group		Company	
	2016	2015	2016	2015
Equity (Other reserves)	4,480,638	2,987,092	4,480,638	2,987,092
Non-current liabilities	250,445,608	241,306,773	250,445,608	241,306,773
Current liabilities	17,390,573	18,538,572	17,390,573	18,499,767
	272,316,819	262,832,437	272,316,819	262,793,632

As at 31 December 2016 and 31 December 2015, the costs related to employee benefits recognised in the consolidated and individual income statement and the amount recognised directly in Other changes in equity were as follows:

	Group		Company	
	2016	2015	2016	2015
Costs for the period				
Healthcare	10,439,535	9,942,000	10,439,535	9,942,000
Other long-term employee benefits	(873,135)	(7,075,980)	(878,989)	(7,104,436)
Other long-term benefits statutory bodies	1,493,546	1,610,685	1,493,546	1,610,685
	11,059,946	4,476,705	11,054,092	4,448,249
Other changes in equity	(11,827,990)	114,181	(11,827,990)	114,181
Healthcare	(11,827,990)	114,181	(11,827,990)	114,181

Healthcare

As mentioned in Note 2.19, 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, an actuarial study has been performed as at 31 December 2016.

The main assumptions followed in the **Group** and the **Company** actuarial study were:

	2016	2015
Financial assumptions		
Discount rate	2.00%	2.50%
Salaries expected growth rate	2.25%	2.25%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006 (with Δ GDP < 2%)
Inflation rate	150%	150%
Health costs growth rate		
- Inflation rate	150%	150%
- Growth due to ageing	2.00%	2.00%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with healthcare.

The decrease of the discount rate to 2.00% is motivated by the **Group** and the **Company** analysis of the evolution of the macroeconomic context taking into account a constant need to match the actuarial and financial assumptions to that reality.

The salaries expected growth rate is determined according to the salary policy defined by the **Group** and the **Company**.

The pensions expected growth rate is determined considering the estimated evolution of inflation and GDP growth rate.

The healthcare costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

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

	2016	2015	2014	2013	2012
Liabilities at the end of the period	249,110,199	236,806,000	241,166,000	263,371,000	252,803,000

For the years ended 31 December 2016 and 31 December 2015, the movement which occurred in the present value of the defined benefits liability regarding the healthcare plan was as follows:

	Group and Company	
	2016	2015
Opening balance	236,806,000	241,166,000
Service cost of the year	3,977,000	4,042,000
Interest cost of the year	5,793,000	5,900,000
Plan amendment	1,369,535	-
Pensioners contributions	4,985,801	5,113,703
(Payment of benefits)	(14,980,969)	(18,654,596)
(Other costs)	(668,158)	(646,926)
Actuarial (gains)/losses	11,827,990	(114,181)
Closing balance	249,110,199	236,806,000

Under the human resources optimisation process (Note 45) some employees are no longer considered in the IOS healthcare plan ("*Instituto das Obras Sociais*") being from that date onwards covered by an insurance policy with the same coverages of the IOS healthcare plan and the same monthly contributions and co-payments in the existing terms. This revised plan has been considered as an amendment to the plan and therefore recognised in profit and loss under the caption Staff costs.

The total costs for the period were recognised as follows:

	Group and Company	
	2016	2015
Staff costs/ employee benefits (Note 45)	3,978,377	3,395,074
Other costs	668,158	646,926
Interest expenses (Note 49)	5,793,000	5,900,000
	10,439,535	9,942,000

As at 31 December 2016, the actuarial (gains)/losses in the amount of 11,827,990 Euros ((114,181) Euros as at 31 December 2015) were recognised in equity under Other changes in equity, net of deferred taxes of 3,334,998 Euros ((27,297) Euros as at 31 December 2015).

In this respect, the amount of the actuarial (gains)/losses accounted in 31 December 2016 regard to the change of discount rate and to the revision of the healthcare costs.

The best estimate the **Group** and the **Company** have at this date for costs related to the healthcare plan, which they expect to recognise in the next annual period is 9,415 thousand Euros.

The sensitivity analysis performed for the healthcare plan leads to the following conclusions:

- If there was an increase of 1 per cent in the growth rate of medical costs and keeping all other variables constant, the liabilities of the healthcare plan would be 310,253 thousand Euros, increasing by approximately 24.5%.
- If the discount rate was reduced 0.5 per cent and keeping all the remaining variables constant, the liabilities would increase by approximately 8.2%, amounting to 269,537 thousand Euros.
- The use of adjusted mortality tables, differentiated between men and women (Men TV 73/77 (-2) and Women TV 88/90 (-3)), holding everything else constant, could translate

into an increase of the health care plan liability for past services of about 5.2% amounting to a total of 261,942 thousand Euros.

Other long-term employee benefits

As mentioned in Note 2.19, in certain situations, the **Group** and the **Company** 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 was 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. As at 31 December 2016, an actuarial study was requested to an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the assessment of the **Group** and the **Company** liabilities were:

	2016	2015
Financial assumptions		
Discount rate	2.00%	2.50%
Salaries growth rate (Suspension of contracts)	2.25%	2.25%
Pensions growth rate (Pension for work accidents, Monthly life annuity)	150%	150%
Inflation rate	150%	150%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE

For the determination of the Group's liabilities to employees in situations of Suspension of contracts, redeployment and release of employment, salary growth rates of 2.25% were considered for 2015 and following years. For the benefits Monthly life annuity and Pensions for work accidents the pensions growth rate was 1.50% since under an analysis performed to these benefits' historical data it was concluded that updates were normally associated with the upgrades of the Portuguese Harmonised Index of Consumer Prices (HICP). Regarding the remaining benefits, Telephone subscription fee and Support for termination of professional activity, no growth rate was considered since these benefits are not updated.

For the years ended 31 December 2016 and 31 December 2015, the movement of **Group** and the **Company** liabilities with other long-term employee benefits was as follows:

	Group		Company	
	2016	2015	2016	2015
Suspension of contracts, redeployment and release of employment				
Opening balance	8,234,231	17,810,243	8,195,426	17,641,312
Interest cost of the period	171,857	379,359	171,614	374,291
Liabilities relative to new beneficiaries	774,529	-	774,529	-
Curtailment	(616,318)	(4,782,194)	(616,318)	(4,782,194)
(Payment of benefits)	(3,505,008)	(5,187,776)	(3,460,349)	(5,029,195)
Actuarial (gains)/losses	435,541	14,599	429,930	(8,788)
Closing balance	5,494,833	8,234,231	5,494,833	8,195,426
Telephone subscription fee				
Opening balance	4,518,270	4,832,775	4,518,270	4,832,775
Interest cost of the period	107,145	114,854	107,145	114,854
Plan amendment	(1,513,395)	-	(1,513,395)	-
(Payment of benefits)	(173,293)	(216,939)	(173,293)	(216,939)
Actuarial (gains)/losses	(832,898)	(212,420)	(832,898)	(212,420)
Closing balance	2,105,828	4,518,270	2,105,828	4,518,270
Pension for work accidents				
Opening balance	6,863,591	8,161,400	6,863,591	8,161,400
Interest cost of the period	166,338	198,665	166,338	198,665
(Payment of benefits)	(436,651)	(472,298)	(436,651)	(472,298)
Actuarial (gains)/losses	756,028	(1,024,176)	756,028	(1,024,176)
Closing balance	7,349,306	6,863,591	7,349,306	6,863,591
Monthly life annuity				
Opening balance	3,423,253	5,282,395	3,423,253	5,282,395
Interest cost of the period	84,398	130,698	84,398	130,698
(Payment of benefits)	(97,352)	(97,925)	(97,352)	(97,925)
Actuarial (gains)/losses	365,716	(1,891,915)	365,716	(1,891,915)
Closing balance	3,776,015	3,423,253	3,776,015	3,423,253
Support for cessation of professional activity				
Opening balance	-	38,734	-	38,735
Interest cost of the period	-	484	-	484
(Payment of benefits)	-	(35,284)	-	(35,285)
Actuarial (gains)/losses	-	(3,934)	-	(3,934)
Closing balance	-	-	-	-
Total	18,725,982	23,039,344	18,725,982	23,000,540

During the years ended 31 December 2016 and 31 December 2015, the total costs for the year were recognised as follows:

	Group		Company	
	2016	2015	2016	2015
Staff costs/employee benefits (Note 45)				
Suspension of contracts, redeployment and release of employment	(178,324)	(4,767,595)	(183,935)	(4,790,982)
Telephone subscription fee	(2,346,293)	(212,420)	(2,346,293)	(212,420)
Pension for work accidents	756,028	(1,024,176)	756,028	(1,024,176)
Monthly life annuity	365,716	(1,891,915)	365,716	(1,891,915)
Support for cessation of professional activity	-	(3,934)	-	(3,934)
subtotal	(1,402,873)	(7,900,040)	(1,408,484)	(7,923,428)
Interest expenses (Note 49)	529,738	824,060	529,495	818,992
	(873,135)	(7,075,980)	(878,989)	(7,104,436)

In the year ended 31 December 2016, following the analysis of the historical data of the monthly medical costs per beneficiary and the number of beneficiaries of the Telephone subscription fee performed by the independent expert, a liability reduction was recorded in the amount of 2,369,824 Euros in the heading Staff costs since it related to long-term employee benefits.

Following the renegotiation of the conditions related to workers in situations of Suspension of contracts, redeployment and release of employment, CTT recorded a liability reduction in the amount of 616,318 Euros and 4,782,194 Euros, respectively, as at 31 December 2016 and 31 December 2015.

Under the referred human resources optimisation process, the **Company** recognised an increase of the liabilities related to the payment of salaries in situations of Suspension of contracts, redeployment and release of employment in the amount of 774,529 Euros related to a number of suspension of contracts agreements.

The actuarial losses regarding long-term employee benefits recognised as at 31 December 2016 mainly relates to the decrease of the discount rate which, according to IAS 19 – Employee benefits, were recognised in the caption Staff costs in the income statement.

As a result of the pensions growth rate change 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 is reflected in results in Staff costs.

The best estimate that the Company has at this date for costs with other long-term benefits, which it expects to recognise in the next year is 343,841 Euros.

The sensitivity analysis performed on 31 December 2016 for the Other long-term benefits leads to the conclusion that, if the discount rate was reduced by 50 b.p., keeping everything else constant, this would give rise to an increase in liabilities for past services of approximately 5.00%, increasing to 19,662 thousand Euros.

Other long-term benefits for the Statutory Bodies

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 (Note 2.19). The number of shares to be allocated to members of 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 of 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 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 of 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, as at 31 December 2016, CTT recorded a cost of 1,493,546 Euros corresponding to the period from 1 January 2016 to 31 December 2016, booked against Other reserves.

33. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the years ended 31 December 2016 and 31 December 2015, in order to face legal proceedings and other liabilities arising from past events, the **Group** and the **Company** recognised provisions, which showed the following movement:

Group	2016					Closing balance
	Opening balance	Increases	Reversals	Utilisations	Transfers	
Non-current provisions						
Litigations	9,102,699	1,929,078	(5,715,244)	(2,093,786)	1,615,805	4,838,552
Onerous contracts	14,358,103	139,058	(6,613,918)	(7,883,243)	-	-
Other provisions	17,035,233	180,942	(6,263,597)	(47,842)	(1,615,805)	9,288,931
	<u>40,496,035</u>	<u>2,249,078</u>	<u>(18,592,759)</u>	<u>(10,024,871)</u>	<u>-</u>	<u>14,127,483</u>
Investments in subsidiary and associated companies	189,775	-	(189,775)	-	-	-
Restructuring	46,522	-	-	(46,522)	-	-
	<u>40,732,332</u>	<u>2,249,078</u>	<u>(18,782,534)</u>	<u>(10,071,393)</u>	<u>-</u>	<u>14,127,483</u>

Group	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

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to 16,343,680 Euros and (277,313) Euros as at 31 December 2016 and 2015, respectively.

Company	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	8,312,828	1,661,889	(4,346,619)	(2,057,169)	915,662	4,486,591
Onerous contracts	13,899,390	139,058	(6,607,600)	(7,430,848)	-	0
Other provisions	14,513,084	-	(4,652,716)	(16,825)	(915,662)	8,927,881
	36,725,302	1,800,947	(15,606,935)	(9,504,842)	-	13,414,472
Investments in subsidiary and associated companies	-	6,912,830	-	-	-	6,912,830
	36,725,302	8,713,777	(15,606,935)	(9,504,842)	-	20,327,302

Company	2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	9,351,816	1,672,045	(2,523,272)	(1,600,929)	1,413,169	8,312,828
Onerous contracts	15,943,847	1,184,032	(670,798)	(2,557,691)	-	13,899,390
Other provisions	16,113,431	981,272	(890,000)	(278,450)	(1,413,169)	14,513,084
	41,409,094	3,837,349	(4,084,070)	(4,437,070)	-	36,725,302
Investments in subsidiary and associated companies	306,162	-	-	(306,162)	-	-
	41,715,256	3,837,349	(4,084,070)	(4,743,232)	-	36,725,302

The net amount between increases and reversals of provisions was recorded in the individual income statement under the caption Provisions, net and amounted to 13,805,988 Euros and (246,722) Euros as at 31 December 2016 and 2015, respectively.

Litigations

The provisions for litigations were set up to face the liabilities resulting from lawsuits brought against the **Group** and the **Company** and are estimated based on information from their lawyers as well as on the termination of the mentioned lawsuits.

Onerous Contracts

Following the termination of the Conde Redondo 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 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 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 31 December 2016 there are no amounts, at **Group** or **Company** level, recognised as onerous contracts. As at 31 December 2015 these amounts to 14,358,103 Euros and 13,899,390 Euros, respectively.

Other provisions

As at 31 December 2016 the provision, in the **Group** and the **Company**, to cover any contingencies relating to labour litigation proceedings not included in the current court proceedings related to remuneration differences and attendance bonuses that can be claimed by workers, amounts to 8,130,479 Euros (15,142,991 Euros and 12,991,795 Euros as at 31 de December de 2015, respectively).

The reversals recognised in CTT, S.A. include the result of the review of the calculation methodology associated with this provision through the incorporation of additional historical data, namely, information regarding the outcome of the legal proceedings.

At CTT Expresso, S.A., as a result of the favourable outcome of the court actions, in 2016, the probability of the provision was revised and the total amount of the provision, amounting to 2.1 million Euros, was reversed. Therefore, in 2016, these proceedings become to be considered as contingent liabilities.

As at 31 December 2015, in addition to the previously mentioned situations, this heading also includes in the **Group** and the **Company**:

- the amount of 187,654 Euros to cover costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the site;
- the amount of 278,381 Euros in the **Group** and 274,210 Euros in the **Company**, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in subsidiary and 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 31 December 2016 results from the **Group** assessment in which it concluded that the previously existing obligations are no longer maintained.

The provision for investments in subsidiary companies corresponds to the assumption by the **Company** of legal or constructive obligations regarding the subsidiaries CORRE - Correio Expresso Moçambique, S.A. and Tourline Express Mensajería, SLU.

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. The process 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 implemented. This provision was recorded under the heading Staff costs in the consolidated income statement.

Guarantees provided

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

Description	Group		Company	
	2016	2015	2016	2015
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174	3,030,174	3,030,174
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	2,033,582	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886	1,792,886	1,792,886
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	1,523,201	1,523,201	1,523,201
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	1,274,355	1,274,355	1,274,355
Autoridade Tributária e Aduaneira	590,000	590,000	590,000	590,000
Lisboagás, S.A.	190,000	190,000	-	-
Autarquias	183,677	183,677	183,677	183,677
Courts	167,107	200,087	145,887	172,867
Solred	80,000	80,000	-	-
ACT Autoridade Condições Trabalho	58,201	59,395	58,201	59,395
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000	-	-
INCM - Imprensa Nacional da Casa da Moeda	46,167	-	-	-
Fonavi, Nave Hospitalet	40,477	40,477	-	-
Record Rent a Car (Cataluña, Levante)	40,000	40,000	-	-
ANA - Aeroportos de Portugal	34,000	34,000	34,000	34,000
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180	30,180	30,180
SetGás, S.A.	30,000	30,000	-	-
Other entities	29,992	7,694	-	-
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433	-	-
EMEL, S.A.	19,384	19,384	-	-
Direção Geral do Tesouro e Finanças	16,867	16,867	16,867	16,867
Portugal Telecom, S.A.	16,658	16,657	16,658	16,657
Instituto de Gestão Financeira Segurança Social	16,406	-	16,406	12,681
Águas do Porto, E.M	10,720	10,720	-	-
SMAS Torres Vedras	9,909	2,808	7,101	-
Imobiliária Ederkin	7,998	7,800	-	-
Promodois	6,273	6,273	6,273	6,273
TNT Express Worldwide	6,010	6,010	-	-
Estradas de Portugal, EP	5,000	5,000	5,000	5,000
Consejería Salud	4,116	6,433	-	-
Instituto do emprego e formação profissional	3,718	3,718	-	-
IFADAP	1,746	1,746	1,746	1,746
Águas de Coimbra	870	870	870	870
EURO BRIDGE-Sociedade Imobiliária, Lda	-	2,944,833	-	2,944,833
PT PRO - Serv Adm Gestao Part, S.A.	-	50,000	-	-
ARM - Águas e Resíduos da Madeira, SA	-	12,681	-	-
REN Serviços, S.A.	-	9,818	-	-
Universidad Sevilla	-	4,237	-	-
	<u>11,371,107</u>	<u>14,336,996</u>	<u>10,767,064</u>	<u>13,729,244</u>

Guarantees for lease Contracts

According to the terms of some lease contracts of the buildings occupied by the **Company'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 31 December 2016 (12,599,031 Euros as at 31 December 2015) in the **Group** and the **Company**. The decrease in the value of the guarantees provided is mainly explained by the termination of the lease contract of the Conde Redondo building, the guarantee of which amounted to 2,944,833 Euros.

Commitments

As at 31 December 2016 and 31 December 2015, the **Group** subscribed promissory notes amounting to approximately 40.2 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** and the **Company** also assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros regarding the subsidiary Tourline and regarding the subsidiary Corre in the amount of 87,202 Euros, which are still active as at 31 December 2016.

As at 31 December 2015, the **Group** and the **Company** assumed commitments regarding the sponsoring of “Taça da Liga” (League Football Cup) in the amount of 1.4 million Euros.

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

The **Group** and the **Company** contractual commitments related to Tangible fixed assets and Intangible assets are detailed respectively in Notes 5 and 6.

34. ACCOUNTS PAYABLE

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** heading Accounts payable showed the following composition:

	Group		Company	
	2016	2015	2016	Restated 2015*
Non-current				
Other accounts payable	375,379	-	375,379	-
	<u>375,379</u>	<u>-</u>	<u>375,379</u>	<u>-</u>
Current				
Advances from customers	3,039,657	3,043,051	3,025,041	3,027,486
CNP money orders	200,238,100	218,478,956	200,238,100	218,478,956
Suppliers	65,044,068	67,989,193	56,763,575	58,268,535
Invoices pending confirmation	8,559,890	9,834,805	5,188,920	6,619,310
Fixed assets suppliers	13,684,684	6,717,094	9,853,992	4,855,181
Invoices pending confirmation (fixed assets)	6,206,806	5,311,267	5,975,153	5,311,267
Values collected on behalf of third parties	8,955,667	5,881,304	6,524,493	5,881,304
Postal financial services	131,878,955	112,544,152	131,878,955	112,544,152
Customers deposits	-	52,422	-	-
Other accounts payable	7,255,873	6,039,433	7,111,748	5,419,959
	<u>444,863,700</u>	<u>435,891,677</u>	<u>426,559,977</u>	<u>420,406,149</u>
	<u>445,239,079</u>	<u>435,891,677</u>	<u>426,935,356</u>	<u>420,406,149</u>

* Restated values: see note 3

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 will occur in the month after the closing of the year.

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 as at 31 December 2016 is largely explained by the significant volume of subscription of savings/treasury certificates occurred in December 2016.

Suppliers and fixed assets suppliers

As at 31 December 2016 and 31 December 2015 the **Group** and the **Company** heading Suppliers showed the following composition:

	Group		Company	
	2016	2015	2016	2015
Other suppliers	24,775,505	30,016,791	15,350,811	20,239,343
Postal operators	40,255,896	37,972,402	39,112,081	36,622,929
Group companies ⁽¹⁾	12,667	-	2,300,683	1406,263
	<u>65,044,068</u>	<u>67,989,193</u>	<u>56,763,575</u>	<u>58,268,535</u>

⁽¹⁾ Includes subsidiary, associated and joint-ventures companies.

As at 31 December 2016 and 31 December 2015, the ageing of the **Group** and the **Company** balance of the headings Suppliers and Fixed assets suppliers is detailed as follows:

	Group		Company	
	2016	2015	2016	2015
Suppliers				
Non-overdue	21,756,069	22,897,539	16,568,629	16,735,686
Overdue ⁽¹⁾:				
0-30 days	4,836,160	6,425,563	3,069,261	4,782,144
30-90 days	3,238,063	12,499,262	3,010,650	11,756,875
90-180 days	1,266,746	1,423,112	930,853	1,164,070
180-360 days	10,097,799	8,255,781	9,941,867	7,803,267
> 360 days	23,849,230	16,487,936	23,242,315	16,026,493
	65,044,068	67,989,193	56,763,575	58,268,535

⁽¹⁾ The amounts regarding the foreign operators, although being overdue over 360 days, are within the normal period for the presentation and regularisation of the accounts.

	Group		Company	
	2016	2015	2016	2015
Fixed assets suppliers				
Non-overdue	11,894,436	6,325,283	8,431,578	4,609,702
Overdue:				
0-30 days	1,295,524	241,226	1,212,583	169,914
30-90 days	311,145	42,735	86,847	41,677
90-180 days	54,198	-	54,198	-
180-360 days	70,948	-	30,167	-
> 360 days	58,432	107,850	38,619	33,887
	13,684,684	6,717,094	9,853,992	4,855,181

The increase in the caption Fixed assets suppliers is directly related to the investment in basic equipment, with particular emphasis on the acquisition of vehicles and office equipment.

The current amount of accounts payable overdue over 360 days is as follows:

	Group		Company	
	2016	2015	2016	2015
Other suppliers	874,548	310,30	772,902	-
Foreign operators	22,974,682	16,456,906	22,469,414	16,026,493
Total	23,849,230	16,487,936	23,242,315	16,026,493
Foreign operators - receivable (Nota 19)	(18,350,981)	(17,243,327)	(16,849,505)	(15,805,365)

The balances between Foreign Operators are cleared by netting accounts. These amounts are related to the accounts receivable balances related to these entities (Note 19).

35. BANKING CLIENT DEPOSITS AND OTHER LOANS

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

	Group	
	2016	2015
Sight deposits	114,041,001	-
Term deposits	8,486,356	-
Savings deposits	131,417,483	-
	<u>253,944,840</u>	<u>-</u>

The above mentioned amounts relate to Banco CTT clients' deposits. As at 31 December 2016, the residual maturity of banking client deposits and other loans, is detailed as follows:

	2016				
	In cash	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years
Sight deposits	114,041,001	-	-	-	-
Term deposits	-	73,693,366	57,724,117	-	-
Savings deposits	-	8,486,356	-	-	-
	<u>114,041,001</u>	<u>82,179,722</u>	<u>57,724,117</u>	<u>-</u>	<u>-</u>
					<u>253,944,840</u>

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.

36. OTHER CURRENT LIABILITIES

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** heading Other current liabilities showed the following composition:

	Group		Company	
	2016	2015	2016	Restated 2015*
Current				
Estimated holiday pay, holiday subsidy and other remunerations	43,661,282	49,152,091	39,083,054	45,614,014
Estimated supplies and external services	24,036,928	30,650,178	18,631,427	26,166,116
Staff	58,708	-	16,690	-
State and other public entities	-	-	-	-
Value Added Tax	2,460,642	1,405,729	1,806,370	-
Personal income tax withholdings	3,251,340	3,367,641	2,929,183	3,074,365
Social Security contributions	5,191,423	5,139,856	4,702,091	4,710,392
Caixa Geral de Aposentações	751,533	776,789	740,839	776,789
Local Authority taxes	554,515	515,275	554,515	515,275
Other taxes	8,534	577	143	577
Other	2,587,820	784,739	2,818,889	555,628
	<u>82,562,725</u>	<u>91,792,877</u>	<u>71,283,201</u>	<u>81,413,156</u>

* Restated values: see note 3

The decrease in the heading Estimated holiday pay, holiday subsidy and other remunerations mainly relates to the reduction in the accrual for variable remunerations to be attributed regarding 2016.

The amount considered in the heading Estimated supplies and external services as at 31 December 2015 results essentially from the increase in accrued costs following a transitional process adaptation situation by the new supplier of the Healthcare Plan management, which does not apply in 2016.

37. INCOME TAXES RECEIVABLE /PAYABLE

As at 31 December 2016 and 31 December 2015 the **Group** and the **Company** heading Income taxes receivable and Income taxes payable showed the following composition:

	Group		Company	
	2016	2015	2016	Restated 2015*
Current assets				
Corporate income tax	3,587,614	-	3,569,641	-
	3,587,614	-	3,569,641	-
Current liabilities				
Corporate income tax	-	7,922,942	-	7,923,944
	-	7,922,942	-	7,923,944
	3,587,614	(7,922,942)	3,569,641	(7,923,944)

* Restated values: see note 3

The **Company's** current assets and current liabilities relative to corporate income tax were calculated as follows:

	Company	
	2016	Restated 2015*
Estimated income tax	(19,644,847)	(24,882,795)
Estimated Group companies' income tax	695,532	(3,568,585)
Payments on account	21,720,696	19,332,653
Withholding taxes	798,260	1,194,783
	3,569,641	(7,923,944)

* Restated values: see note 3

38. FINANCIAL ASSETS AND LIABILITIES

As at 31 December 2016 and 31 December 2015, the categories of financial assets and liabilities regarding the **Group** were broken down as follows:

Group	2016				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments (Note 13)	-	1,503,572	-	-	1,503,572
Non - current investments held to maturity (Note 14)	-	-	-	-	93,986,115
Other non - current assets (note 24)	1,306,148	-	-	-	1,306,148
Non - current financial assets available for sale (Note 15)	-	4,473,614	-	-	4,473,614
Accounts receivable (Note 19)	122,113,270	-	-	-	122,113,270
Credit to bank clients (Note 20)	7,103,905	-	-	-	7,103,905
Current investments held to maturity (Note 14)	-	-	-	-	1,108,428
Other current assets (Note 24)	19,133,946	-	-	10,899,625	30,033,571
Current financial assets available for sale (Note 15)	-	1,973,711	-	-	1,973,711
Other banking financial assets (Note 16)	58,718,171	-	-	336,132	59,054,303
Cash and cash equivalents (Note 23)	618,811,099	-	-	-	618,811,099
Total Financial assets	827,186,539	7,950,897	-	11,235,757	941,467,736
Liabilities					
Non - current accounts payable (Note 34)	-	-	127,145	-	127,145
Medium and long term debt (Note 31)	-	-	434,568,170	10,295,530	444,863,700
Current accounts payable (Note 34)	-	-	253,944,840	-	253,944,840
Banking client deposits and other loans (Note 35)	-	-	9,679,829	-	9,679,829
Short term debt (Note 31)	-	-	26,683,455	55,879,270	82,562,725
Cash and cash equivalents (Note 36)	-	-	-	-	-
Total Financial liabilities	-	-	725,003,439	66,550,179	791,553,618

Group	2015				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments (Note 13)	-	1,106,812	-	-	1,106,812
Other non - current assets (Note 24)	601,103	-	-	-	601,103
Accounts receivable (Note 19)	124,355,641	-	-	-	124,355,641
Other current assets (Note 24)	12,590,310	-	-	10,346,633	22,936,943
Cash and cash equivalents (Note 23)	603,649,717	-	-	-	603,649,717
Total Financial assets	741,996,771	1,106,812	-	10,346,633	752,650,215
Liabilities					
Medium and long term debt (Note 31)	-	-	1035,522	-	1035,522
Accounts payable (Note 34)	-	-	426,756,771	9,134,906	435,891,677
Short term debt (Note 31)	-	-	7,078,155	-	7,078,155
Cash and cash equivalents (Note 36)	-	-	31,434,918	60,357,959	91,792,877
Total Financial liabilities	-	-	466,305,366	69,492,865	535,798,231

The **Group** believes that the fair value of its financial assets and liabilities is similar to its book value, with the exception of the following caption:

	2016		2015	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments held to maturity	95,094,543	94,701,870	-	-

Regarding the **Company**, as at 31 December 2016 and 31 December 2015, the categories of financial assets and liabilities were broken down as follows:

Company	2016				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments (Note 13)	-	1503,572	-	-	1503,572
Shareholders (Note 51)	8,025,158	-	-	822,241	8,847,398
Other non-current assets (Note 24)	110,991	-	-	-	110,991
Accounts receivable (Note 19)	94,323,683	-	-	-	94,323,683
Other current assets (Note 24)	18,226,686	-	-	9,558,147	27,784,833
Cash and cash equivalents (Note 23)	475,068,122	-	-	-	475,068,122
Total Financial assets	596,754,640	1503,572	-	10,380,388	608,638,599
Liabilities					
Non-current accounts payable (Note 34)	-	-	416,423,188	10,136,789	426,559,977
Current accounts payable (Note 34)	-	-	-	7,341,360	7,341,360
Shareholders (Note 51)	-	-	-	-	-
Short term debt (Note 31)	-	-	724,749	-	724,749
Cash and cash equivalents (Note 36)	-	-	21,467,007	49,816,194	71,283,201
Total Financial liabilities	-	-	438,614,944	67,669,722	506,284,666

Company	2015				
	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets/liabilities	Total
Assets					
Other investments (Note 13)	-	1,106,812	-	-	1,106,812
Shareholders (Note 51)	9,029,828	-	-	101,393	10,041,221
Other non-current assets (Note 24)	586,741	-	-	-	586,741
Accounts receivable (Note 19)	97,684,021	-	-	-	97,684,021
Other current assets (Note 24)	12,056,246	-	-	9,805,991	21,862,237
Cash and cash equivalents (Note 23)	559,542,719	-	-	-	559,542,719
Total Financial assets	678,899,556	1,106,812	-	10,817,383	690,823,751
Liabilities					
Medium and long term debt (Note 31)	-	-	724,845	-	724,845
Accounts payable (Note 34)	-	-	413,516,025	6,890,124	420,406,149
Shareholders (Note 51)	-	-	-	1613,945	1613,945
Short term debt (Note 31)	-	-	462,968	-	462,968
Cash and cash equivalents (Note 36)	-	-	26,521,741	54,891,413	81,413,154
Total Financial liabilities	-	-	441,225,580	63,395,481	504,621,061

The **Company** believes that the fair value of its financial assets and liabilities is similar to its book value.

39. SUBSIDIES OBTAINED

As at 31 December 2016 and 31 December 2015, the information regarding European Union subsidies or grants (Note 2.22) to the **Group** and the **Company** was as follows:

Subsidy	2016									
	Group					Company				
	Attributed amount	Received amount	Amount to be received	Accumulated income	Amount to be used	Attributed amount	Received amount	Amount to be received	Accumulated income	Amount to be used
Investment subsidy	9,833,915	9,680,599	153,316	9,482,425	351,490	9,815,622	9,662,306	153,316	9,476,327	339,295
Operating subsidy	94,486	94,486	-	94,486	-	70,864	70,864	-	70,864	-
	9,928,401	9,775,085	153,316	9,576,911	351,490	9,886,486	9,733,170	153,316	9,547,192	339,295

Subsidy	2015					Company ⁽¹⁾				
	Attributed amount	Received amount	Amount to be received	Accumulated income	Amount to be used	Attributed amount	Received amount	Amount to be received	Accumulated income	Amount to be used
Investment subsidy	9,833,915	9,680,599	153,316	9,465,126	368,789	9,815,622	9,662,306	153,316	9,465,126	350,496
Operating subsidy	94,486	94,486	-	94,486	-	70,864	70,864	-	70,864	-
	<u>9,928,401</u>	<u>9,775,085</u>	<u>153,316</u>	<u>9,559,612</u>	<u>368,789</u>	<u>9,886,486</u>	<u>9,733,170</u>	<u>153,316</u>	<u>9,535,991</u>	<u>350,496</u>

* Restated values: see note 3

The amounts received as investment subsidy – FEDER – are recognised in the income statement, under the heading Other operating income, as the corresponding assets are amortised.

The financial contribution of the Instituto do Emprego e da Formação Profissional, I.P. ("Institute of Employment and Professional Training") ("IEFP"), received under the Employment Internships Programme configures the typology of Grants related to income or operational expenses and is recognised as revenue in the same period of the related expense.

The amounts received were initially deferred (Note 21) and transferred to the income statement to the caption Other operating income, to the extent that the expenses were recognised.

40. SALES AND SERVICES RENDERED

For the years ended 31 December 2016 and 31 December 2015, the significant categories of the **Company** revenue were as follows:

	Company	
	2016	2015
Sales	19,247,627	22,892,730
Mail services rendered	447,593,802	461,183,181
Postal financial services	51,693,802	54,725,404
Electronic vehicle identification devices	6,111,035	6,054,633
Telecommunication services	926,045	1,283,540
Other services	5,485,005	4,839,931
	<u>531,057,316</u>	<u>550,979,418</u>

Other services fundamentally concern:

	2016	2015
Photocopies Certification	226,737	253,102
Reg. Aut. Madeira transport allowance	829,740	565,383
Others Philately	125,822	230,555
Costums presentation tax	1,276,941	784,426
Corfax	160,908	229,965
Non-addressed mail	244,037	262,800
Portugal Telecom services	113,925	165,762
Digital mailRoom	337,383	330,015
Other services	<u>2,169,512</u>	<u>2,017,925</u>
	<u>5,485,005</u>	<u>4,839,931</u>

41. FINANCIAL MARGIN

As at 31 December 2016 and 31 December 2015, the composition of the **Group** heading Financial margin was as follows:

	Group	
	2016	2015
Interest and similar income	416,006	-
Interest on held to maturity investments	306,145	-
Interest on deposits at credit institutions	64,721	-
Interest on credit to bank clients	29,329	-
Interest on available for sale financial assets	15,811	-
Interest and similar charges	389,955	-
Interest from banking client deposits	389,955	-
	26,051	-

42. OTHER OPERATING INCOME

For the years ended 31 December 2016 and 31 December 2015, the composition of the **Group** and the **Company** heading Other operating income was as follows:

	Group		Company	
	2016	2015	2016	Restated 2015*
Supplementary revenues	4,253,302	3,214,885	33,085,834	35,420,690
Altice agreement	9,583,333	5,416,667	6,388,889	3,611,111
Early settlement discounts received	47,453	85,154	14,876	47,120
Gains inventories	24,671	16,657	12,373	9,220
Favourable exchange rate differences of assets and liabilities other than financing	654,644	1,999,259	529,898	1,654,988
Income from financial investments	462,169	485,472	211,994	325,155
Income from non-financial investments	5,289,677	1,751,030	5,283,045	1,728,185
Income from services and commissions	614,028	-	-	-
Interest income and expenses - financial services	334,714	516,707	334,714	516,707
VAT adjustments	3,981,197	6,409,103	3,981,197	6,409,103
Other	1,881,754	2,115,962	1,072,210	186,632
	27,126,942	22,010,897	50,915,030	49,908,911

* Restated values: see note 3

Regarding the **Group** and the **Company**, the interest related to the Financial Services segment is recognised under this caption (Note 2.22).

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

The caption Income from non-financial investments of the **Group** and the **Company** 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 building as a result of the lease contract termination.

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 possible partnerships, as provided in the Memorandum.

Regarding the **Company**, the caption Supplementary revenues fundamentally relates to:

	Company	
	2016	Restated 2015*
Royalties	500,000	500,000
Services rendered to Group companies ⁽¹⁾	27,699,090	30,656,478
Rental of spaces in urban buildings	2,650,924	2,706,780
Other	2,235,819	1,557,432
	<u>33,085,834</u>	<u>35,420,690</u>

⁽¹⁾ Includes subsidiary, associated and joint-ventures companies.

* Restated values: see note 3

43. EXTERNAL SUPPLIES AND SERVICES

For the years ended 31 December 2016 and 31 December 2015, the composition of the **Group** and the **Company** heading External supplies and services was as follows:

	Group		Company	
	2016	2015	2016	2015
Subcontracts	4,289,091	4,178,927	-	1,380
Specialised services	65,860,067	60,777,736	40,885,082	43,719,035
Specialised services rendered by Group companies ⁽¹⁾	103,071	296,271	4,811,859	8,630,861
Materials	2,362,427	1,840,512	1,565,699	1,735,038
Energy and fuel	14,977,762	15,073,806	13,012,223	12,641,773
Staff transportation	214,836	222,216	208,150	219,697
Transportation of goods	58,016,465	63,427,926	11,790,403	11,732,952
Rents				
Vehicle operational lease	7,774,394	7,488,749	6,878,901	6,628,875
Other rental charge	27,031,283	27,652,643	22,811,547	21,523,538
Communication	2,399,224	2,691,023	1,275,034	1,619,372
Insurance	3,100,116	3,498,473	1,958,375	2,198,994
Royalties	294,643	254,430	-	-
Litigation and notary	321,881	275,234	220,920	230,863
Cleaning, hygiene and confort	3,967,060	3,966,115	3,633,811	3,617,475
Postal Agencies	4,514,987	4,498,737	4,532,203	4,519,705
Postal operators	18,271,388	18,051,278	17,326,163	17,012,078
Delivery subcontracting	5,786,536	5,321,179	5,786,536	5,504,638
Other services	12,751,658	13,568,885	7,628,235	7,006,334
Other services rendered by Group companies ⁽¹⁾	175	-	3,252,241	4,469,501
	<u>232,037,064</u>	<u>233,084,139</u>	<u>147,577,382</u>	<u>153,012,109</u>

⁽¹⁾ Includes subsidiary, associated and joint-ventures companies.

- (i) Specialised services refer to the outsourcing contracts for the provision of IT services, the maintenance of IT equipment and external consultants;
- (ii) Energy and fuel refers mainly to diesel for vehicles used in the operating process;
- (iii) Transportation of goods refers to costs with the transportation of mail in several ways (sea, air, surface);
- (iv) Rents mainly refer to costs with leased facilities from third parties and the operating lease of vehicles;
- (v) Remuneration to postal operators refers to costs with peer postal operators.

44. OPERATING LEASES

As at 31 December 2016 and 31 December 2015, the **Group** and the **Company** maintained medium and long-term liabilities in operating lease contracts of vehicles, with penalty clauses in the case of cancellation. The total amount of the future payments relative to operating leases is as follows:

	Group		Company	
	2016	2015	2016	2015
Due within 1 year	10,401,717	10,434,899	8,776,335	8,963,676
Due between 1 to 5 years	11,439,870	16,618,420	8,239,453	14,144,316
Due over 5 years	-	-	-	-
	<u>21,841,587</u>	<u>27,053,319</u>	<u>17,015,788</u>	<u>23,107,992</u>

During the years ended 31 December 2016 and 31 December 2015, the costs incurred with operating lease contracts amounted to 7,774,394 Euros and to 7,488,749 Euros, respectively, by the **Group**, and 6,878,901 Euros and to 6,628,875 Euros, respectively, by the **Company**. These costs are recognised under the caption Supplies and external services in the income statement.

The operating leases relate to leasing agreements of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

45. STAFF COSTS

During the years ended 31 December 2016 and 31 December 2015, the composition of the **Group** and the **Company** heading Staff Costs was as follows:

	Group		Company	
	2016	2015	2016	Restated 2015*
Statutory bodies remuneration	4,571,640	4,136,712	3,237,036	3,708,714
Staff remuneration	255,727,613	259,355,100	227,873,402	233,731,110
Employee benefits	4,292,549	(2,686,050)	4,251,938	(2,729,170)
Indemnities	6,634,938	5,891,115	6,390,333	4,030,742
Social Security charges	56,892,888	56,482,830	50,328,638	50,259,929
Occupational accident and health insurance	3,486,570	2,253,074	3,253,848	1,958,618
Social welfare costs	6,728,690	6,297,590	6,439,521	6,069,367
Other staff costs	52,593	42,509	-	-
	<u>338,387,481</u>	<u>331,772,879</u>	<u>301,774,716</u>	<u>297,029,310</u>

* Restated values: see note 3

Remuneration of the statutory bodies

As at 31 December 2016 and 31 December 2015, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group, including CTT, were as follows:

Group	2016				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	3,228,383	408,571	33,824	4,500	3,675,278
Annual variable remuneration	<u>896,362</u>	-	-	-	<u>896,362</u>
	<u>4,124,745</u>	<u>408,571</u>	<u>33,824</u>	<u>4,500</u>	<u>4,571,640</u>
Long-term remuneration					
Defined contribution plan RSP	223,500	-	-	-	223,500
Long-term variable remuneration - Share Plan	<u>1,493,546</u>	-	-	-	<u>1,493,546</u>
	<u>1,717,046</u>	-	-	-	<u>1,717,046</u>
	<u>5,841,791</u>	<u>408,571</u>	<u>33,824</u>	<u>4,500</u>	<u>6,288,686</u>
Group	2015				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,446,796	273,886	37,440	5,461	2,763,583
Annual variable remuneration	<u>1,373,129</u>	-	-	-	<u>1,373,129</u>
	<u>3,819,925</u>	<u>273,886</u>	<u>37,440</u>	<u>5,461</u>	<u>4,136,712</u>
Long-term remuneration					
Defined contribution plan RSP	207,458	-	-	-	207,458
Long-term variable remuneration - Share Plan	<u>1,610,685</u>	-	-	-	<u>1,610,685</u>
	<u>1,818,143</u>	-	-	-	<u>1,818,143</u>
	<u>5,638,068</u>	<u>273,886</u>	<u>37,440</u>	<u>5,461</u>	<u>5,954,855</u>
Company	2016				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,083,779	218,571	33,824	4,500	2,340,674
Annual variable remuneration	<u>896,362</u>	-	-	-	<u>896,362</u>
	<u>2,980,141</u>	<u>218,571</u>	<u>33,824</u>	<u>4,500</u>	<u>3,237,036</u>
Long-term remuneration					
Defined contribution plan RSP	188,500	-	-	-	188,500
Long-term variable remuneration - Share Plan	<u>1,493,546</u>	-	-	-	<u>1,493,546</u>
	<u>1,682,046</u>	-	-	-	<u>1,682,046</u>
	<u>4,662,187</u>	<u>218,571</u>	<u>33,824</u>	<u>4,500</u>	<u>4,919,082</u>
Company	2015				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,087,398	205,286	37,440	5,461	2,335,585
Annual variable remuneration	<u>1,373,129</u>	-	-	-	<u>1,373,129</u>
	<u>3,460,527</u>	<u>205,286</u>	<u>37,440</u>	<u>5,461</u>	<u>3,708,714</u>
Long-term remuneration					
Defined contribution plan RSP	188,500	-	-	-	188,500
Long-term variable remuneration - Share Plan	<u>1,610,685</u>	-	-	-	<u>1,610,685</u>
	<u>1,799,185</u>	-	-	-	<u>1,799,185</u>
	<u>5,259,712</u>	<u>205,286</u>	<u>37,440</u>	<u>5,461</u>	<u>5,507,899</u>

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 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, with settlement date of 31 January 2017, in Company shares, and the amount of 1,493,546 Euros corresponds to the expense to be recognised in the period between 1 January 2016 and 31 December 2016 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 and was also defined by an actuarial study performed by an independent entity.

Staff remuneration

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 in the caption Employee benefits in the year ended 31 December 2015 mainly reflects the liability reduction related to workers in a situation of Suspension of contract, redeployment and release of employment as well as the liability reduction related to the benefits Pension for work accidents and Monthly life annuity due to the update of the pensions' growth rate.

Indemnities

In the year ended 31 December 2016 this caption includes the amounts of 1,845,604 Euros and 1,714,185 Euros regarding the **Group** and the **Company**, respectively, related to compensations paid for termination of employment contracts by mutual agreement.

As at 31 December 2016 this caption of the **Company** includes the amount of 4,001,903 Euros arising from the human resources' optimisation process which aimed at the efficiency of its Central Services.

Regarding the **Group**, as at 31 December 2015, this caption also includes the amount of 1,712,602 Euros related to the provision for restructuring recorded in Tourline following the human resources optimisation in the context of the restructuring plan currently being implemented in the Company.

Social welfare cost

Social welfare costs relate almost entirely to health costs incurred by the **Group** and the **Company** with the active workers, as well as expenses related to Health and Safety at work. The decrease in this caption results from changes that took place in CTT's Healthcare Plan following the revised Regulation of the Social Works (RSW) in 2015, according to which the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments.

As at 31 December 2016 and 31 December 2015, the **Group** and **Company** heading Staff costs includes the amounts of 800,611 Euros and 807,237 Euros, respectively, related to expenses with workers' representative bodies.

For the years ended 31 December 2016, the average number of staff of the **Group** and the **Company** was 12,401 and 10,984 employees, respectively (12,445 employees and 10,908 employees as at 31 December 2015).

46. IMPAIRMENT OF ACCOUNTS RECEIVABLE

For the years ended 31 December 2016 and 31 December 2015, the detail of Impairment of inventories and accounts receivable, net, of the **Group** and the **Company** was as follows:

	Group		Company	
	2016	2015	2016	Restated 2015*
Impairment losses				
Accounts receivable (Note 19)	2,875,921	4,625,870	352,246	164,956
Credit to bank clients (Note 20)	417	-	-	-
Other current and non-current assets (Note 24)	524,261	539,816	459,471	379,304
Inventories (Note 18)	-	71,965	-	1
	<u>3,400,599</u>	<u>5,237,651</u>	<u>811,717</u>	<u>544,261</u>
Reversals of impairment losses				
Accounts receivable (Note 19)	2,267,005	2,025,960	310,637	300,472
Other current and non-current assets (Note 24)	691,210	1,500,571	652,014	467,548
INESC loan (Note 24)	396,761	24,870	396,761	24,870
Inventories (Note 18)	-	275,816	-	268,617
	<u>3,354,976</u>	<u>3,827,217</u>	<u>1,359,412</u>	<u>1,061,506</u>
Net movement of the period	<u>(45,623)</u>	<u>(1410,434)</u>	<u>547,695</u>	<u>517,245</u>

* Restated values: see note 3

47. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

For the years ended 31 December 2016 and 31 December 2015, the detail of Depreciation/ amortisation and impairment losses, net, regarding the **Group** and the **Company** was as follows:

	Group		Company	
	2016	2015	2016	2015
Tangible fixed assets				
Depreciation (Note 5)	20,390,450	19,278,804	17,551,180	15,929,702
Impairment losses (Note 5)	(123,714)	(123,714)	(123,714)	(123,714)
Intangible assets				
Amortisation (Note 6)	6,623,232	3,832,949	4,473,575	3,050,326
Impairment losses (Note 6)	-	-	-	-
Investment properties				
Depreciation (Note 7)	569,250	752,365	569,250	752,365
Impairment losses (Note 7)	8,876	(167,403)	8,876	(167,403)
	<u>27,468,094</u>	<u>23,573,001</u>	<u>22,479,167</u>	<u>19,441,277</u>

48. OTHER OPERATING COSTS

For the years ended 31 December 2016 and 31 December 2015, the breakdown of the **Group** and the **Company** heading Other operating costs was as follows:

	Group		Company	
	2016	2015	2016	2015
Taxes	2,365,876	1,894,532	2,196,431	1,682,678
Bad debts	319,779	1,090,569	111,525	110,25
Losses in inventories	312,732	510,693	310,233	463,217
Costs and losses from non-financial investments	31,190	368,018	31,190	344,298
Unfavourable exchange rate differences of assets	700,833	2,029,152	344,789	1,711,387
Donations	1,235,977	908,366	1,235,977	908,366
Banking services	2,241,982	1,181,262	2,132,215	953,814
Interest on arrears	42,534	88,201	42,221	67,698
Subscriptions	722,743	804,791	669,073	754,109
Expenses of services and commissions	192,611	-	-	-
Deposits Guarantee Fund/ Resolution unified Fund	680	51,000	-	-
Indemnities	443,179	490,023	372,799	346,599
Other costs	1,827,794	2,020,218	1,158,487	1,085,747
	<u>10,437,910</u>	<u>11,436,825</u>	<u>8,604,940</u>	<u>8,328,937</u>

49. INTEREST EXPENSES AND INTEREST INCOME

For the years ended 31 December 2016 and 31 December 2015, the heading Interest Expenses of the **Group** and the **Company** had the following detail:

	Group		Company	
	2016	2015	2016	2015
Interest expenses				
Bank loans	68,775	77,473	3,994	5,749
Financial leases	7,014	18,201	2,958	8,084
Other interest	137,272	8,622	136,948	19,285
Interest costs from employee benefits (Note 32)	6,322,738	6,746,892	6,322,495	6,718,992
Other interest costs	4,307	10,212	203	22,595
	<u>6,540,106</u>	<u>6,861,401</u>	<u>6,466,598</u>	<u>6,774,705</u>

During the years ended 31 December 2016 and 31 December 2015, the **Group** and the **Company** heading Interest income was detailed as follows:

	Group		Company	
	2016	2015	2016	Restated 2015*
Interest income				
Deposits in credit institutions	671,599	1,483,388	588,919	1,395,837
Loans to Group companies ⁽¹⁾	-	-	144,556	283,466
Other supplementary income	-	1,775	-	1,775
	<u>671,599</u>	<u>1,485,163</u>	<u>733,475</u>	<u>1,681,077</u>

⁽¹⁾ Includes subsidiary, associated and joint-ventures companies.

* Restated values: see note 3

50. 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 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 CTT 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

For the years ended 31 December 2016 and 31 December 2015, the reconciliation between the nominal rate and the effective income tax rate of the **Group** and the **Company** was as follows:

	Group		Company	
	2016	2015	2016	2015
Earnings before taxes	85,244,706	104,609,981	85,900,107	100,813,654
Nominal tax rate	21.0%	21.0%	21.0%	21.0%
	17,901,388	21,968,096	18,039,022	21,170,867
Tax Benefits	(354,479)	(198,588)	(352,413)	(190,773)
Accounting capital gains/(losses)	(543,069)	17,549	(390,889)	21,899
Tax capital gains/(losses)	(908,568)	(394,293)	(909,083)	(396,402)
Equity method	(8,518)	5,938	2,284,719	879,222
Provisions not considered in the calculation of deferred taxes	(148,483)	19,167	(148,483)	19,167
Impairment losses and reversals	321,703	(133,566)	380,705	(23,754)
Other situations, net	(405,990)	959,041	(345,075)	(339,381)
Adjustments related with - autonomous taxation	1,386,243	1,628,892	1,356,233	1,571,866
Adjustments related with - Municipal Surcharge	1,233,829	1,496,378	947,754	1,189,739
Adjustments related with - State Surcharge	4,018,747	5,162,504	3,527,850	4,657,116
Impact of the change in income tax rate (deferred tax)	118,403	(574,330)	118,403	(574,330)
Tax losses without deferred tax	1,770,819	2,648,348	-	(121,616)
Excess estimated income tax	(1,034,386)	(65,790)	(769,031)	-
Other effects, net	-	-	-	884,751
Income taxes for the period	23,347,639	32,539,346	23,739,712	28,748,371
Effective tax rate	27.39%	31.11%	27.64%	28.52%
Income taxes for the period				
Current tax	20,179,216	28,469,567	20,869,417	24,882,794
Deferred tax	4,202,808	4,135,569	3,639,326	3,987,193
Excess estimated income tax	(1,034,386)	(65,790)	(769,031)	(121,616)
	23,347,639	32,539,346	23,739,712	28,748,371

In the year ended 31 December 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 programme 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. This heading also includes the amounts of 117,771 Euros and 267,672 Euros regarding the excess income tax estimate of 2015 of the Companies CTT, S.A. and CTT Expresso, S.A., respectively.

Deferred taxes

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

	Group		Company	
	2016	2015	2016	Restated 2015*
Deferred tax assets				
Employee benefits - healthcare	70,523,096	67,158,181	70,523,096	67,158,181
Employee benefits - other long-term benefits	5,301,326	6,531,878	5,301,326	6,522,953
Deferred accounting capital gains	606,790	1,723,242	606,790	1,723,242
Impairment losses and provisions	3,030,558	8,997,558	2,990,166	8,280,788
Tax losses carried forward	327,183	342,161	-	-
Impairment losses in tangible fixed assets	360,333	405,373	360,333	405,373
Share Plan	1,268,470	847,140	1,268,470	847,140
Land and buildings	1,847,637	1,392,924	1,847,637	1,392,924
Tangible assets' tax revaluation regime	2,680,786	-	2,680,786	-
Other	274,583	137,484	-	-
	86,220,762	87,535,941	85,578,604	86,330,601
Deferred tax liabilities				
Revaluation of tangible fixed assets before IFRS	3,151,709	3,562,520	3,151,709	3,562,520
Suspended capital gains	934,821	971,679	934,821	971,679
Other	36,616	42,399	-	-
	4,123,146	4,576,598	4,086,530	4,534,199

* Restated values: see note 3

Due to the access to the Tangible assets' tax revaluation regime, established in Decree Law no. 66/2016 of 3 November, the Company recognised a deferred tax asset in the amount of 2,680,786 Euros.

As at 31 December 2016, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 5.3 million Euros and 0.5 million Euros, respectively, regarding the **Group** and 5.3 million Euros and 0.4 million Euros, respectively, regarding the **Company**.

During the years ended 31 December 2016 and 31 December 2015, the movements which occurred under the deferred tax headings of the **Group** and the **Company** were as follows:

	Group		Company	
	2016	2015	2016	2015
Deferred tax assets				
Opening balances	87,535,941	91,428,940	86,330,601	90,547,447
Effect on net profit				
Employee benefits - healthcare	29,917	(733,228)	29,917	(733,228)
Employee benefits - other long-term benefits	(1,230,552)	(3,628,545)	(1,221,627)	(3,595,239)
Deferred accounting gains	(1,116,452)	(661,719)	(1,116,452)	(661,719)
Impairment losses and provisions	(5,967,001)	(1,142,594)	(5,290,622)	(1,014,836)
Conversion adjustments - derecognition of inventories	-	-	-	(91,864)
Tax losses carried forward	2,857	24,628	-	-
Impairment losses in tangible fixed assets	(45,040)	(91,864)	(45,040)	-
Share plan	421,330	459,819	421,330	459,819
Land and buildings	454,713	1,392,924	454,713	1,392,924
Tangible assets' tax revaluation regime	2,680,786	-	2,680,786	-
Other	119,265	460,283	-	-
Effect on equity				
Employee benefits - healthcare	3,334,998	27,297	3,334,998	27,297
Closing balance	<u>86,220,762</u>	<u>87,535,941</u>	<u>85,578,604</u>	<u>86,330,601</u>

	Group		Company	
	2016	2015	2016	Restated 2015*
Deferred tax liabilities				
Opening balances	4,576,598	4,841,684	4,534,199	4,890,550
Effect on net profit				
Revaluation of tangible fixed assets before IFRS adoption	(410,811)	(231,295)	(410,811)	(231,295)
Suspended capital gains	(36,858)	(23,274)	(36,858)	(23,274)
Other	(5,783)	(10,517)	-	(2,381)
Closing balance	<u>4,123,146</u>	<u>4,576,598</u>	<u>4,086,530</u>	<u>4,633,600</u>

* Restated values: see note 3

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

Company	Tax losses	Deferred tax assets
Tourline	37,338,023	320,408
Escrita Inteligente	32,263	6,775
Total	<u>37,370,285</u>	<u>327,183</u>

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 years 2015 and 2016 have no time limit for deduction. As far as Escrita Inteligente is concerned, the tax losses refer to the years 2015 and 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 2.5 million Euros in the **Group** and in the **Company**.

SIFIDE

The **Group** and the **Company** 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.

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 and e 1,437,765 Euros, the **Group** and the **Company** will have the possibility of benefiting from a tax deduction in income tax estimated at 2,556,380 Euros and 996,844 Euros, respectively. According to the notification dated 9 February 2017 of the Certification Commission, a tax credit of 1,057,603 Euros was attributed to CTT.

For the year ended 31 December 2016, the expenses incurred with R&D, of 1,895,281 Euros and 1,677,058 Euros, the **Group** and the **Company** will have the possibility of benefiting from a tax deduction in income tax estimated at 1,006,271 Euros and 826,237 Euros, respectively.

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, CTT's income tax returns from 2013 (remain open and inclusive) 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 consolidated financial statements as at 31 December 2016.

51. RELATED PARTIES

The Regulation on Assessment and Control of transactions with CTT 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, as well as transactions that members of the Board of Directors of CTT and/or its subsidiaries conduct with CTT and/or its subsidiaries, must be previously approved by the Audit Committee of CTT.

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

During the years ended 31 December 2016 and 31 December 2015, the following transactions took place and the following balances existed with related parties, regarding the **Group**:

Group	2016				
	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	70,264,792
Other shareholders of Group companies					
Associated companies	2,038	12,667	12,224	84,674	-
Jointly controlled	106,496	-	522,308	18,664	-
Members of the					
Board of Directors	-	-	-	4,124,745	-
General Meeting	-	-	-	4,500	-
Audit Committee	-	-	-	408,571	-
Remuneration Committee	-	-	-	33,824	-
	<u>108,535</u>	<u>12,667</u>	<u>534,532</u>	<u>4,674,978</u>	<u>70,264,792</u>

Group	2015				
	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	69,750,000
Other shareholders of Group companies					
Associated companies	11,579	21,592	18,841	109,211	-
Jointly controlled	136,855	14,574	524,252	187,938	-
Members of the					
Board of Directors	-	-	-	3,819,925	-
General Meeting	-	-	-	5,461	-
Audit Committee	-	-	-	273,886	-
Remuneration Committee	-	-	-	37,440	-
	<u>148,434</u>	<u>36,166</u>	<u>543,093</u>	<u>4,433,860</u>	<u>69,750,000</u>

During the years ended 31 December 2016 and 31 December 2015, the following transactions took place and the following balances existed with related parties, regarding the **Company**:

Company	2016						
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Dividends
Shareholders	-	-	-	-	-	-	70,264,792
Group companies							
Subsidiaries	6,178,794	8,847,399	3,930,691	7,341,360	30,989,108	9,200,339	144,556
Associated companies	2,038	-	9,223	-	12,224	84,262	-
Joint Ventures	106,496	-	-	-	522,308	-	-
Other related parties	192	-	-	-	-	-	-
Members of the							
Board of Directors	-	-	-	-	-	2,980,141	-
General Meeting	-	-	-	-	-	4,500	-
Audit Committee	-	-	-	-	-	218,571	-
Remuneration Board	-	-	-	-	-	33,824	-
	<u>6,287,520</u>	<u>8,847,399</u>	<u>3,939,914</u>	<u>7,341,360</u>	<u>31,523,640</u>	<u>12,521,637</u>	<u>144,556</u>
							<u>70,264,792</u>

DB - Debit balance; CB - Credit balance; include current and non-current balances

Company	2015						
	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Dividends
Shareholders	-	-	-	-	-	-	69,750,000
Group companies							
Subsidiaries	7,509,804	10,041,220	2,965,125	1,613,945	30,769,481	12,380,647	283,466
Associated companies	11,579	-	21,592	-	18,841	55	-
Joint Ventures	136,855	-	-	-	15,575	1,317	-
Other related parties	2,690,121	-	(1,542)	-	1,297,272	3,780	-
Members of the							
Board of Directors	-	-	-	-	-	2,087,398	-
General Meeting	-	-	-	-	-	5,461	-
Audit Committee	-	-	-	-	-	200,786	-
Remuneration Board	-	-	-	-	-	37,440	-
	<u>10,348,359</u>	<u>10,041,220</u>	<u>2,985,175</u>	<u>1,613,945</u>	<u>32,101,169</u>	<u>14,716,884</u>	<u>283,466</u>
							<u>69,750,000</u>

DB - Debit balance; CB - Credit balance; include current and non-current balances

Regarding the **Company**, as at 31 December 2016 and 31 December 2015, the nature and detail, by company of the Group, of the main debit and credit balances was as follows:

Company	2016					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Banco CTT, S.A.	289,844	-	289,844	-	7,120,649	7,120,649
CTT Expresso, S.A.	3,081,067	4,190,294	7,271,361	2,504,508	-	2,504,508
Payshop Portugal, S.A.	81,704	6,947	88,651	448,163	-	448,163
CTT Contacto, S.A.	339,331	650,158	989,489	388,326	139,152	527,478
Mailtec Comunicação S.A.	62,837	-	62,837	581,137	81,559	662,697
Escrita Inteligente, S.A.	76,399	-	76,399	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	980,271	-	980,271	-	-	-
Tourline Express Mensajeria, S.A.	1,267,342	4,000,000	5,267,342	8,556	-	8,556
Associated companies						
Multicert - Serviços de Certificação Electrónica, S.A.	2,038	-	2,038	9,223	-	9,223
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	1,778	-	1,778	-	-	-
NewPost, ACE	-	-	-	-	-	-
Other related parties						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
	<u>6,287,520</u>	<u>8,847,399</u>	<u>15,134,919</u>	<u>3,939,914</u>	<u>7,341,360</u>	<u>11,281,274</u>

DB - Debit balance; CB - Credit balance; include current and non-current balances

Company	2015					
	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
Subsidiaries						
Banco CTT, S.A.	189,572	-	189,572	-	1,596,131	1,596,131
CTT Expresso, S.A.	5,920,444	9,634,255	15,554,699	1,789,877	-	1,789,877
Payshop Portugal, S.A.	114,755	199,578	314,333	455,610	-	455,610
CTT Contacto, S.A.	516,407	177,560	693,968	441,484	-	441,484
Mailtec Comunicação S.A.	115,422	-	115,422	278,155	17,814	295,969
CORRE - Correio Expresso Moçambique, S.A.	653,203	29,827	683,031	-	-	-
Associated companies						
Multicert - Serviços de Certificação Electrónica, S.A.	11,579	-	11,579	21,592	-	21,592
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	1,778	-	1,778	-	-	-
NewPost, ACE	135,077	-	135,077	-	-	-
Other related parties						
Tourline Express Mensajeria, S.A.	2,689,929	-	2,689,929	(1,542)	-	(1,542)
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
	<u>10,348,359</u>	<u>10,041,221</u>	<u>20,389,579</u>	<u>2,985,175</u>	<u>1,613,945</u>	<u>4,599,120</u>

¹ These amounts include the values related to loan contracts from CTT to the respective subsidiaries.

DB - Debit balance; CB - Credit balance; include current and non-current balances

As far as the **Company** is concerned, during the years ended 31 December 2016 and 31 December 2015, the nature and detail, by company of the Group, of the main transactions was as follows:

Company	2016							
	Fixed assets acquired	Services to be invoiced	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries								
Banco CTT, S.A.	-	-	86,384	119,157	347,902	-	-	-
CTT Expresso, S.A.	75,885	58,755	234,711	284,972	22,423,193	1999,192	22,422	113,885
Payshop Portugal, S.A.	-	-	-	57,402	761,976	4,309,490	-	46
CTT Contacto, S.A.	-	88,502	-	1,360,816	3,129,281	1,864,502	-	-
Mailtec Comunicação S.A.	-	1,274,504	-	250,022	813,715	998,374	-	-
Escrita Inteligente, S.A.	-	-	-	-	-	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	424,729	-	-	-
Tourline Express Mensajeria, S.A.	108,793	26,411	-	2,416	1,013,527	6,360	-	30,625
Associated companies								
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	12,224	-	84,233	29	-
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	-	-	-	-
NewPost, ACE	-	-	-	-	522,308	-	-	-
Other related parties								
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-
	<u>184,678</u>	<u>1,448,171</u>	<u>321,095</u>	<u>2,087,009</u>	<u>29,436,631</u>	<u>9,262,150</u>	<u>22,451</u>	<u>144,556</u>

Company	2015							
	Fixed assets acquired	Services to be invoiced	Fixed assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest income
Subsidiaries								
Banco CTT, S.A.	-	-	-	166	196,572	-	-	-
CTT Expresso, S.A.	-	129,038	442,228	292,683	21,797,649	3,440,390	20,827	283,466
Payshop Portugal, S.A.	-	-	-	47,503	1,125,963	4,319,262	213	-
CTT Contacto, S.A.	-	108,824	-	4,139	5,348,220	2,567,969	-	-
Mailtec Comunicação S.A.	-	1,107,119	-	644,184	1,127,168	2,031,987	-	-
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	185,234	-	-	-
Associated companies								
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	18,841	-	-	55	-
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	15,575	1,317	-	-
NewPost, ACE	-	-	-	-	-	-	-	-
Other related parties								
Tourline Express Mensajeria, S.A.	84,441	9,869	-	15,207	1,282,065	3,780	-	-
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-
	84,441	1,354,850	442,228	1,022,724	31,078,446	12,364,705	21,095	283,466

52. FEES AND SERVICES OF THE EXTERNAL AUDITORS

The information concerning the fees and services provided by the external auditors is detailed in items 46 and 47 of the Corporate Governance Report.

53. INFORMATION ON ENVIRONMENTAL MATTERS

The environment is one of the relevant topics identified in the course of CTT stakeholders' materiality exercise and mapping and integrates the Sustainability strategy of the Group, from a perspective of risk and opportunity management. This approach and the related commitments assumed are expressed in statements and in CTT management standards, as shown in the Environment Policy, Policy of Energy, Carbon and Climate Change Management, Responsible Purchasing Policies and the Code of Conduct (internal) or Business & Biodiversity, Caring for Climate from United Nations and COP 21 Principles (external).

CTT actively participates in a wide range of environmental descriptors such as the energy efficiency, carbon and climate change management, certified environmental management systems, sustainable mobility and alternative fleets, biodiversity, waste management, responsible purchases or sustainable marketing, having been recognised with awards, both at national and international level. The campaigns carried out and the achievements are detailed in the "Sustainability Report of CTT".

In order to ensure the coverage of environmental liabilities arising from the Decree-Law no. 147/2008 of 29 July (Law of Environmental Responsibility), as amended by Decree-Law no. 245/2009 of 22 September, by Decree-Law no. 29A/2011 of 1 March and Decree-Law no. 60/2012 of 14 March, which establish the legal regime of liability for environmental damage, CTT took out an insurance to cover civil liability in the amount of 1,000,000 Euros per damage and insured period.

To the extent of our knowledge, there are no current environmental liabilities or obligations, whether legal or constructive, related to environmental matters that should lead to the constitution of provisions.

54. PROVISION OF INSURANCE MEDIATION SERVICE

In accordance with the Regulatory Standard of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) no. 15/2009-R of 30 December 2009, the **Company** discloses the relevant

information regarding the activity of insurance mediation according to article 4 of the above mentioned Regulatory Standard.

a) Description of the accounting policies adopted for the recognition of revenue

The insurance agent recognises revenue in accordance with the rules in force, i.e. when the mediator closes accounts with the Insurance companies. The issuance and repayment of insurance are recorded in each Post Office accounting document and allocated to the respective account, according to the respective nature.

b) Indication of total revenue received detailed by nature

By nature	2016	2015
Cash	2,452,267	3,542,063
In-kind		
	2,452,267	3,542,063
By type	2016	2015
Commissions	2,452,267	3,542,063
Fees		
Other remuneration		
	2,452,267	3,542,063

c) Indication of total revenues relating to insurance contracts intermediated by the Company detailed by Branch Life and Non-Life

	2016	
By entity	Branch Life	Branch Non-Life
Insurance Companies	2,337,819	114,448
Other mediators		
Customers (other)		
	2,337,819	114,448

d) Indication of the existence of concentration levels at the level of insurance companies, other mediators, which are equal or greater than 25% of the total remuneration earned by the portfolio

By entity	2016	2015
Insurance Companies		
FIDELIDADE	90.10%	90.05%
Other mediators		
Customers (other)		

e) Values of customers' accounts, at the beginning at the end of the year, as well as the volume handled over the year applicable to insurance intermediaries that handle funds related to insurance contracts

Accounts 'Customers'	2016	2015
Opening balance	-	-
Closing balance	-	-
Volume handled		
Debt	178,312,367	289,194,305
Credit	24,986,644	87,855,030

f) Accounts receivable and payable broken down by source

By entity	Accounts receivable		Accounts payable	
	2016	2015	2016	2015
Policyholders, insureds or beneficiaries				
Insurance companies	2,806,435	334,004	31,594	51,355
Reinsurance undertakings				
Other mediators				
Customers (other)				
	2,806,435	334,004	31,594	51,355

g) Indication of the aggregate amounts included in accounts receivable and payable

By entity	Accounts receivable		Accounts payable	
	2016	2015	2016	2015
Funds received in order to be transferred to insurance companies for payment of insurance premiums	24,986,644	87,855,030	23,109,246	84,479,529
Collecting funds in order to be transferred to insurance companies for payment of insurance premiums				
Funds entrusted to it by insurance companies in order to be transferred to policyholders, insureds or beneficiaries (or insurance companies in case the activity of reinsurance mediation)	175,834,816	285,915,932	178,312,367	289,194,305
Remuneration in respect of insurance premiums already collected and to be collected				
other mediators				
Total	200,821,460	373,770,961	201,421,613	373,673,834

Note: The remaining paragraphs of the standard do not apply.

55. 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 gave 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 developed, 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. On 16 December 2016, CTT obtained the authorisation by the Supervisory Authority for Insurance and Pension Funds. However, considering the change of some the conditions to establish the Fund, it was decided to re-weigh the opportunity to proceed with the process during 2017.

56. SUBSEQUENT EVENTS

Postal services prices update

In accordance with the Criteria for the Formulation of the Universal Service Prices laid down by ICP-Autoridade Nacional de Comunicações, the regulator of the communications sector (ANACOM) under article 14(3) of Law no. 17/2012, of 26 April, amended by Decree-Law no. 160/2013, of 19 November, CTT presented to ANACOM the proposal for the updated prices for 2017.

Acquisition of Transporta, S.A.

Following the announcement dated 15 December 2016, regarding the conclusion of the agreement for the acquisition of the total share capital of Transporta – Transportes Porta a Porta, S.A. (“Transporta”), on 2 March 2017, CTT was notified of the decision of non-opposition by the Competition Authority, without imposing any conditions to said acquisition. The acquisition is still subject to other conditions precedent agreed between the parties.

CTT, operating in a liberalized and competitive market, in which there has been a significant decrease in physical mail, has been developing an expansion and diversification’s strategy, promoting and offering new services and businesses in neighbouring markets with potential synergies.

The acquisition of Transporta falls within this strategy, as it is an operator dedicated to the fractional transport of goods and to the provision of integrated logistics services, it will allow CTT to add to its portfolio a new offer of delivery of items above 30 kg and to create a new growth platform within the last-mile logistics and cargo value chain.

Allocation of own shares

Pursuant to the remuneration policy approved by the Remuneration Committee of CTT for the 2014-2016 term of office and the Share Plan to the executive members of the Board of Directors of the Company approved by the General Meeting on 5 May 2015, CTT allocate, on 31 January 2017, a total of 600,530 own shares, nominative, ordinary, in the amount of 0.50 Euros each, representing 0.400% of the corresponding share capital, to the Company’s executive members of the Board of Directors, as long-term variable remuneration.

The allocation took place, outside the trading platform, through the transfer of the Company’s own shares previously acquired for such purpose, according to the evaluation of the fulfillment of the Total Shareholders Return objective established in the referred remuneration policy.

As a result of this allocation, as at 31 January 2017 and to this date, CTT hold 1 own share, which represent 0.000% of its share capital, with the voting right inherent to it suspended pursuant to article 324 of the Portuguese Companies Code.

Proposal to the next Annual General Meeting for capital reduction and capital increase

On 9 March 2017, the Board of Directors of CTT decided to submit to the Annual General Meeting a proposal for approval of the following mutually conditioned operations and subject to the approval of the financial statements relating to the financial year of 2016 and the allocation of profits:

- Capital reduction, to release excess capital, from 75 million Euros to 25.5 million Euros, being the value of 49.5 million Euros reduced to free reserves;
- Capital increase from 25.5 million Euros to Euro 75 million Euros, being the increased amount of 49.5 million Euros carried out by the incorporation of available reserves for this purpose, included in caption Retained earnings, corresponding to: (1) the total amount of the Retained earnings regarding the Tangible assets' tax revaluation made under special legislation up to 31 December 2016 (and at that date amounted to 44,008,841 Euros); and (2) the amount of other retained earnings as at 31 December 2016 required to amount the capital increase.

THE DIRECTOR OF ACCOUNTING & TREASURY

THE BOARD OF DIRECTORS

PART III – AUDIT REPORT AND REPORT AND OPINION OF THE AUDIT COMMITTEE



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

(This report is a free translation to English from the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of CTT – Correios de Portugal, S.A. (the Entity), which comprise the consolidated statement of financial position as at 31 December 2016 (showing a total of 1,316,697,213 euros and shareholders' equity of 233,326,782 euros, including negative non-controlling interests of 79,135 euros and a net profit attributable to the shareholders of the Entity of 62,160,395 euros), the consolidated income statement by natures, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements that include a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of CTT – Correios de Portugal, S.A. as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described under "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Professional Accountants of the Portuguese Institute of Statutory Auditors.

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

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A., a Portuguese company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG & Associados - S.R.O.C., S.A.
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Matriculada na Conservatória do registo Comercial de Lisboa sob o Nº PT 502 161 073



Key audit matters

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

Revenue recognition

Risk	Our Response
<p>CTT is a listed company and the ISAs assume that there is an increased risk of fraud related to revenue when there is pressure over management to present budgeted results.</p> <p>Additionally, the CTT Group is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different as mentioned in notes 2.22 and 4.</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We tested the operating effectiveness of controls related with the revenue recognition process; ▪ We performed tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition; ▪ We also performed substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and eventual override of the implemented controls; and ▪ We evaluated the adequacy of the disclosures made by the Group in relation to revenue recognition, taking into account the applicable accounting framework.



Employee benefits

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



Provisions

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

Start of activity of Banco CTT (Bank)

Risk	Our response
<p>As referred in note 1.2, the Bank started its activity at the end of 2015, and opened to the public in March 2016 continuing during the year with its strategy of investment and increase in the number of branches.</p> <p>The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We analyzed the evolution of the activity of the Bank during 2016 as well as the revised budget for 2017 and assessed the variances vis a vis the initial plan; and ▪ We discussed with management the future expectations, namely in relation to the start of the activity of credit concession, forms of financing and expected profitability.



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

Management is responsible for:

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, events or future conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate to those charged with governance, including the oversight body, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiency in the internal control identified during our audit;
- from the matters communicated with those charged with governance, including the oversight body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter; and
- we state to the oversight body, that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification of the consistency of the information included in the management report with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the management report

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

**About the corporate governance report**

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

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

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

- We were appointed auditors of CTT – Correios de Portugal, S.A. for the first time at the shareholders' meeting held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;
- The Executive Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Group's oversight body on 6 March 2017; and
- We declare that we have not provided any prohibited services pursuant to article nr. 77, nr. 8 of the Statute of the Statutory Auditors Institute and that we have maintained our independence from the Group during the performance of the audit.

Lisbon, 9 March 2017

SIGNED ON THE ORIGINAL

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



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STATUTORY AUDITOR'S REPORT AND AUDITOR'S REPORT

(This report is a free translation to English from the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will prevail.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of CTT – Correios de Portugal, S.A. (the Entity or CTT), which comprise the statement of financial position as at 31 December 2016 (showing a total of 1,036,438,537 euros and shareholders' equity of 233,405,918 euros, including a net profit of 62,160,395 euros), the income statement by natures, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the accompanying notes to the financial statements that include a summary of the significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CTT – Correios de Portugal, S.A. as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described under "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Professional Accountants of the Portuguese Institute of Statutory Auditors.

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



Key audit matters

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

Revenue recognition

Risk	Our Response
<p>CTT is a listed company and the ISAs assume that there is an increased risk of fraud related to revenue when there is pressure over management to present budgeted results.</p> <p>Additionally, CTT is active in several business areas (Post and Financial services) and the policies for the recognition of revenue are different as mentioned in notes 2.22 and 40.</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We tested the operating effectiveness of controls related with the revenue recognition process; ▪ We performed tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition; ▪ We also performed substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and eventual override of the implemented controls; and ▪ We evaluated the adequacy of the disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.



Employee benefits

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



Provisions

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

Start of activity of Banco CTT (Bank)

Risk	Our response
<p>As referred in note 1.2, the Bank started its activity at the end of 2015, and opened to the public in March 2016 continuing during the year with its strategy of investment and increase in the number of branches.</p> <p>The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities</p>	<p>The audit procedures included, among others, the following:</p> <ul style="list-style-type: none"> ▪ We analyzed the evolution of the activity of the Bank during 2016 as well as the revised budget for 2017 and assessed the variances vis a vis the initial plan; and ▪ We discussed with management the future expectations, namely in relation to the start of the activity of credit concession, forms of financing and expected profitability.



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

Management is responsible for:

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

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;



- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, events or future conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate to those charged with governance, including the oversight body, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiency in the internal control identified during our audit;
- from the matters communicated with those charged with governance, including the oversight body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter; and
- we state to the oversight body, that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification of the consistency of the information included in the management report with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

About the management report

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

About the corporate governance report

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



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

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

- We were appointed auditors of CTT – Correios de Portugal, S.A. for the first time at the shareholders' meeting held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;
- The Executive Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Entity's oversight body on 6 March 2017; and
- We declare that we have not provided any prohibited services pursuant to article nr. 77, nr. 8 of the Statute of the Statutory Auditors Institute and that we have maintained our independence from the Entity during the performance of the audit.

Lisbon, 9 March 2017

SIGNED ON THE ORIGINAL

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

AUDIT COMMITTEE

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

1. Introduction

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

2. Company Supervision

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

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

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

AUDIT COMMITTEE

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

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

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

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

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

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

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

AUDIT COMMITTEE

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

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

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

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

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

3. Declaration of Conformity

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

- i. was prepared in accordance with the International Financial Reporting Standards as adopted by the European Union, giving a true and fair view of assets and liabilities, the financial situation and the results of CTT and the companies included in its consolidation perimeter; and
- ii. faithfully describes the business evolution, the performance and position of CTT and the companies included in its consolidation perimeter and contains a description of the major risks and uncertainties they are faced with.

AUDIT COMMITTEE

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

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

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

The AUC appraised with special attention the terms of the Legal Certification of Accounts and of the Audit Reports on *i)* the auditing of the individual and consolidated financial statements approved by the Board of Directors and issued on 9 March 2017 by KPMG & Associados–Sociedade de Revisores Oficiais de Contas, S.A., which express a favourable opinion on said Financial Statements, with no limitations or qualifications and *ii)* the compliance with other legal and regulatory requirements applicable to the management report, including the corporate governance report, which express compliance with said requirements in force. The AUC further noted that the Legal Certification of Accounts and the Audit Reports also include the additional information provided for in Article 10 of Regulation (EU) No 537/2014.

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

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

AUDIT COMMITTEE

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

Lisbon, 9 March 2017

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

António Sarmento Gomes Mota (Chairman)

Diogo José Paredes Leite de Campos (Member)

Nuno de Carvalho Fernandes Thomaz (Member)

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