

Consolidated Results

January-March 2017



ctt



TABLE OF CONTENTS

1 ST QUARTER 2017 CONSOLIDATED RESULTS	4
HIGHLIGHTS.....	4
1. ECONOMIC AND FINANCIAL ANALYSIS.....	5
2. OTHER HIGHLIGHTS.....	14
3. SUBSEQUENT EVENTS	17
4. FUTURE PERSPECTIVES.....	18
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	23



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

1ST QUARTER 2017 CONSOLIDATED RESULTS

- Recurring revenues decrease by 0.5% due to the decline in other revenues, particularly the expiration of the **agreement with Altice with an impact of €2.5m in the quarter**. Sales and Services Rendered post a 1.5% increase based on the growth in the Financial Services, Banco CTT and in the Express & Parcels business units.
- The decline of addressed mail volumes stands at 3.7%, lower than in the last quarter and in the year of 2016 with an impact in the revenues mitigated by the positive evolution of the product mix (registered mail and international mail volumes growth) that led to a 4.1% increase in average revenues per item, considering also that the price update did not have any effect in this period as it occurred only at the beginning of the 2nd quarter.
- Express & Parcels volumes grow by 8.7% in Portugal and 12.9% in Spain with revenues growth of 3.9% and 7.8%, respectively.
- Banco CTT launches mortgage loans and, a year after its opening to the general public on 18 March 2016, it is present countrywide in 203 CTT post offices and has opened more than 114 thousand current accounts, earning the trust of over 150 thousand clients.
- Recurring EBITDA and Net Profit drop by 20% (-€7.1m) and 27% (-€5.4m), respectively, as a consequence of the loss of income from Altice (€2.5m) and of the growth period of Banco CTT which still has a negative quarterly impact on the consolidated accounts (this trend is expected to decrease as from the 3rd quarter of 2017).

Consolidated Results

€ Million	Reported			Recurring ^(*)		
	1Q17	1Q16	Δ	1Q17	1Q16	Δ
Revenues	177.0	179.6	-1.5%	177.0	177.9	-0.5%
Sales and services rendered	173.2	170.6	1.5%	173.2	170.6	1.5%
Net interest income	0.41	0.01	»	0.41	0.01	»
Other operating income	3.4	9.0	-62.1%	3.4	7.2	-53.1%
Operating costs	152.1	145.4	4.6%	148.9	142.7	4.3%
EBITDA	24.9	34.2	-27.2%	28.0	35.1	-20.2%
Amortisation, depreciation, provisions and impairments	7.3	3.2	129.1%	6.6	6.1	8.5%
EBIT	17.6	31.0	-43.3%	21.4	29.0	-26.3%
Financial income, net	-1.1	-1.4	21.1%	-1.1	-1.4	21.1%
Gains / (losses) in associated companies	-	0.2	-	-	0.2	-
Earnings before taxes (EBT)	16.5	29.8	-44.7%	20.3	27.9	-27.0%
Income tax for the period	6.2	9.2	-32.6%	5.4	7.5	-27.8%
Non-controlling interests	-0.03	-0.04	-32.6%	-0.03	-0.04	-32.6%
Net profit attributable to equity holders	10.3	20.7	-50.0%	15.0	20.4	-26.8%

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



1. ECONOMIC AND FINANCIAL ANALYSIS

REVENUES

Recurring revenues totalled €177.0m, -0.5% in relation to the same period of the previous year and it is **necessary to take into account the loss of €2.5m** of income from the agreement with Altice which expired in December 2016.

Excluding the amount resulting from the Altice agreement in 2016, recurring revenues grow by 0.9% **(+€1.6m)**. This evolution reflects the growth in the revenues of the Financial Services **(+€1.7m)**, Banco CTT **(+€1.0m)** and Express & Parcels **(+€0.8m)** since the Mail business unit posted a slight drop of 0.8p.p., excluding the amount of **€0.8m in 2016 regarding Altice**. The evolution of the caption "Central Structure and Intragroup Eliminations" relates to the increase in the amount of other **operating income (€0.6m)**, resulting from the increase in internal human resources services provisions.

The weight of each business unit in the overall recurring revenues did not show significant changes from 2016 to 2017.

€ Million	Revenues							
	Reported			Recurring			Weight %	
	1Q17	1Q16	Δ	1Q17	1Q16	Δ	1Q17	1Q16
Revenues	177.0	179.6	-1.5%	177.0	177.9	-0.5%	100%	100%
Business Units	185.5	185.6	-0.1%	185.5	185.6	-0.1%		
Mail	137.0	138.9	-1.4%	137.0	138.9	-1.4%	77%	78%
Express & Parcels	30.0	30.1	-0.3%	30.0	30.1	-0.3%	17%	17%
Financial Services	17.4	16.5	5.3%	17.4	16.5	5.3%	10%	9%
Banco CTT	1.1	0.1	801.4%	1.1	0.1	801.4%	0.6%	0.1%
Central Structure and intragroup eliminations	-8.6	-6.0	-42.0%	-8.6	-7.8	-10.5%	-5%	-4%

MAIL

In the MAIL business unit, the decrease in revenues is mainly due to the evolution of addressed mail volumes which decreased by 3.7% in the 1st quarter of 2017. The decrease, however, was lower than in the last quarter (-7.2%) and throughout the year of 2016 (-4.2%). It should be noted that this evolution was positively influenced by the existence of 2 more working days than in the first 3 months of 2016.

Million items	Mail Volumes								
	4Q16	4Q15	Δ	2016	2015	Δ	1Q17	1Q16	Δ
Transactional mail	157.9	165.5	-4.6%	662.8	688.3	-3.7%	174.6	180.5	-3.3%
Editorial mail	11.3	12.0	-5.3%	43.3	46.2	-6.4%	10.5	11.6	-8.9%
Advertising mail	19.6	25.9	-24.4%	74.2	80.2	-7.5%	18.5	19.4	-4.6%
Total addressed mail	188.8	203.4	-7.2%	780.2	814.7	-4.2%	203.6	211.5	-3.7%
Unaddressed mail	136.3	128.4	6.1%	497.8	473.4	5.1%	107.4	108.5	-1.0%



The reason for the change in addressed mail volumes was mainly the drop in transactional mail volumes due mostly to reduced consumption of large business customers, both owing to the normal substitution effect of physical with digital communication and to the change in the consumption profile (campaigns or initiatives not carried out).

The average change of the prices of the Universal Service in the 1st quarter of 2017 versus the same period of the previous year was 0.1% which had almost no impact on the revenues of addressed mail. The price update of the basket of letter mail, editorial mail and parcels services, which in 2016 occurred in February, took effect from 4 April of this year (see below section “Other highlights” – “Regulatory issues”), thus not having an impact in the period under review.

Transactional mail volumes decreased by 3.3% in the 1st quarter of 2017. This evolution is the result of changes in the volumes of ordinary mail (-4.9%), and priority mail (-7.4%). On the contrary, registered mail (+12.5%), “green mail” / correio verde (+2.8%), international outbound mail (+3.7%) and international inbound mail (+0.6%) had a positive evolution.

The increase in registered mail volumes (+12.5%) was mainly due to the Government and the Public Administration's higher consumption, particularly the Tax Authority (+42.5%), which was showing signs of stabilisation at the end of 2016. The growth of the 1st quarter of 2017 will probably not continue throughout the year and will tend to a more stable scenario.

Ordinary mail volumes decreased mainly due to the reduction in mail sent by some of the large customers of the Banking (-9.6%) and Telecommunications (-7.8%) sectors. The reductions were mostly due to the continuous substitution of physical with digital communications (less items sent associated to bank statements and invoices), to the consolidation of the banking sector and of the 4P offer in the telecommunications, and to the use of other operators that entered the market.

The digital substitution effect can also be felt in the evolution of editorial mail to the extent that contractual customers of this product are increasingly making their periodicals available via e-mail or on the Internet. This effect, combined with the fact that a major customer made an extraordinary shipment in 2016 that was not repeated, led to an 8.9% decrease in volumes.

Addressed advertising mail volumes dropped by 4.6% in the 1st quarter, mostly due to campaigns being brought forward or delayed by large customers, thus making quarterly comparisons difficult. The new CTT Ads solution was launched during this 1st quarter and therefore has no visible effect on the volumes and revenues of advertising mail, as it is still in the period of acquiring clients and getting them acquainted with the solution through testing campaigns.

EXPRESS & PARCELS

The EXPRESS & PARCELS business unit posted revenues of €30.0m, corresponding to a stabilisation vis-à-vis the same period of 2016. Excluding the amount of approximately €0.8m from Altice accounted for in 2016, the revenues grew by 2.6% in the 1st quarter of 2017.

In Spain, business revenues stood at €12.0m, +7.8% than in the same period of the previous year, mainly due to the 12.9% growth in volumes as a result of winning back large clients and acquiring new ones, as well as of the increased activity of the franchisees based on the specific offer for the e-commerce segment.

Revenues in Portugal stabilised (€16.9m), as a result, on one hand, of a 3.9% growth of the CEP business and, on the other, of a sharp drop of the banking business (-25.1%). The overall performance was due to the B2B segment, in the industry and retail sectors, and the B2C segment, in the telecommunications and e-commerce sector, especially clothing and sports. Volumes increased by 8.7% on the basis of the entry of new customers



acquired during 2016, on the growth of the share of wallet of some customers and also the growth of activity of major customers.

The offer of the service Ponto CTT (PuDo) in 29 Phone House stores began during this quarter, following the agreement entered into between both companies. The agreement provides for the possibility of expanding the service to around 100 stores. During this quarter the service of posting and receiving parcels at a number of Payshop agents started and its expansion is also foreseen. It is intended to strengthen the convenience of the CTT Outlets Network with more than 1,000 outlets to pick up and drop off parcels in Portugal, with extended opening hours and greater proximity to the residential areas and consumption sites.

E-commerce was a crucial lever for the growth of the parcels volumes. During the 1st quarter of 2017, its activity grew by 19% in terms of (last-mile) delivered volumes originated in the online retail sector in Portugal. The overall volumes (including inbound cross-border) delivered by CTT in Portugal grew by around 17%. In March, the CTT offer of the e-segue service was extended to the general public at all CTT post offices. This offer was designed with the B2C/e-commerce segments in mind. It seeks to give the market convenience, flexibility and predictability on the basis of swift, adequate information to those involved in the process (especially the addressee) and the possibility to interact, changing the delivery conditions (address, date and time slot). As a critical concern of those who purchase and sell, returns are also addressed by the CTT e-segue service in a simple manner and also taking advantage of the high capillarity of CTT.

Mozambique recorded a 7.2% revenues growth in local currency (metical) vis-à-vis the 1st quarter of 2016, +1.9 million metical, mainly due to the growth of the banking business; in terms of euros, there was a reduction of €0.1m (-22.1%) in the revenues, due to the negative evolution of the metical exchange rate.

FINANCIAL SERVICES

The FINANCIAL SERVICES **business unit posted revenues of €17.4m**, corresponding to a growth of 5.3% (+€0.9m) compared to the same period of 2016.

Public debt products were the main drivers for the performance of this business unit in the 1st quarter. As a result of the foreseen elimination of the fixed premiums in the series C and D of the Savings Certificates, a strong turnover of investments by customers took place, with the redemptions of these series almost three times higher than in the same period of the previous year and a large part of these amounts being reinvested in Treasury **Certificates Poupança Mais (TCPM). Placement of TCPM stood at €1.23 billion, a year-on-year** growth of over 47%, attracting not only reinvestment from clients who redeemed Savings Certificates but also new savings investments transferred from other institutions, particularly bank deposits, given the continued drop in yields offered by those products (the average interest rate of new bank deposits up to 1 year for individuals was 0.30% in January 2017). Also worth mentioning is the conclusion of the renegotiation of the renewal of the placement agreement with the IGCP for the TCPM, with revenue becoming more stable throughout the year (commissions focused on the sales commission and without accumulated stock payments).

The transfers of funds business revenues decreased by 3.7% compared to the same period of 2016. The highlight therein is the international segment which posted growth in both lines of the offer, especially the International Money Orders area where the inbound segment grew by 28%, partly compensating for the continued decline of the payment of pensions and social benefits in the domestic market.

Worthy of note is also the very positive performance of the personal credit business where the number of intermediated loans in CTT, S.A. shows a significant growth, taking into account the transfer of this business to Banco CTT, which occurred in the meantime, in the best CTT post offices. The performance was even more positive in terms of production of new credit cards, which grew more than 14 times compared to the 1st quarter of 2016. **This is also supported by the market's growing perception that CTT is a financial institution with a comprehensive offering, including in banking services.**



The 1st quarter of 2017 marks the launch of the implementation of the CTT payments business transformation plan – a commitment to diversification and innovation of the service, leveraging the potential of new technologies and the network of payment points (CTT post offices, Payshop agents and postal agencies). The business of services and means **of payment as a whole provided revenues of approximately €5.1m** in the quarter, of which the following stand out positively: the revenues from the new services, the integrated payment solutions and the payment of government's **Single Collection Documents**, mostly taxes.

In this period, efforts were made towards continuing to increase the number of payment points, reaching 4,245 Payshop agents, the highest number ever reached. And the strategy of providing new value-added services continued, in particular through the launch of the CTT Expresso parcel pick-up and drop-off service in the network of PuDo agents mentioned above, and the integration of the offering of international transfers by Western Union at some agents.

BANCO CTT

The recurring revenues of BANCO CTT business unit **reached €1.1m** in the 1st quarter of 2017 while in 2016 they almost did not exist given that the bank opened to the public on 18 March 2016.

One year after its opening, Banco CTT is installed countrywide in 203 CTT post offices, having earned the trust of over 150 thousand customers, evidenced in the opening of more than 114 thousand current accounts. These clients have established a relationship of trust and proximity with the bank, allowing for the growth of the institution, materialised in the capture of above 331 million euros of customer deposits.

From the 4th quarter of 2016 onwards, Banco CTT began offering its customers consumer credit products in partnership with BNP Paribas Personal Finance. To be highlighted are also the results obtained in the field of consumer credit in the 1st quarter of the year, with a production of more than **€7 million** in personal loans, above the total made by Banco CTT in 2016, and over 14 thousand credit cards sold in the period, which is also above the approximately 8,300 of the 4th quarter of 2016.

The 1st quarter of 2017 marked the launch of mortgage loans which expanded **the bank's offer and consolidated** its importance and support in the daily life of the Portuguese population. **Banco CTT's mortgage loans product** is a simple and innovative product, which includes a fast and user-friendly simulator, the support of experts and a mobile application, called Casa Banco CTT, allowing the client to contact the bank until the deed of sale of the property, as well as to conveniently send the required documentation without the need to physically go to a branch. The launch without advertising took place on 26 January 2017 and the first deeds were held on 17 March 2017; this week, the range of tools of a strong, impactful offer was completed with the Housing Credit by Banco CTT fully on the market.

In the next nine months of the year, the bank's goal is to continue to grow rapidly in terms of clients, who bring resources, thus allowing to achieve scale. Other objectives will also be the "monetisation" of the client portfolio, through the growth of credit granted, both consumer credit and mortgage loans, always focusing on meeting the increasingly demanding needs of its customers. To do this, it will be fundamental to correspond and adapt to the market demands and environment, especially with regard to housing credit, where the conditions tend to be increasingly competitive. During this period, the bank will continue the planned opening of branches and expansion of its presence in some of the existing ones.



OPERATING COSTS¹

Recurring operating costs **totalled €148.9m, +€6.2m (+4.3%)** than in the same period of the previous year and including an increase of **€3.9m** in the recurring costs from Banco CTT.

Operating costs						
€ Million	Reported			Recurring		
	1Q17	1Q16	Δ	1Q17	1Q16	Δ
Operating costs ^(*)	152.1	145.4	4.6%	148.9	142.7	4.3%
External supplies & services	58.8	55.1	6.7%	56.9	53.6	6.3%
Staff costs	88.6	84.1	5.2%	87.4	83.0	5.3%
Other operating costs	4.7	6.1	-24.0%	4.6	6.1	-25.5%

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

Recurring external supplies & services (ES&S) costs increased by **6.3% (+€3.4m)** year-on-year. The cost reductions resulting from the optimisation and rationalisation of the operations and the distribution networks integration initiatives did not offset the increased costs, of which should be mentioned (i) **+€2.0m with Banco CTT**, (ii) **+€0.5m** refer to rents of buildings given the increased operating needs, (iii) **+€0.4m of costs with foreign operators due to the adjustments made in 2016**, and (iv) **+€0.5m of costs with transport of mail and parcels**, especially in Tourline with the expansion and strengthening of domestic routes (**+€0.2m**) and the creation of new routes associated with new clients (**+€0.3m**).

As far as staff costs are concerned, the **€4.4m (+5.3%)** increase in the recurring costs derives mainly from the following increased costs: (i) **+€1.8m in Banco CTT staff**, (ii) **+€0.6m in fixed-term contracted staff**, (iii) **+€0.3m of sales incentives within the financial services area**, (iv) **+€1.5m of health costs with active staff**, mainly hospital and clinic expenses, and other social benefits, and (v) **+€0.9m in salaries** (including holiday and Christmas bonuses) and charges on remuneration.

These increased costs were not offset by the reductions (i) resulting from the remuneration policy implemented which emphasises the variable component granted as employee profit-sharing (**-€0.4m**), and (ii) those related to compensations due as a result of the Company Agreement entered into in 2015 which ceased to be recognised in 2016 (**-€0.9m**).

STAFF

As at 31 March 2017, the CTT headcount consisted of 12,162 employees, 116 more (+1.0%) than as at 31 March 2016.

There was a reduction of 137 permanent employees and an increase of 253 with fixed-term contracts. With special impact on this change is the reduction in the staff of the Express & Parcels business unit, as a consequence of the distribution networks integration and optimisation of the integrated networks process in Portugal, and the staff reduction in CTT, S.A. central services as a result of the human resources optimisation plan. Conversely, the number of Banco CTT staff increased inherent to its initial growth stage.

The increase in fixed-term contract employees focused on the Mail business unit, (i) in the operations area as a result of a higher absenteeism rate in the period and the necessary process adaptation to the integration of the

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



express mail delivery within the mail delivery network and (ii) in the Retail Network as a consequence of the necessary reorganisation to perform banking operations in the CTT post offices which involved a high inflow of clients wishing to open an account.

It is expected that in the future this client inflow will be gradually reduced, as the on boarding of clients stabilises to levels compatible with the number of post offices with Banco CTT branches. In turn, the bank will gradually expand to more CTT post offices in order to meet the demand.

Headcount

	31.03.2017	31.03.2016	Δ 2017/2016	
Mail	9,873	9,659	214	2.2%
Express & Parcels	958	1,046	-88	-8.4%
Financial Services	91	93	-2	-2.2%
Banco CTT	177	97	80	82.5%
Other	1,063	1,151	-88	-7.6%
Total, of which:	12,162	12,046	116	1.0%
Permanent	11,231	11,368	-137	-1.2%
Fixed-term contracts	931	678	253	37.3%
Total in Portugal	11,734	11,604	130	1.1%

The number of employees includes 6,725 mail operations and delivery staff (including 4,686 delivery postmen) and 2,759 employees in the Retail Network.

In the 1st quarter of 2017, 38 employees were hired (33 in Portugal, 11 of whom for Banco CTT, and 5 abroad, specifically for Tourline Express), while 52 left. Of these, 13 employees retired, 31 terminated their labour contracts or are on leave without pay or similar situations (13 of whom abroad: 10 at Tourline Express and 3 at Corre) and 8 passed away.

RECURRING EBITDA

The operating activity generated a recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results) of €28.0m, 20.2% (-€7.1m) below that of the same period of 2016, with an EBITDA margin of 15.8%. Excluding the effect of the Altice revenues in the 1st quarter of 2016, the change in recurring EBITDA versus the same period of the previous year would have been -14.1% (-€4.6m).

It should be mentioned that even this recurring EBITDA is strongly affected by recurring costs with Banco CTT, which at this growth stage, still has no relevant income in relation to the structure already created. EBITDA of Banco CTT business unit decreased by €2.9m vis-à-vis the 1st quarter of 2016. It is expected that as from the 3rd quarter of 2017 it will be better than that of the same period of 2016 due to revenues growth.

Not including these costs from Banco CTT and the revenues from the Altice agreement, the decrease in recurring EBITDA would have been 7.3% (-€2.6m).



Consolidated EBITDA by Business Unit

€ Million	Reported			Recurring			Weight %	
	1Q17	1Q16	Δ	1Q17	1Q16	Δ	1Q17	1Q16
Mail	22.4	28.1	-20.2%	24.6	27.8	-11.6%	88%	79%
Express & Parcels	-0.1	0.1	-171.6%	0.2	0.2	-10.8%	1%	0%
Financial Services	9.0	7.5	20.3%	9.0	7.5	20.7%	32%	21%
Banco CTT	-6.5	-4.1	-58.9%	-5.8	-2.9	101.6%	-21%	-8%
Altice	-	2.5	-	-	2.5	-	-	7%
EBITDA	24.9	34.2	-27.2%	28.0	35.1	-20.2%	100%	100%

Note: Excludes the revenues from the Altice agreement (€2.5m) in the 1st quarter of 2016.

RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax and non-recurring results) amounted to €21.4m, -€7.6m (-26.3%) than in the same period of 2016. The EBIT margin stood at 12.1%.

The consolidated net financial result reached -€1.1m, which represents a €0.1m (+8.4%) increase vis-à-vis the same period of 2016. Financial costs incurred amounted to €1.3m, mainly incorporating financial costs corresponding to the financial effect in the amount of €1.3m associated with the discount rate of employee benefits and also, but of less relevance, interest related to financial leasing and bank loans operations (€0.04m). Interest and other financial income increased by 14.7% (+€0.03m) in relation to the figures of the 1st quarter of 2016 due to the reduced rates of return on time deposits, the reduction in the liquidity levels as a result of the investment in Banco CTT, and the continued conservative treasury management policy.

CTT obtained a €10.3m consolidated net profit attributable to shareholders, which is 50.0% below that of the 1st quarter of 2016 and corresponding to a result of €0.07 per share and to a 5.8% net profit margin on the revenues. Excluding the non-recurring effects in both periods, as well as the expenditure with Banco CTT at this launch stage, the net profit would have decreased by 16.3% to €19.1m.

NON-RECURRING COSTS AND REVENUES

In the 1st quarter of 2017, CTT recorded non-recurring results of -€3.8m.

Non-recurring costs and revenues

€ Million	1Q17	1Q16
Total	-3.8	2.0
affecting EBITDA	-3.1	-0.9
• Other operating income	0.0	1.7
• External supplies & services and other costs	-2.0	-1.6
• Staff costs	-1.1	-1.1
affecting only EBIT	-0.7	2.9
• Provisions (reinforcements / reductions)	0.0	3.2
• Impairments (losses / reductions)	-0.7	-0.3



ES&S costs include €1.9m of costs incurred with studies and consulting on strategic projects, especially those related to (i) **the Banco CTT implementation project (€1.0m)**, (ii) the commercial **excellence programme (€0.4m)**, and (iii) consulting on other projects **(€0.5m)**.

Under staff costs is included the negative impact of (i) €0.5m associated with termination of employment contracts by mutual agreement and (ii) €0.6m corresponding to the difference between the “**long-term variable remuneration – share plan**” liability, which was previously recognised, and the amount of the cost of the treasury shares granted to the Executive Directors of the Company.

The depreciation/amortisation, impairments, and net provisions posted a reversal net of increments amounting **to €0.7m broken down into: €0.3m of depreciation/amortisation regarding the Banco CTT project and €0.3m of increased costs relative to net impairments** resulting from the optimisation of the Express & Parcels business unit, due to the restructuring of the Tourline network.

INVESTMENT

Capex of the Group stood at €1.9m, which is 60.2% below that of the same period of last year (€4.7m), allocated mainly to **IT systems (€1.3m)** and works in buildings and premises, furniture and other equipment to adapt CTT post offices to Banco CTT **(€0.4m)**.

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased from €17.6m in the 1st quarter of 2016 **to €70.6m** in the 1st quarter of 2017. The adjusted operating free cash flow (excluding the change in net financial services payables) stood at €17.2m.

The change in cash amounted to -€29.5m, a positive change of €1.1m versus the 1st quarter of 2016. Excluding the change in the financial services receivables/payables (-€43.5m), the change in cash **was €14.0m**. This situation results mostly from: (i) **+€54.0m** from Banco CTT's operating cash flows; (ii) **+€16.6m** of cash flow from the operating activities (excluding the financial services and Banco CTT's cash flows); (iii) -€43.5m relative to the change in the financial services receivables/payables; (iv) **-€14.2m** relative to payments regarding tangible and intangible fixed assets; and (v) -€39.8m of financial assets held by Banco CTT.



Cash flow

€ Million

	Reported			Adjusted (*)		
	1Q17	1Q16	Δ	1Q17	1Q16	Δ
Cash flow from operating activities	27.1	-15.4	275.8%	70.6	17.6	300.3%
Cash flow without Fin. Services and Banco CTT	-	-	-	16.6	16.0	3.5%
Cash flow Banco CTT	-	-	-	54.0	1.6	»
Cash flow from investment activities	-53.4	-14.8	-260.1%	-53.4	-14.8	-260.1%
Capex	-14.2	-14.7	3.8%	-14.2	-14.7	3.8%
Of which cash flow Banco CTT	-	-	-	-0.8	-2.5	66.8%
Financial assets Banco CTT (**)	-39.8	-1.0	«	-39.8	-1.0	«
Other	0.5	0.9	-40.1%	0.5	0.9	-40.1%
Operating Free cash flow	-26.3	-30.3	13.1%	17.2	2.8	513.6%
Cash flow from financing activities	-0.6	-0.3	-86.8%	-0.6	-0.3	-86.8%
Other (***)	-2.5	-	-	-2.5	-	-
Net change in cash	-29.5	-30.6	3.8%	14.0	2.5	471.0%
	31.03.2017	31.12.2016	Δ	31.03.2017	31.12.2016	Δ
Cash and equivalents at the end of the period	589.4	618.8	-4.8%	309.3	295.3	4.7%

(*) Cash flow excluding change in net Financial Services payables (-€43.5m in 1Q17 and -€33.1m in 1Q16).

Cash and equivalents at the end of the period excluding net Financial Services payables (€280.0m in March 2017 and €323.5m in December 2016).

(**) Includes financial assets available for sale, investments held to maturity and other banking financial assets of Banco CTT.

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

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 31.03.2017 and that at the end of the 2016 financial year are as follows:

Total assets reached **€1,352.1m**, an **increase of €35.4m** (+2.7%), of which **€229.2m** relative to financial assets held by Banco CTT, broken down as follows: (i) **€138.3m** of investments held to maturity and available-for-sale financial assets; (ii) **€6.3m** of other banking financial assets, mostly investments in credit institutions and in the interbank market; and (iii) **€24.6m** of credit to banking clients, especially factoring operations and housing credit. Within the total assets, mention should be made to **the €29.5m decrease in cash and equivalents**.

Equity increased by **€11.0m** (+4.7%) as a result of the net profit of the period before the payment of dividends relative to the 2016 financial year.

On 31 January 2017, a total of 600,530 own shares were granted to the Executive Directors of the Company as long-term variable remuneration, thus reducing the corresponding reserve by **€5.1m**.

Liabilities increased by **€24.4m** (+2.3%) with the following changes thereto: (i) **€77.4m** increase of Banco CTT customer deposits; (ii) **the €13.0m increase in current liabilities**, due to the holiday accrual and holiday bonus relative to the three months of the current year, as the accruals of 31.12.2016 have not yet been spent; and (iii) **€63.9m decrease of current payables**, **€46.7m** of which refer to financial services payables.



Consolidated Balance Sheet

€ Million	31.03.2017	31.12.2016	Δ
Non-current Assets	482.0	452.6	6.5%
Current Assets	870.1	864.1	0.7%
Assets	1,352.1	1,316.7	2.7%
Equity	244.3	233.3	4.7%
Total Liabilities	1,107.8	1,083.4	2.3%
Non-current Liabilities	268.0	269.5	-0.6%
Current Liabilities	839.8	813.8	3.2%
Total Equity and Liabilities	1,352.1	1,316.7	2.7%

As at 31 March 2017, the liabilities related to employee benefits **amounted to €266.8m**, 2.0% below those registered in December 2016, broken down as shown in the table below.

Liabilities related to long-term employee benefits

€ Million	31.03.2017	31.12.2016	Δ
Total responsibilities	266.8	272.3	-2.0%
Healthcare	248.7	249.1	-0.1%
Staff (suspension agreements)	4.9	5.5	-10.3%
Other benefits to Corporate Bodies	-	4.5	-
Other long-term benefits	13.1	13.2	-0.6%

2. OTHER HIGHLIGHTS

TRANSFORMATION PROGRAMME²

■ OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS

In the 1st quarter of 2017, the restructuring of the operating cycle, as well as the expansion and review of the integration of the Mail and Express & Parcels distribution networks proceeded with a view to increasing the productivity. At this stage, it is intended to improve the efficiency of the integrated networks.

Following the initiatives carried out in recent years to better profit from the mail distribution capacity for the delivery of EMS, in the 1st quarter of 2017, approximately 76% of all the EMS volumes were delivered by the mail distribution network (69% in the same period of 2016). Given the reduced idle capacity of the Mail network, the need for hiring staff on fixed-term contracts to fill holiday periods and absenteeism has increased.

From January 2017, the operating process of Geocontacto (a CTT product) started to be fully undertaken by the mail network. This has allowed, on the one hand, to maximise **this network's installed capacity and, on the other**, to reduce the costs of outsourcing this activity.

² Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



Also noteworthy was the preparation during the 1st quarter for the implementation of the NARPEL (New Logistics Network Architecture) project involving changes to the EMS routing model, the video-coding operating model and several other changes to the operating models of the North and South Production and Logistics Centres.

Finally, due to its impact on the operation of international e-commerce volumes, it is worth noting the introduction of changes in activities related to Customs that aim to streamline processes.

- INFORMATION SYSTEMS STRATEGIC PLAN

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

In the 1st quarter of 2017, in the field of transformation of applications and highlighting only the most important initiatives, the implementation of the new revenue assurance solution and of the CTT information management platform proceeded, and the following were provided: the support system for the new Mail Advertising (CTT Ads) offer, the New Modular Express & Parcels Offer and the web multi-product form as a the new model for posting contractual mail.

New Business Solutions services and new process integration models were completed and the second version of the CTT App was launched, while new services therefor are expected to be launched very soon. The ViaCTT and CTT Espresso Apps were developed, allowing for greater interactivity and increased offer of services and information to the final consumer/user.

The development of the Rental Management solution has started. This new web offer will allow the landlords who have rented houses or commercial premises to benefit from a rental management service on a self-service basis.

In the area of transformation of infrastructures, the consolidation of the Windows servers pool has started, which allows for significant savings of maintenance costs and strong performance improvements. Also, the storage consolidation project has started with the aim of reducing maintenance costs, increasing performance and providing CTT with the new backup/replacement and data storage platform.

CTT Ads

In January 2017, a new integrated advertising solutions service was launched that enables micro, small and medium-sized companies to design, produce and contract advertising campaigns through the online solution www.cttads.pt. This turnkey solution allows companies to manage their advertising campaigns autonomously, simply and effectively. For this, the user only has to define his/her communication goals and create his/her own campaign. CTT ensures all the rest of the process, from printing (Mailtec) to delivery of the messages via mail, email or SMS channels.

At this stage, when the customers are still experimenting the service, it has not yet originated the expected growth in advertising mail but the first indicators are positive: until the 1st quarter of 2017, 50 thousand accesses were counted, 2 thousand business customers have registered, and 3 thousand advertising campaigns designed.



REGULATORY FRAMEWORK

Complying with the pricing criteria as defined by a decision of ANACOM of 21.11.2014³, the proposal on the prices of the universal postal service submitted by CTT on 31.01.2017, and subsequently adjusted⁴, was approved by ANACOM by a deliberation of 28.03.2017. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 04.04.2017. This update corresponds to a 2.4% annual average change of the price of the letter mail, editorial mail and parcels basket of services, excluding the offer of the universal service to bulk mail senders, to whom the special pricing arrangement applies. In terms of prices and as far as the special prices for postal services included in the universal postal service⁵ applicable to bulk mail senders are concerned, these were also updated on 04.04.2017, following a proposal submitted to the Regulator on 24.03.2017.

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

As regards the quality of the universal postal service, following the new Postal Law, as of 01.10.2016 the quality of service levels started to be measured by an independent external entity and its operation is carried out by an international company⁶, which will ensure the operation of the measurement system throughout the current year. Following some deficiencies detected in the measurement process, this entity is currently implementing a number of improvements to the measurements.

By order of the Secretary of State for Infrastructures of 17.02.2017, following a proposal presented by ANACOM, the application of ten contractual fines, totalling €151,000, was determined for the alleged breach of CTT obligations that are foreseen in the Concession Agreement of the Universal Postal Service, namely postal network density and minimum service offer obligations, for the period from 01.01.2014 to 30.06.2015.

Notwithstanding disagreeing with the decision that was made and because it is obliged to make the respective payment, CTT completed the payment of those contractual fines. As it fully states in its pronouncement, at a prior hearing, CTT continues to consider that there is no basis or opportunity for the application of contractual fines. CTT does not agree with the decision communicated and is evaluating its foundations and the legal means at its disposal.

TRANSPORTA PURCHASE AGREEMENT

As previously announced, on 15 December 2016, CTT entered into an agreement for the acquisition of the total **share capital of "Transporta - Transportes Porta a Porta, S.A."**, subject to a set of conditions precedent.

On 2 March 2017, CTT has been notified of the Competition Authority's decision not to oppose it and, as the acquisition is still subject to other agreed suspensive conditions, diligence has been carried in order to ensure their speedy verification and it is expected that the purchase will be completed during the 2nd quarter of 2017.

This transaction **falls within the scope of CTT's** expansion and diversification strategy, both by adding to its portfolio a new offer of delivery of items above 30 kg and creating a new growth platform within the last-mile logistics, thus adding value to its customers.

³ Under article 14(3) of Law no. 17/2012, of 26 April (Postal Law), as amended by Decree-Law no. 160/2013, of 19 November, and Law no. 16/2014, of 4 April.

⁴ On 24.02.2017 and 20.03.2017.

⁵ As amended by article 4 of Decree-Law no. 160/2013, of 19 November.

⁶ Price Waterhouse Coopers / AG – Assessoria de Gestão, Lda.



In order to ensure the maximisation of the synergies resulting from this acquisition, a plan is underway to incorporate Transporta within the CTT universe; specifically, several workstreams were created, managers designated and objectives defined, encompassing the various areas and stages of integration.

3. SUBSEQUENT EVENTS

Election of the new members of the Board of Directors and the Audit Committee at the Annual General Meeting held on 20 April, following which the composition of those corporate bodies is as follows:

Board of Directors

Chairman:	António Sarmiento Gomes Mota
Vice- Chairman:	Francisco José Queiroz de Barros de Lacerda
Members:	André Manuel Pereira Gorjão de Andrade Costa Dionizia Maria Ribeiro Farinha Ferreira Nuno de Carvalho Fernandes Thomaz José Manuel Baptista Fino Céline Dora Judith Abecassis-Moedas António Pedro Ferreira Vaz da Silva Francisco Maria da Costa de Sousa de Macedo Simão João Afonso Ramalho Sopas Pereira Bento Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia Belén Amatriain Corbi Rafael Caldeira de Castel-Branco Valverde

Audit Committee

Chair:	Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia
Members:	Nuno de Carvalho Fernandes Thomaz Belén Amatriain Corbi

The Board of Directors has appointed the new members for the Executive Committee and the Corporate Governance, Evaluation and Nominating Committee, which are currently composed of the following members:

Executive Committee

Chairman:	Francisco José Queiroz de Barros de Lacerda
Members:	André Manuel Pereira Gorjão de Andrade Costa Dionizia Maria Ribeiro Farinha Ferreira António Pedro Ferreira Vaz da Silva Francisco Maria da Costa de Sousa de Macedo Simão

The General Meeting held on 20 April also approved the proposal for the election of the members of the Board of the General Meeting and of the Remuneration Committee, which currently present the following composition:

Board of the General Meeting

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



Remuneration Committee

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

The Annual General Meeting held on 20 April 2017 approved a resolution regarding (i) a decrease in the share capital, **to release capital surplus, from €75m to €25.5m**, representing a **decrease in the amount of €49.5m to be transferred to free reserves** (through the reduction of the nominal value of each share **from €0.50 to €0.17**), and a **share capital increase from €25.5m to €75m**, representing an increase of **€49.5m** (through the increase of the nominal value of each share **from €0.17 to €0.50**, maintaining unchanged article 4(1) and (2) of the Articles of Association of CTT) to be carried out by way of incorporation of reserves in the caption retained earnings arising from revaluations of tangible fixed assets carried out under special legislation, in the amount of **€44m** and other retained earnings in the amount of **€5.5m**; and (ii) adjustment of the amount of the Company's legal reserve, which will thus amount to **€15m**, by transferring the amount of **€3m** to free reserves. The application for commercial registration of said operation of share capital decrease and increase was submitted on 27 April 2017 and is already concluded.

The **Banco CTT share capital increase from €85m to €125m** by means of a new cash inflow of **€40m** from the Single Shareholder, CTT - Correios de Portugal, S.A., gave rise to the issuance of 40,000,000 new ordinary shares with no nominal value, in book-entry form and at an **issue value of €1.00 each**. This capital increase, which is fully subscribed and paid up on 27 April 2017, is in line with the Plans for 2016-2018 and 2017-2019 approved by the Board of Directors of the bank on 17 November 2015 and 16 December 2016, as well as with the information communicated in the Capital Markets Day.

4. FUTURE PERSPECTIVES

After a year of 2016 marked by the decrease in revenues, the 1st quarter of 2017 witnessed a growth in Sales and Services Rendered. This fact, combined with the **coming quarters'** projected gradual and growing contribution of the revenue-generating initiatives launched in recent months, allows to maintain the revenues growth expectation for 2017 with a greater contribution from growth levers such as Express & Parcels, Banco CTT and Financial Services, considering the continued stable performance of the Mail business unit revenues.

The 3.7% decrease in addressed mail volumes in the period, within the range of the expected rate of decrease arising from the normal substitution effect, allowed to confirm the expectation that the 7.2% drop in the 4th quarter of 2016 did not yet represent a more negative trend. The performance of the 2nd quarter of 2017 will be relevant to confirm the guidance for mail volumes decline for 2017, which will be important to support the consolidated revenues growth, as it is a fundamental condition to stabilise revenues in the Mail business unit, which will benefit from the positive impact of the price update of April.

The integration of Transporta in the 2nd half of 2017, after the closing of the acquisition expected in the 2nd quarter, will allow to expand the CTT offer in the area of Express & Parcels, further enhancing this growth lever. Together with this initiative in Portugal, the restructuring project in Spain should bring revenues growth to this business unit.

The growing impact on costs of the measures within the Transformation Programme², as well as the comparatively positive contribution of Banco CTT's **EBITDA** as from the 3rd quarter (compared to 2016), support the expectation of improved profitability of CTT at consolidated EBITDA level. This will underscore the potential to maximise the profitability potential of the CTT Group's businesses based on the use of its unique networks.

² Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



CTT is considering non-organic growth opportunities to consolidate its business units as future growth levers. The achievement of these opportunities could foster the growth acceleration mentioned above and further maximise the economies of scale and scope of the Group.

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1st quarter of 2017, which are attached hereto.

Lisbon, 28 April 2017

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code and is also available on CTT's Investor Relations website at:

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

CTT – Correios de Portugal, S.A.

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

Forward-looking statements

This document contains forward-looking statements. All the statements herein which are not historical facts, including, but not limited to, statements expressing our current opinion or, as applicable, those of our directors regarding the financial performance, the business strategy, the management plans and objectives concerning future operations and investments are forward-looking statements. *Statements that include the words “expects”, “estimates”, “foresees”, “predicts”, “intends”, “plans”, “believes”, “anticipates”, “will”, “targets”, “may”, “would”, “could”, “continues” and similar statements* of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements included herein involve known and unknown risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results, performance or achievements to differ materially from those indicated in these statements. Any forward-looking statements in this document reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the results of our operations, growth strategy and liquidity, and the wider environment (specifically, market developments, investment opportunities and regulatory conditions).

Although CTT believes that the assumptions beyond such forward-looking statements are reasonable when made, any third parties are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of CTT, what could cause the models, objectives, plans, estimates and / or projections to be materially reviewed and / or actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Forward-looking statements (in particular, the objectives, estimates and projections as well as the corresponding assumptions) do neither represent a commitment regarding the models and plans to be implemented, nor are they guarantees of future performance, nor have they been reviewed by the auditors of CTT. You are cautioned not to place undue reliance on the forward-looking statements herein.

All forward-looking statements included herein speak only as at the date of this document. Except as required by applicable law, CTT does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



3 months report 2017

Interim condensed consolidated
financial statements



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017 AND 31 DECEMBER 2016

Euros

		Unaudited	
	NOTES	31.03.2017	31.12.2016
Non-current assets			
Tangible fixed assets	4	204,593,764	208,921,781
Investment properties	6	9,152,671	9,291,983
Intangible assets	5	38,074,326	38,916,723
Goodwill		7,700,739	7,700,739
Investments in associated companies		296,260	296,260
Other investments		1503,572	1503,572
Investments held to maturity	8	129,379,648	93,986,115
Other non-current assets		1324,913	1306,148
Financial assets available for sale	9	4,260,957	4,473,614
Other banking financial assets	10	136,503	-
Deferred tax assets	24	84,569,568	86,220,762
Total non-current assets		481,992,921	452,617,698
Current assets			
Inventories		5,458,248	5,407,685
Accounts receivable		127,350,945	122,113,270
Credit to bank clients	11	24,621,502	7,103,905
Income taxes receivable	21	-	3,587,614
Deferrals	12	7,041,530	6,128,931
Investments held to maturity	8	195,1739	1108,428
Other current assets		37,725,995	30,033,571
Financial assets available for sale	9	2,663,104	1973,711
Other banking financial assets	10	65,161,713	59,054,303
Cash and cash equivalents		589,359,132	618,811,099
		861,333,908	855,322,515
Non-current assets held for sale		8,756,999	8,756,999
Total current assets		870,090,907	864,079,515
Total assets		1,352,083,828	1,316,697,213
EQUITY AND LIABILITIES			
Equity			
Share capital	14	75,000,000	75,000,000
Own shares	15	(8)	(5,097,536)
Reserves	15	30,421,215	34,891,671
Retained earnings	15	155,760,024	93,589,211
Other changes in equity	15	(27,137,824)	(27,137,824)
Net profit		10,334,491	62,160,395
Equity attributable to equity holders		244,377,898	233,405,918
Non-controlling interests		(98,642)	(79,135)
Total equity		244,279,256	233,326,782
Liabilities			
Non-current liabilities			
Accounts payable		383,006	375,379
Medium and long term debt		126,933	127,145
Employee benefits		249,545,776	250,445,608
Provisions	18	13,510,661	14,127,483
Deferrals	12	329,866	334,191
Deferred tax liabilities	24	4,061,812	4,123,146
Total non-current liabilities		267,958,054	269,532,952
Current liabilities			
Accounts payable	19	381,003,629	444,863,700
Banking client deposits and other loans	20	331,363,620	253,944,840
Employee benefits		17,280,757	17,390,573
Income taxes payable	21	1,169,335	-
Short term debt		9,190,151	9,679,829
Deferrals	12	3,181,065	4,177,609
Other current liabilities		95,528,149	82,562,725
Other banking financial liabilities	10	1,129,812	1,218,205
Total current liabilities		839,846,518	813,837,479
Total liabilities		1,107,804,572	1,083,370,431
Total equity and liabilities		1,352,083,828	1,316,697,213

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



CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2017 AND 31 MARCH 2016

Euros

		Unaudited	Unaudited
	NOTES	3103.2017	3103.2016
Revenues		176,955,596	179,599,870
Sales and services rendered	3	173,154,253	170,623,181
Financial margin		405,226	8,103
Other operating income	22	3,396,117	8,968,586
Operating costs		(159,372,663)	(148,590,087)
Cost of sales		(2,196,673)	(3,355,816)
External supplies and services		(58,832,248)	(55,115,156)
Staff costs	23	(88,564,004)	(84,146,966)
Impairment of accounts receivable, net		(63,791)	(25,661)
Impairment of other financial banking assets		(9,002)	-
Provisions, net	18	(58,032)	3,055,562
Depreciation/amortisation and impairment of investments, net		(7,178,552)	(6,220,016)
Other operating costs		(2,470,361)	(2,782,034)
Earnings before financial income and taxes		17,582,933	31,009,783
Financial results		(1078,614)	(1,178,113)
Interest expenses		(1,344,392)	(1,600,222)
Interest income		265,778	232,333
Gains/losses in associated companies		-	189,776
Earnings before taxes		16,504,319	29,831,670
Income tax for the period	24	(6,199,753)	(9,204,135)
Net profit for the period		10,304,566	20,627,535
Net profit for the period attributable to:			
Equity holders		10,334,491	20,671,965
Non-controlling interests		(29,925)	(44,430)
Earnings per share:	17	0.07	0.14

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2017 AND 31 MARCH 2016

Euros

	NOTES	Unaudited 3103.2017	Unaudited 3103.2016
Net profit for the period		10,304,566	20,627,535
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)	15	10,418	-
Changes to fair value reserves	15	10,181	(1537)
Employee benefits (non re-classifiable adjustment to profit and loss)		-	408,277
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)		-	(115,787)
Other changes in equity		10,418	(11,134)
Other comprehensive income for the period after taxes		31017	279,819
Comprehensive income for the period		10,335,584	20,907,354
Attributable to non-controlling interests		(19,507)	(75,925)
Attributable to shareholders of CTT		10,355,090	20,983,279

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



CTT - CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 MARCH 2017 AND 31 DECEMBER 2016
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 2016	75,000,000	(18,73,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Appropriation of net profit for the year of 2015	-	-	-	-	72,065,283	(72,065,283)	-	-
Dividends	-	-	-	-	(70,264,192)	-	-	(70,264,192)
Acquisition of own shares	-	(3,224,411)	-	-	-	-	-	(3,224,411)
Share plan	-	(3,224,411)	1,493,546	-	-	-	-	1,493,546
	-	-	1,493,546	-	1,800,491	(72,065,283)	-	(71,995,658)
Other movements	-	-	-	-	40,906	-	8,871	49,777
Actuarial gains/losses - Health Care, net from deferred taxes	-	-	-	(8,492,992)	-	-	-	(8,492,992)
Changes to fair value reserves	-	-	14,014	-	-	-	-	14,014
Adjustments from the application of the equity method	-	-	-	-	19,820	-	-	19,820
Net profit for the period	-	-	-	-	-	62,160,395	(263,328)	61,897,067
Comprehensive income for the period	-	-	14,014	(8,492,992)	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)	93,589,211	62,160,395	(79,185)	233,326,782
Balance on 1 January 2017	75,000,000	(5,097,536)	34,891,671	(27,137,824)	93,589,211	62,160,395	(79,185)	233,326,782
Appropriation of net profit for the year of 2016	-	-	-	-	62,160,395	(62,160,395)	-	-
Attribution of own shares	-	5,097,527	(4,480,638)	-	-	-	-	616,890
	-	5,097,527	(4,480,638)	-	62,160,395	(62,160,395)	-	616,890
Other movements	-	-	-	-	-	-	10,418	10,418
Changes to fair value reserves	-	-	10,181	-	-	-	-	10,181
Adjustments from the application of the equity method	-	-	-	-	10,418	-	-	10,418
Net profit for the period	-	-	-	-	-	10,334,491	(29,925)	10,304,566
Comprehensive income for the period	-	-	10,181	-	10,418	10,334,491	(19,507)	10,335,584
Balance on 31 March 2017 (unaudited)	75,000,000	(8)	30,421,215	(27,137,824)	155,760,024	10,334,491	(98,642)	244,279,256

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



CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2017 AND 31 MARCH 2016

Euro

	NOTES	Unaudited 31.03.2016	Unaudited 31.03.2016
Operating activities			
Collections from customers		154,596,518	165,703,601
Payments to suppliers		(61,125,202)	(73,600,315)
Payments to employees		(72,574,482)	(69,195,922)
Banking customer deposits and other loans		77,554,882	5,987,697
Credit to bank clients		(17,528,692)	-
Cash flow generated by operations		80,923,023	28,895,061
Payments/receivables of income taxes		(257,669)	238,011
Other receivables/payments		(53,535,319)	(44,565,348)
Cash flow from operating activities (1)		27,130,035	(15,432,276)
Investing activities			
Receivables resulting from:			
Tangible fixed assets		274,360	584,814
Financial assets available for sale		2,000,000	-
Investments held to maturity		368,695	-
Demand deposits at Bank of Portugal		2,502,745	-
Other banking financial assets		42,100,000	-
Interest income		270,195	324,134
Payments resulting from:			
Tangible fixed assets		(11,452,423)	(7,300,205)
Intangible assets		(2,738,330)	(6,878,448)
Financial investments		-	(566,456)
Financial assets available for sale		(2,500,000)	-
Investments held to maturity		(35,870,023)	(1,000,000)
Other banking financial assets		(48,375,000)	-
Cash flow from investing activities (2)		(53,419,781)	(14,836,161)
Financing activities			
Receivables resulting from:			
Loans obtained		1,850,000	7,137,974
Payments resulting from:			
Loans repaid		(2,000,000)	(4,524,364)
Interest expenses		(160,198)	(175,463)
Finance leases		(334,418)	(248,844)
Acquisition of own shares		-	(2,534,357)
Cash flow from financing activities (3)		(644,615)	(345,053)
Net change in cash and cash equivalents (1+2+3)		(26,934,361)	(30,613,490)
Changes in the consolidation perimeter		-	-
Cash and equivalents at the beginning of the period		613,845,248	603,649,717
Cash and cash equivalents at the end of the period		586,910,887	573,036,227
Cash and cash equivalents at the end of the period		586,910,887	573,036,227
Sight deposits at Bank of Portugal		1,289,589	-
Outstanding checks of Banco CTT / Checks clearing of Banco CTT		1,158,657	-
Cash and cash equivalents (Balance sheet)		589,359,132	573,036,227

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



CTT – CORREIOS DE PORTUGAL, S.A.

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

TABLE OF CONTENTS

1. INTRODUCTION	28
2. SIGNIFICANT ACCOUNTING POLICIES.....	29
2.1 Basis of presentation.....	29
3. SEGMENT REPORTING.....	29
4. TANGIBLE FIXED ASSETS	33
5. INTANGIBLE ASSETS	35
6. INVESTMENT PROPERTIES.....	37
7. COMPANIES INCLUDED IN THE CONSOLIDATION	38
8. INVESTMENTS HELD TO MATURITY.....	39
9. FINANCIAL ASSETS AVAILABLE FOR SALE	40
10. OTHER BANKING FINANCIAL ASSETS AND LIABILITIES.....	41
11. CREDIT TO BANK CLIENTS	42
12. DEFERRALS.....	42
13. ACCUMULATED IMPAIRMENT LOSSES.....	43
14. EQUITY	44
15. OWN SHARES, RESERVES, OTHER CHANGES IN EQUITY AND RETAINED EARNINGS	46
16. DIVIDENDS	49
17. EARNINGS PER SHARE	49
18. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS	50
19. ACCOUNTS PAYABLE	53
20. BANKING CLIENT DEPOSITS AND OTHER LOANS.....	53
21. INCOME TAXES RECEIVABLE /PAYABLE.....	54
22. OTHER OPERATING INCOME	54
23. STAFF COSTS	55
24. INCOME TAX FOR THE PERIOD	57
25. RELATED PARTIES	60
26. OTHER INFORMATION	60
27. SUBSEQUENT EVENTS	61



1. INTRODUCTION

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

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

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

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

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

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

The shares of CTT are listed on Euronext Lisbon.

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

These interim condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 28 April 2017.



2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted, including financial risk management policies, are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2016.

2.1 Basis of presentation

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IAS / IFRS") as adopted by the European Union as at 1 January 2017, and in accordance with IAS 34 - Interim Financial Reporting.

3. SEGMENT REPORTING

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

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

The business of CTT is organised in the following segments:

- Mail – CTT, S.A. excluding financial services, but including retail network, sales department, corporate and support areas, CTT Contacto, Mailtec Comunicação and Escrita Inteligente, S.A.;
- Express & Parcels – includes CTT Expresso, Tourline and CORRE;
- Financial Services – PayShop and CTT, S.A. Financial Services; and
- Banco CTT – Banco CTT, S.A..

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

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

Besides the above mentioned segments, there are two sales channels, which are common to all businesses and products, the Retail Network and Sales Department. 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 first quarter of 2017 and 2016 are analyzed as follows:

31.03.2017							
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated
Revenues	137,022,081	30,006,705	17,394,423	1,120,460	28,194,016	(36,782,090)	-
Sales and services rendered	127,304,731	29,515,095	17,139,177	-	-	(804,750)	-
Sales	2,885,895	192,374	-	-	-	-	-
Services rendered	124,418,836	29,322,721	17,139,177	-	-	(804,750)	-
Financial Margin	-	-	-	405,226	-	-	-
Operating revenues external customers	5,702,758	491,610	233,609	715,234	3,086,147	(6,833,242)	-
Internal services rendered	4,014,592	-	21,637	-	10,015,372	(14,051,601)	-
Allocation to CTT central structure	-	-	-	-	15,092,497	(15,092,497)	-
Operating costs	114,582,209	30,105,449	8,367,285	7,596,417	28,194,016	(36,782,090)	-
External supplies and services	25,306,721	24,470,574	2,053,908	4,155,556	10,384,229	(7,538,740)	-
Staff costs	62,155,133	5,212,606	1,686,890	3,270,964	16,330,783	(92,373)	-
Other costs	2,498,737	422,269	379,863	169,898	1,203,147	(6,880)	-
Internal services rendered	9,635,076	-	4,140,668	-	275,857	(14,051,601)	-
Allocation to CTT central structure	14,986,541	-	105,956	-	-	(15,092,497)	-
EBITDA ⁽¹⁾	22,439,873	(98,744)	9,027,138	(6,475,957)	-	-	-
Depreciation/amortisation and impairment of investments, net	(3,888,409)	(888,619)	(114,256)	(511,850)	(1,723,709)	-	(51,710)
Impairment of accounts receivable, net	-	-	-	-	-	-	(63,791)
Impairment of other financial banking assets	-	-	-	-	-	-	(9,002)
Provisions net	-	-	-	-	-	-	(58,032)
Interest expenses	-	-	-	-	-	-	(1,344,392)
Interest income	-	-	-	-	-	-	265,778
Gains/losses in associated companies	-	-	-	-	-	-	-
Earnings before taxes	-	-	-	-	-	-	16,504,319
Income tax for the period	-	-	-	-	-	-	(6,199,753)
Net profit for the period	-	-	-	-	-	-	10,304,566
Non-controlling interests	-	-	-	-	-	-	(29,925)
Equity holders of parent company	-	-	-	-	-	-	10,334,491

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



31.03.2016								
Euros	Mail	Express & Parcels	Financial Services	BancoCTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	138,923,088	30,082,604	16,516,931	124,300	25,430,886	(31,477,939)	-	179,599,870
Sales and services rendered	127,684,622	28,844,711	14,883,921	-	-	(790,072)	-	170,623,181
Sales	4,144,210	200,056	-	-	-	-	-	4,344,266
Services rendered	123,540,412	28,644,655	14,883,921	-	-	(790,072)	-	166,278,916
Financial Margin	-	-	-	8,103	-	-	-	8,103
Operating revenues external customers	7,107,082	1,237,893	16,115,401	116,197	5,441,558	(6,545,684)	-	8,968,586
Internal services rendered	4,131,384	-	214,711	-	8,771,086	(12,923,941)	-	-
Allocation to CTT central structure	-	-	-	-	11,218,242	(11,218,242)	-	-
Operating costs	109,957,603	29,111,308	8,177,243	4,200,872	25,430,886	(31,477,939)	-	145,399,973
External supplies and services	24,148,279	22,947,103	2,423,942	2,665,660	10,256,520	(7,326,347)	-	55,115,156
Staff costs	62,233,424	5,543,982	13,115,976	1,470,173	13,588,263	(4,851)	-	84,146,966
Other costs	3,985,061	620,223	216,703	65,040	1,255,382	(4,558)	-	6,137,850
Internal services rendered	8,451,499	-	4,141,721	-	330,721	(12,923,941)	-	-
Allocation to CTT central structure	11,139,340	-	78,902	-	-	(11,218,242)	-	-
EBITDA ⁽¹⁾	28,965,485	971,297	8,339,688	(4,076,572)	-	-	-	34,199,897
Depreciation/amortisation and impairment of investments, net	(3,692,366)	(694,966)	(91,257)	(127,648)	(146,1808)	-	(15,197)	(6,220,016)
Impairment of accounts receivable, net	-	-	-	-	-	-	-	(25,661)
Provisions net	-	-	-	-	-	-	-	3,055,562
Interest expenses	-	-	-	-	-	-	-	(1,600,222)
Interest income	-	-	-	-	-	-	-	232,333
Gains/losses in associated companies	-	-	-	-	-	-	-	189,776
Earnings before taxes	-	-	-	-	-	-	-	29,831,670
Income tax for the period	-	-	-	-	-	-	-	(9,204,135)
Net profit for the period	-	-	-	-	-	-	-	20,627,535
Non-controlling interests	-	-	-	-	-	-	-	(44,430)
Equity holders of parent company	-	-	-	-	-	-	-	20,671,965

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

The revenues are detailed as follows:

Thousand Euros	31.03.2017	31.03.2016
Mail	137,022	138,923
Transactional mail	107,782	106,894
Editorial mail	4,102	4,282
Parcels (USO)	1,740	1,493
Advertising mail	7,337	7,373
Retail	1,736	4,334
Philately	1,650	1,192
Business Solutions	2,072	2,318
Other	10,605	11,037
Express & Parcels	30,007	30,083
Financial Services	17,394	16,517
Banco CTT	1,120	124
CTT Central Structure	28,194	25,431
Intragroup eliminations	(36,782)	(31,478)
	176,956	179,600



The assets by segment are detailed as follows:

Assets (Euros)	31.03.2017						
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
Intangible assets	3,358,603	3,937,049	438,343	18,343,520	8,034,381	3,962,430	38,074,326
Tangible fixed assets	173,285,145	13,165,593	647,569	186,873	15,164,094	2,144,490	204,593,764
Investment properties						9,152,671	9,152,671
Goodwill	7,294,638		406,101				7,700,739
Deferred tax assets						84,569,568	84,569,568
Accounts receivable						127,350,945	127,350,945
Credit to bank clients				24,621,502			24,621,502
Investments held to maturity				131,331,387			131,331,387
Financial assets available for sale				6,924,061			6,924,061
Other banking financial assets				66,298,216			66,298,216
Other assets						53,350,518	53,350,518
Cash and cash equivalents						589,359,132	589,359,132
Non-current assets held for sale						8,756,999	8,756,999
	183,938,386	17,102,642	1,492,013	247,705,559	23,198,475	878,646,753	1,352,083,828

Assets (Euros)	31.12.2016						
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
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

Debt by segment is detailed as follows:

Other information (Euros)	31.03.2017					
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Total
Medium and long-term debt	-	126,933	-	-	-	126,933
Bank loans	-	89,273	-	-	-	89,273
Leasings	-	37,660	-	-	-	37,660
Short-term debt	608,767	8,581,384	-	-	-	9,190,151
Bank loans	-	8,567,347	-	-	-	8,567,347
Leasings	608,767	14,038	-	-	-	622,804
	608,767	8,708,318	-	-	-	9,317,084



Other information (Euros)	31.12.2016					Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	
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

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

Thousand Euros	31.03.2017	31.03.2016
Revenue - Portugal	152,494	151,393
Revenue - other countries	20,660	19,230
	173,154	170,623

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

4. TANGIBLE FIXED ASSETS

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movements occurred in Tangible fixed assets, as well as in the respective accumulated depreciation and accumulated impairment, were as follows:

	31.03.2017							
	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	36,903,717	334,909,766	140,435,200	3,269,073	59,021,936	25,037,425	5,016,467	3,351,405
Acquisitions	-	68,197	78,159	432	306,552	20,230	218,283	58,036
Disposals	-	-	(156,001)	-	(23,804)	-	-	-
Transfers and write-offs	-	4,442,503	10,999,501	-	464,511	379,725	(3,733,259)	(2,652,982)
Adjustments	-	(464)	8,959	360	(82)	37,534	-	-
Closing balance	36,903,717	339,420,003	141,465,818	3,269,865	59,769,113	25,474,913	150,1491	756,459
Accumulated depreciation								
Opening balance	3,851,494	197,359,750	121,934,623	3,208,997	52,255,806	20,239,484	-	-
Depreciation for the period	-	2,390,249	1,705,893	10,126	776,408	259,721	-	-
Disposals	-	-	(150,064)	-	(23,804)	-	-	-
Adjustments	-	114	5,454	209	649	381	-	-
Closing balance	3,851,494	199,750,113	123,495,906	3,219,331	53,009,059	20,499,586	-	-
Accumulated impairment								
Opening balance	-	-	-	-	-	173,055	-	-
Other variations	-	-	-	-	-	(30,929)	-	-
Closing balance	-	-	-	-	-	142,126	-	-
Net Tangible fixed assets	33,052,223	339,669,889	17,969,912	50,535	6,760,054	4,833,201	150,1491	756,459



	31.12.2016								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	37,306,577	337,982,013	138,002,341	3,273,327	54,961,400	23,252,352	197,161	1,398,408	598,148,034
Acquisitions	-	313,458	6,625,240	9,779	4,156,018	193,7614	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)	-	-	(110,027)
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	337,550,016	140,500,576	60,077	6,766,130	4,624,886	5,016,467	3,351,405	208,921,781

During the three-month period ended 31 March 2017, Land and natural resources and Buildings and other constructions include 652,720 Euros (650,717 Euros as at 31 December 2016), related to land and property in co-ownership with MEO – Serviços de Comunicações e Multimédia, S.A..

During 2016, an exchange of 4 properties in co-ownership was made with MEO – Serviços de Comunicações e Multimédia, S.A., resulting in gains in the amount of 485,134 Euros.

During the three-month period ended 31 March 2017, the most significant movements in Tangible fixed assets were the following:

Buildings and other constructions:

The movements associated to acquisitions and transfers relate mostly to the capitalisation of repairs in own and third-party buildings of CTT.

Basic equipment:

The amount of acquisitions mainly relates to the purchase of ATM's in the amount of 23 thousand Euros and IT equipment worth approximately 41 thousand Euros by CTT. Tourline acquired pallets in the amount of 9 thousand Euros.

Office equipment:

The amount of acquisitions relates essentially to the purchase of various administrative equipment, namely safes and security doors totaling 18 thousand Euros, various office furniture worth about 50 thousand Euros and the acquisition of several micro-computing equipment for approximately 106 thousand Euros by CTT. Banco CTT acquired several IT equipment in the amount of 107 thousand Euros. In addition, Tourline acquired office furniture worth 16 thousand Euros.

Other tangible fixed assets:

The amount of acquisitions mainly relates to prevention and safety equipment for approximately 17 thousand Euros by CTT.

Tangible fixed assets in progress:

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

In the year ended 31 December 2016, the amounts recorded under write-offs, with particular emphasis on Basic equipment, are mainly due to the write-offs of CTT assets that were fully depreciated.



The depreciation recorded of 5,142,396 Euros (4,657,443 Euros on 31 March 2016), is booked under the heading Depreciation/amortisation and impairment of investments, net.

Contractual commitments related to Tangible fixed assets are as follows:

	31.03.2017
Electric vehicles	498,790
Hardware firewall networks	280,353
Improvements in properties - Banco CTT	186,621
Desktops e tablets	86,507
Safes and security doors	92,101
Upgrades to mail sorting machines	21,427
Servers upgrades	18,450
	<u>1,184,248</u>

5. INTANGIBLE ASSETS

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movements which occurred in the main categories of Intangible assets, as well as the respective accumulated amortisation, were as follows:

	31.03.2017					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	4,372,923	69,732,469	11,722,559	444,739	8,870,277	95,142,968
Acquisitions	-	240,045	-	-	853,980	1,094,025
Disposals	-	-	-	-	-	-
Transfers and write-offs	-	1,269,951	(16,833)	-	(2,941,184)	(1,688,066)
Adjustments	-	38,445	9,088	-	2,412	49,944
Closing balance	<u>4,372,923</u>	<u>71,280,911</u>	<u>11,714,814</u>	<u>444,739</u>	<u>6,785,485</u>	<u>94,598,871</u>
Accumulated amortisation						
Opening balance	4,360,060	43,021,166	8,400,280	444,739	-	56,226,245
Amortisation for the period	2,412	1,898,206	83,828	-	-	1,984,445
Disposals	-	-	-	-	-	-
Transfers and write-offs	-	(1,671,233)	(16,833)	-	-	(1,688,066)
Adjustments	-	-	1,921	-	-	1,921
Closing balance	<u>4,362,472</u>	<u>43,248,139</u>	<u>8,469,195</u>	<u>444,739</u>	<u>-</u>	<u>56,524,545</u>
Net intangible assets	<u>10,451</u>	<u>28,032,771</u>	<u>3,245,619</u>	<u>-</u>	<u>6,785,485</u>	<u>38,074,326</u>

	31.12.2016					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	4,372,923	48,455,024	12,004,296	444,739	12,175,413	77,452,395
Acquisitions	-	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	<u>4,372,923</u>	<u>69,732,469</u>	<u>11,722,559</u>	<u>444,739</u>	<u>8,870,277</u>	<u>95,142,968</u>
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)
Closing balance	<u>4,360,060</u>	<u>43,021,166</u>	<u>8,400,280</u>	<u>444,739</u>	<u>-</u>	<u>56,226,245</u>
Net intangible assets	<u>12,863</u>	<u>26,711,303</u>	<u>3,322,280</u>	<u>-</u>	<u>8,870,277</u>	<u>38,916,723</u>



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

The transfers occurred in the three-month period ended 31 March 2017 in Intangible assets in progress to Computer software refer to IT projects which were completed during the period.

The amounts of 225,902 Euros and 150,937 Euros that were capitalised in Computer software or in Intangible assets in progress as at 31 March 2017 and 31 March 2016, respectively, related to the staff costs incurred in the development of these projects.

As at 31 March 2017, Intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	31.03.2017
SGEE - System Management Express Shipping	1,529,541
Management information - software	1,087,084
International (E-CIP)	745,684
NAVE evolution	445,948
Mail products evolution	415,790
CBS - Core banking system	385,549
RAID - software	176,537
Contract Management and Budgeting - software	141,523
CTT Mobile	118,058
Audit management - software	117,751
OPICS - Treasury management	106,211
Payment platform - software	95,255
DOL - Treatment and generation of scales	90,874
	<u>5,455,805</u>

The amortisation for the period of 1,984,445 Euros (1,410,603 Euros as at 31 March 2016) was recorded under Depreciation / amortisation and impairment of investments, net.

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

Contractual commitments relative to Intangible assets are as follows:

	31.03.2017
CBS - Core Banking System	6,763,827
SAP S/4 Hana e SAP Hybris	2,214,000
APP Mobile 2.0 CTT	94,710
Riposte - NAVE	84,881
CRM - Microsoft Dynamics	59,000
Management and Maintenance of Bank Accounts	37,884
APP Mobility Android	32,472
Videoconferencing upgrade	29,608
SADIP - Dynamics Change Plans	18,670
APP Mobile CTT Expresso	9,970
	<u>9,345,021</u>



6. INVESTMENT PROPERTIES

As at 31 March 2017 and 31 December 2016, the Group has the following assets classified as investment properties:

31.03.2017				
	Land and natural resources	Buildings and other constructions	Investment properties in progress	Total
Investment properties				
Opening balance	3,921,049	18,372,780	-	22,293,828
Additions	-	-	43,152	43,152
Disposals	(99,826)	-	-	(99,826)
Transfers and write-offs	-	43,152	(43,152)	-
Closing balance	3,821,222	18,415,932	-	22,237,154
Accumulated depreciation				
Opening balance	210,097	11,500,249	-	11,710,347
Depreciation for the period	-	82,639	-	82,639
Disposals	-	-	-	-
Closing balance	210,097	11,582,888	-	11,792,986
Accumulated impairment				
Opening balance	-	1,291,498	-	1,291,498
Transfers/Adjustments	-	-	-	-
Closing balance	-	1,291,498	-	1,291,498
Net Investment properties	3,611,125	5,541,546	-	9,152,671

31.12.2016				
	Land and natural resources	Buildings and other constructions	Investment properties in progress	Total
Investment properties				
Opening balance	7,079,433	40,895,219	-	47,974,653
Additions	-	-	-	-
Disposals	(890,140)	(8,088,615)	-	(8,978,754)
Transfers and write-offs	(2,268,245)	(14,433,825)	-	(16,702,070)
Closing balance	3,921,049	18,372,780	-	22,293,828
Accumulated depreciation				
Opening balance	239,427	26,669,509	-	26,908,936
Depreciation for the period	-	569,250	-	569,250
Disposals	(25,824)	(5,432,025)	-	(5,457,848)
Transfers and write-offs	(3,506)	(10,306,485)	-	(10,309,991)
Closing balance	210,097	11,500,249	-	11,710,347
Accumulated impairment				
Opening balance	-	1,282,622	-	1,282,622
Transfers/Adjustments	-	8,876	-	8,876
Closing balance	-	1,291,498	-	1,291,498
Net Investment properties	3,710,951	5,581,032	-	9,291,983

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



During the year ended 31 December 2016, the amount of disposals relates to the sale of six properties having the corresponding gains, of 1.2 million Euros, been recorded in the caption Other operating income.

Depreciation for the period of 82,639 Euros (183,899 Euros on 31 March 2016) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals).

7. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 March 2017 and 31 December 2016, 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	31.03.2017			31.12.2016		
			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 1999-001 Lisboa	-	-	-	-	-	-
Subsidiaries:								
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Portugal	Lugar do Quintanilho 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Portugal	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
CTT Contacto, S.A. ^(a) ("CTT Con")	Portugal	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Mailtec Comunicação, S.A. ("Mailtec IT")	Portugal	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Tourline Express Mensajería, SLU. ("TourLine")	Spain	Calle Pedrosa C, 38-40 Hospital 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 1999-001 Lisboa	100	-	100	100	-	100
Banco CTT, S.A. ("BancoCTT")	Portugal	Av. D. João II N.º 11 1999-001 Lisboa	100	-	100	100	-	100

^(a) Previously named CTT Gest, S.A.

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

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

Tourline Express Mensajería, SLU, was, on 5 May 2016, 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 totaling 85,000,000 Euros.

Joint ventures

As at 31 March 2017 and 31 December 2016, the Group held the following interests in joint ventures, accounted for by the equity method:



Company name	Place of business	Head office	31.03.2017			31.12.2016		
			Percentage of ownership			Percentage of ownership		
			Direct	Indirect	Total	Direct	Indirect	Total
Ti-Post Prestação de Serviços informáticos, ACE ("Ti-Post") ^(a)	Portugal	R. do Mar da China, Lote 107.2.3 Lisboa	-	-	-	-	-	-
NewPost, ACE ^(b)	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) 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.

Associated companies

As at 31 March 2017 and 31 December 2016, the Group held the following interests in associated companies accounted for by the equity method:

Company name	Place of business	Head office	31.03.2017			31.12.2016		
			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, 114-4º. 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 three-month period ended 31 March 2017, there were no changes in the consolidation perimeter.

8. INVESTMENTS HELD TO MATURITY

As at 31 March 2017 and 31 December 2016, this caption showed the following composition:

	31.03.2017	31.12.2016
Non-current		
Debt securities and other fixed-income securities		
Public issuers	114,655,237	78,863,164
Other issuers	14,724,411	15,122,951
	<u>129,379,648</u>	<u>93,986,115</u>
Current		
Debt securities and other fixed-income securities		
Public issuers	1,722,233	878,115
Other issuers	229,506	230,313
	<u>1,951,739</u>	<u>1,108,428</u>
	<u>131,331,387</u>	<u>95,094,543</u>

The analysis of the residual maturity of the investments held to maturity as at 31 March 2017 and 31 December 2016, is detailed as follows:



31.03.2017					
	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	1722,233	-	12,154,369	102,500,868	-
Other issuers	24,607	204,899	-	14,724,411	-
	<u>1746,840</u>	<u>204,899</u>	<u>12,154,369</u>	<u>117,225,279</u>	<u>-</u>
					<u>131,331,387</u>

31.12.2016					
	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	-
	<u>900,933</u>	<u>207,495</u>	<u>12,256,862</u>	<u>81,729,253</u>	<u>-</u>
					<u>95,094,543</u>

9. FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 March 2017 and 31 December 2016, the composition of this heading is as follows:

	31.03.2017	31.12.2016
Non-current		
Debt securities and other fixed-income securities		
Public issuers	544,825	540,400
Other issuers	<u>3,716,132</u>	<u>3,933,214</u>
	<u>4,260,957</u>	<u>4,473,614</u>
Current		
Debt securities and other fixed-income securities		
Public issuers	143,743	139,180
Other issuers	<u>2,519,361</u>	<u>1,834,531</u>
	<u>2,663,104</u>	<u>1,973,711</u>
	<u>6,924,060</u>	<u>6,447,325</u>

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

31.03.2017				
	Cost ⁽¹⁾	Fair value reserve	Impairment losses	Total
Debt securities and other fixed-income securities				
Public-debt securities				
National	681,763	6,805	-	688,568
Foreign	-	-	-	-
Other issuers				
National	1,000,127	-	-	1,000,127
Foreign	5,218,515	16,850	-	5,235,365
	<u>6,900,404</u>	<u>23,655</u>	<u>-</u>	<u>6,924,059</u>

⁽¹⁾ Acquisition cost regarding shares and other equity instruments and amortised cost regarding debt securities.



	31.03.2017					
	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-debt securities						
National	20,900	122,843	-	544,825	-	688,568
Foreign	-	-	-	-	-	-
Other issuers						
National	1000,127	-	-	-	-	1000,127
Foreign	56,354	1462,880	3,397,970	318,162	-	5,235,366
	1077,381	1585,723	3,397,970	862,987	-	6,924,060

	31.12.2016			
	Cost ⁽¹⁾	Fair value reserve	Impairment losses	Total
Debt securities and other fixed-income securities				
Public-debt securities				
National	679,406	174	-	679,580
Foreign	-	-	-	-
Other issuers				
National	-	-	-	-
Foreign	5,754,445	13,300	-	5,767,745
	<u>6,433,851</u>	<u>13,474</u>	<u>-</u>	<u>6,447,325</u>

⁽¹⁾ Acquisition cost regarding shares and other equity instruments and amortised cost regarding debt securities.

	31.12.2016					
	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-debt securities						
National	14,866	124,314	-	540,400	-	679,580
Foreign	-	-	-	-	-	-
Other issuers						
National	-	-	-	-	-	-
Foreign	562,258	1,272,273	3,614,529	318,685	-	5,767,745
	577,124	1,396,587	3,614,529	859,085	-	6,447,325

10. OTHER BANKING FINANCIAL ASSETS AND LIABILITIES

As at 31 March 2017 and 31 December 2016, the heading Other banking financial assets and Other banking financial liabilities showed the following composition:

	31.03.2017	31.12.2016
Non-current assets		
Investments in credit institutions	1,136,503	-
	<u>1,136,503</u>	<u>-</u>
Current assets		
Investments in credit institutions	63,858,781	58,718,171
Other	1,302,932	336,132
	<u>65,161,713</u>	<u>59,054,303</u>
	<u>66,298,216</u>	<u>59,054,303</u>
Current liabilities		
Other	1,129,812	1,218,205
	<u>1,129,812</u>	<u>1,218,205</u>



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

	31.03.2017	31.12.2016
Up to 3 months	24,197,527	42,111,692
From 3 to 6 months	27,141,833	4,500,135
From 6 to 12 months	12,519,420	12,106,344
From 1 to 3 years	660,770	-
Over 3 years	475,733	-
	<u>64,995,284</u>	<u>58,718,171</u>

11. CREDIT TO BANK CLIENTS

As at 31 March 2017 and 31 December 2016, the caption Credit to Bank Clients detailed as follows:

	31.03.2017	31.12.2016
Domestic credit	24,624,567	7,104,322
Overdrafts	129,523	69,498
Factoring	24,057,142	7,034,824
Mortgage loans	437,902	-
Credit risk impairment	(9,419)	(417)
Overdue loans	6,354	-
	<u>24,621,502</u>	<u>7,103,905</u>

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movement in the "Credit risk impairment" caption was as follows:

	31.03.2017				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Credit to bank clients	417	9,120	(118)	-	9,419
	<u>417</u>	<u>9,120</u>	<u>(118)</u>	<u>-</u>	<u>9,419</u>

	31.12.2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Credit to bank clients	-	417	-	-	417
	<u>-</u>	<u>417</u>	<u>-</u>	<u>-</u>	<u>417</u>

12. DEFERRALS

As at 31 March 2017 and 31 December 2016, the Deferrals included in current assets and current and non-current liabilities showed the following composition:



	31.03.2017	31.12.2016
Assets deferrals		
Current		
Rents payable	1,256,892	1,293,963
Meal allowances	1,656,373	1,668,745
Other	4,128,265	3,166,223
	<u>7,041,530</u>	<u>6,128,931</u>
Liabilities deferrals		
Non-current		
Tangible fixed assets	329,866	334,191
	<u>329,866</u>	<u>334,191</u>
Current		
Deferred capital gains	1,607,534	2,143,378
Phone-ix top ups	147,997	158,698
Deferred commissions	474,316	799,062
Investment subsidy	17,299	17,299
Other	933,919	1,059,172
	<u>3,181,065</u>	<u>4,177,609</u>
	<u>3,510,931</u>	<u>4,511,800</u>

In the years 2001 and 2002, CTT sold certain properties, which subsequently leased. The gains on these sales were deferred and are being recognised over the period of the lease contracts.

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the amounts of 535,845 Euros and 3,394,833 Euros, respectively, were recognised under Other operating income in the consolidated income statement, related to the above mentioned gains. The amount recognised in the year ended 31 December 2016 includes the amount of 1,725,642 Euros regarding **Conde Redondo's building as a result of the lease contract's termination.**

In 2014, CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euros on the signing date. An amount of 1 million Euros, related to an entry fee was recognised at the beginning of the contract and the remaining 2 million Euros, for non-refundable fees will be recognised over the period of the contract. As at 31 March 2017 an amount of 474,316 Euros is being related to this contract was deferred (799,062 Euros as at 31 December 2016).

13. ACCUMULATED IMPAIRMENT LOSSES

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the following movements occurred in the impairment losses:



31.03.2017						
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	173,055	-	(30,929)	-	-	142,126
Investment properties	1,291,498	-	-	-	-	1,291,498
	1,464,553	-	(30,929)	-	-	1,433,624
Other non-current assets	1,748,286	-	-	-	(30,338)	1,717,948
	1,748,286	-	-	-	(30,338)	1,717,948
	3,212,839	-	(30,929)	-	(30,338)	3,151,572
Current assets						
Accounts receivable	30,309,524	776,419	(367,770)	(461,803)	-	30,256,370
Credit to bank clients	417	9,120	(118)	-	-	9,419
Other current assets	8,173,677	62,262	(407,120)	(64,952)	30,338	7,794,205
	38,483,618	847,801	(775,008)	(526,755)	30,338	38,059,994
Merchandise	1,565,187	184,660	-	(81,240)	-	1,668,607
Raw, subsidiary and consumable	579,327	65,978	-	-	-	645,305
	2,144,514	250,638	-	(81,240)	-	2,313,912
	40,628,132	1,098,439	(775,008)	(607,995)	30,338	40,373,905
	43,840,971	1,098,439	(805,937)	(607,995)	-	43,525,477

31.12.2016						
	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

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

14. EQUITY

As at 31 March 2017, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

As at 31 March 2017 and 31 December 2016 the Company's shareholders with greater than or equal to 2% shareholdings, according to the information reported, are as follows:



31.03.2017			
Shareholder	No. of shares	%	Nominal value
Gestmin SGPS, S.A. ⁽¹⁾	15,072,519	10.048%	7,536,260
Manuel Carlos de Melo Champalimaud	284,885	0.190%	142,443
Manuel Carlos de Melo Champalimaud	Total	15,357,404	10.238%
Allianz Global Investors GmbH ⁽²⁾	Total	7,552,637	5.035%
BNP Paribas Investment Partners Belgium S.A. ⁽³⁾		0.833%	
BNP Paribas Investment Partners Luxembourg S.A. ⁽³⁾		2.972%	
BNP Paribas Asset Management SAS ⁽³⁾		1.197%	
BNP Paribas Investment Partners S.A.	Total	7,502,430	5.002%
Norges Bank	Total	4,717,212	3.145%
F&C Asset Management plc ⁽⁴⁾		3,124,801	2.083%
Banco de Montreal ⁽⁴⁾	Total	3,124,801	2.083%
Wilmington Capital, S.L. ⁽⁵⁾		3,020,368	2.014%
Indumenta Pueri, S.L. ⁽⁵⁾	Total	3,020,368	2.014%
CTT, S.A. (own shares) ⁽⁶⁾	Total	1	0.000%
Other shareholders	Total	108,725,147	72.483%
Total		150,000,000	100.000%

- (1) Includes GestminSGPS, S.A. with 15,000,000 shares and members of the Board of Directors of Gestmin with 72,519 shares, the latter attributable to Gestmin. Qualifying shareholding directly and indirectly attributable to Manuel Carlos de Melo Champalimaud, who holds a controlling interest in Gestmin.
- (2) Previously, Allianz Global Investors Europe GmbH.
- (3) Companies controlled by BNP Paribas Investment Partners S.A..
- (4) 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.
- (5) Wilmington Capital, S.L. is controlled by Indumenta Pueri, S.L..
- (6) On 31 January 2017 and 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, a total of 600,530 own shares representing 0.400% of the share capital was awarded to the Company's Executive Directors, as long-term variable remuneration. At the present date, CTT holds thus 1 own share corresponding to 0.000% of the share capital with the nominal value of €0.50; the rights inherent to this share remain suspended pursuant to article 324 of the Portuguese Companies Code.



		31.12.2016		
Shareholder		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⁾			1.197%	
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.

15. 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.**



On 31 January 2017, and pursuant to the remuneration policy approved by the Remuneration Committee for the 2014-2016 term of office and the Share Plan to the executive members of the Board of Directors approved by the General Meeting on 5 May 2015, CTT granted a total of 600,530 own shares, representing 0.400% of the corresponding share capital, to the Company's executive members of the Board of Directors, as long-term variable remuneration.

In the three-month period ended 31 March 2017, CTT held 1 own share, corresponding to 0.000% of the Company's share capital, with a nominal value of 0.50 €, being all the inherent rights suspended pursuant to article 324 of the Portuguese Companies Code.

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

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movements that occurred in this caption were as follows:

	Quantity	Value	Average price
Balance at 31 December 2016	600,531	5,097,536	8.488
Acquisitions	-	-	-
Attribution	(600,530)	(5,097,527)	8.488
Balance at 31 March 2017	1	8	8.488

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

Reserves

As at 31 March 2017 and 31 December 2016, the heading Reserves is detailed as follows:

	31.03.2017				
	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total
Opening balance	18,072,559	5,097,536	13,474	11,708,102	34,891,671
Own shares attribution	-	(5,097,527)	-	5,097,527	-
Assets fair value	-	-	10,181	-	10,181
Share Plan	-	-	-	(4,480,638)	(4,480,638)
Closing balance	18,072,559	8	23,655	12,324,992	30,421,215

	31.12.2016				
	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
Own shares acquisitions	-	3,224,411	-	(3,224,411)	-
Assets fair value	-	-	14,014	-	14,014
Share Plan	-	-	-	1,493,546	1,493,546
Closing balance	18,072,559	5,097,536	13,474	11,708,102	34,891,671

Following the attribution of own shares to executive members of the Board of Directors within the scope of the remuneration policy established by the Remuneration Committee for the 2014-2016 term of office, the correspondent reserve was, during the three-month period ended 31 March 2017, reduced in the amount of 5,097,527 Euros.



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 March 2017, this caption includes the amount of 8 Euros related to the creation of an unavailable reserve for the same amount of the acquisition price of the own shares held.

Other reserves

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

In the years ended 31 December 2016 and 31 December 2015 and 2014, it also recorded the amount recognised in each year related to the Share Plan that constituted the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee in the amount of 4,480,638 Euros.

Retained earnings

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the following movements were made in the heading Retained earnings:

	31.03.2017	31.12.2016
Opening balance	93,589,211	91,727,994
Application of the net profit of the prior year	62,160,395	72,065,283
Distribution of dividends (Note 16)	-	(70,264,792)
Adjustments from the application of the equity method	10,418	19,820
Other movements	-	40,906
Closing balance	<u>155,760,024</u>	<u>93,589,211</u>

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.

Thus, for the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movements occurred in this heading were as follows:

	31.03.2017	31.12.2016
Opening balance	(27,137,824)	(18,644,832)
Actuarial gains/losses - Healthcare	-	(11,827,990)
Tax effect - Healthcare	-	3,334,998
Closing balance	<u>(27,137,824)</u>	<u>(27,137,824)</u>



16. DIVIDENDS

According to the dividends distribution proposal included in the 2016 Annual Report, at the General Meeting of Shareholders, which was held on 20 April 2017, a dividend distribution of 72,000,000 Euros regarding to the financial year ended 31 December 2016 was proposed and approved.

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

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

17. EARNINGS PER SHARE

During the three-month periods ended 31 March 2017 and 31 March 2016, the earnings per share were calculated as follows:

	3103.2017	3103.2016
Net income for the period	10,334,491	20,671,965
Average number of ordinary shares	149,799,822	149,755,015
Earnings per share		
Basic	0.07	0.14
Diluted	0.07	0.14

The average number of shares is detailed as follows:

	3103.2017	3103.2016
Shares issued at beginning of the period	150,000,000	150,000,000
Own shares effect	200,178	244,985
Average number of shares during the period	149,799,822	149,755,015

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 March 2017, the number of own shares held by the Group is 1 and its average number for the period ended 31 March 2017 is 200,178, reflecting the fact that the acquisition of own shares occurred in June 2015 and March and August 2016 and their attribution occurred in 31 January 2017.

There are no dilutive factors of earnings per share.



18. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the three-month period ended 31 March 2017 and the year ended 31 December 2016, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

31.03.2017						
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	4,838,552	776,652	(728,659)	(420,193)	47,787	4,514,139
Other provisions	9,288,931	10,039	-	(254,661)	(47,787)	8,996,522
	<u>14,127,483</u>	<u>786,691</u>	<u>(728,659)</u>	<u>(674,854)</u>	<u>-</u>	<u>13,510,661</u>

31.12.2016						
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
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 compan	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>

The net amount between increases and reversals of provisions was recorded in the individual income statement under the caption Provisions, net and amounted to (58.032) Euros (3,055,562 Euros as at 31 March 2016).

Litigations

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

Onerous Contracts

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

The utilisations, during the year ended 31 December 2016, in the amount of 7,883,243 Euros relate to the payment of rents due during the period as well as part of the outstanding rents of the Conde Redondo building.

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

Consequently, as at 31 March 2017 and 31 December 2016 there are no amounts recognised as onerous contracts.

Other provisions

For the three-month period ended 31 March 2017, the provision to cover contingencies relating to employment litigation actions not included in the current court proceedings and related to remuneration



differences that can be claimed by workers, amounts to 8,082,692 Euros (8,130,479 Euros as at 31 December 2016).

In the period ended 31 December 2016 reversals in the amount of 6,263,597 Euros were recorded as a result of the following situations:

- 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 were considered as contingent liabilities.

As at 31 March 2017, in addition to the previously mentioned situations, this heading also includes:

- the amount of 105,817 Euros to cover costs for dismantlement of tangible fixed assets and/or removal of facilities and restoration of the sites;
- the amount of 278,419 Euros, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in associated companies

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A.. **The reversal recorded on 31 March 2017 results from the Group's assessment in which it concluded that the previously existing obligations are no longer maintained.**

Guarantees provided

As at 31 March 2017 and 31 December 2016, the Group had provided bank guarantees to third parties as follows:



Description	31.03.2017	31.12.2016
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	1,523,201
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	1,274,355
Autoridade Tributária e Aduaneira	590,000	590,000
Municipal autarchy	183,677	183,677
Courts	163,107	167,107
Solred	80,000	80,000
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
INCM - Imprensa Nacional da Casa da Moeda	46,167	46,167
ACT Autoridade Condições Trabalho	44,697	58,201
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
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180
EMEL, S.A.	26,984	19,384
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Direção Geral do Tesouro e Finanças	16,867	16,867
Portugal Telecom, S.A.	16,658	16,658
SMAS Sintra	15,889	-
Administração Regional de Saúde LVT	13,086	-
Instituto de Gestão Financeira Segurança Social	12,681	16,406
Instituto de Segurança Social	11,915	-
Águas do Porto, E.M	10,720	10,720
SMAS Torres Vedras	9,909	9,909
Other entities	8,103	29,992
Inmobiliaria Ederkin	7,998	7,998
Promodois	6,273	6,273
TNT Express Worldwide	6,010	6,010
Estradas de Portugal, EP	5,000	5,000
Consejería Salud	4,116	4,116
Instituto do emprego e formação profissional	3,718	3,718
Casa Pia de Lisboa, I.P.	1,863	-
IFADAP	1,746	1,746
Águas de Coimbra	870	870
Lisboagás, S.A.	-	190,000
SetGás, S.A.	-	30,000
	<u>11,158,341</u>	<u>11,371,107</u>

Guarantees for lease contracts

According to the terms of some lease contracts of the buildings occupied by the Group's services, at the moment that the Portuguese State ceased to hold the majority of the share capital of CTT, bank guarantees on first demand had to be provided. These guarantees amount to 9,654,198 Euros as at 31 March 2017 and 31 December 2016.

Commitments

As at 31 March 2017 the Group subscribed promissory notes amounting to approximately 41.2 thousand Euros, for various credit institutions intended to secure complete and timely compliance with the corresponding financing contracts.



The Group assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros for the subsidiary Tourline and regarding the subsidiary Corre in the amount of 89,273 Euros, which are still active as at 31 March 2017.

As at 31 March 2017, the commitments assumed by the Group regarding the sponsoring of “Taça da Liga” (Football League Cup) for three seasons amount to **1.1 million Euros**.

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

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

19. ACCOUNTS PAYABLE

As at 31 March 2017 and 31 December 2016, the heading Accounts payable showed the following composition:

	31.03.2017	31.12.2016
Non-current		
Other accounts payable	383,006	375,379
	<u>383,006</u>	<u>375,379</u>
Current		
Advances from customers	2,961,786	3,039,657
CNP money orders	200,826,313	200,238,100
Suppliers	58,757,824	65,044,068
Invoices pending confirmation	9,523,219	8,559,890
Fixed assets suppliers	4,543,246	13,684,684
Invoices pending confirmation (fixed assets)	3,445,558	6,206,806
Values collected on behalf of third parties	8,881,639	8,955,667
Postal financial services	84,611,922	131,878,955
Other accounts payable	7,452,122	7,255,873
	<u>381,003,629</u>	<u>444,863,700</u>
	<u>381,386,635</u>	<u>445,239,079</u>

CNP money orders

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

Postal financial services

This heading records mainly the amounts collected related to taxes, insurance, savings certificates and other money orders.

20. BANKING CLIENT DEPOSITS AND OTHER LOANS

As at 31 March 2017 and 31 December 2016, the composition of the heading Banking client deposits and other loans is as follows:



	31.03.2017	31.12.2016
Sight deposits	180,190,080	114,041,001
Term deposits	132,233,100	131,417,483
Savings deposits	18,940,440	8,486,356
	<u>331,363,620</u>	<u>253,944,840</u>

The above mentioned amounts relate to Banco CTT's clients deposits. As at 31 March 2017 and 31 December 2016, the residual maturity of banking client deposits and other loans, is detailed as follows:

	31.03.2017				
	No defined maturity	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	180,190,080	-	-	-	-
Term deposits	-	40,469,379	91,763,721	-	-
Savings deposits	18,940,440	-	-	-	-
	<u>199,130,520</u>	<u>40,469,379</u>	<u>91,763,721</u>	<u>-</u>	<u>-</u>
					<u>331,363,620</u>

	31.12.2016				
	No defined maturity	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>122,527,357</u>	<u>73,693,366</u>	<u>57,724,117</u>	<u>-</u>	<u>-</u>
					<u>253,944,840</u>

21. INCOME TAXES RECEIVABLE /PAYABLE

As at 31 March 2017 the caption reflects the estimated income tax regarding 2016, which has not yet been paid, as well as the estimated income tax regarding the three-month period ended 31 March 2017.

22. OTHER OPERATING INCOME

During the three-month periods ended 31 March 2017 and 31 March 2016, the composition of the heading Other operating income was as follows:

	31.03.2017	31.03.2016
Supplementary revenues	1,080,693	1,016,555
Altice agreement	-	2,500,000
Early settlement discounts received	13,236	11,618
Favourable exchange rate differences of assets and liabilities other than financing	301,574	393,595
Income from financial investments	216,950	148,061
Income from non-financial investments	552,235	2,327,602
Income from services and commissions	648,496	8,802
Interest income and expenses - financial services	41,546	82,095
VAT adjustments	413,266	1,967,568
Other	128,121	512,690
	<u>3,396,117</u>	<u>8,968,586</u>



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 was recognised in the consolidated income statement over the exclusive period for the negotiation of the partnerships, as provided in the Memorandum. This recognition ended in December 2016.

The caption Income from non-financial investments includes, in the period ended 31 March 2016, the gain in the amount of 1.7 million Euros regarding Conde Redondo's building as a result of the lease contract's termination.

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

23. STAFF COSTS

During the three-month periods ended 31 March 2017 and 31 March 2016, the composition of the heading Staff Costs was as follows:

	3103.2017	3103.2016
Statutory bodies remuneration	1,287,251	1,197,318
Staff remuneration	67,165,812	65,742,081
Employee benefits	1,653,081	(205,292)
Indemnities	798,774	299,163
Social Security charges	14,882,544	14,549,283
Occupational accident and health insurance	825,614	798,789
Social welfare costs	1,914,396	1,758,317
Other staff costs	36,532	7,307
	<u>88,564,004</u>	<u>84,146,966</u>

Remuneration of the statutory bodies

In the three-month periods ended 31 March 2017 and 31 March 2016, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	3103.2017				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	946,129	107,671	9,360	-	1,063,160
Annual variable remuneration	224,091	-	-	-	224,091
	<u>1,170,220</u>	<u>107,671</u>	<u>9,360</u>	<u>-</u>	<u>1,287,251</u>
Long-term remuneration					
Defined contribution plan RSP	55,875	-	-	-	55,875
Long-term variable remuneration - Share Plan	616,890	-	-	-	616,890
	<u>672,765</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>672,765</u>
	<u>1,842,985</u>	<u>107,671</u>	<u>9,360</u>	<u>-</u>	<u>1,960,016</u>



	3103.2016				
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	775,601	71827	6,608	-	854,036
Annual variable remuneration	343,282	-	-	-	343,282
	<u>1,118,883</u>	<u>71827</u>	<u>6,608</u>	<u>-</u>	<u>1,197,318</u>
Long-term remuneration					
Defined contribution plan RSP	55,875	-	-	-	55,875
Long-term variable remuneration - Share Plan	373,386	-	-	-	373,386
	<u>429,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,261</u>
	<u>1,548,144</u>	<u>71827</u>	<u>6,608</u>	<u>-</u>	<u>1,626,579</u>

Following the new remuneration model for the statutory bodies defined by the Remuneration Committee for the 2014-2016 term of office and in compliance with the Share Plan to the executive members of the Board of Directors, 600,530 own shares **were granted to the Company's executive members of the Board of Directors. The amount of 616,890 Euros recorded under the caption "Long-term variable remuneration – Share Plan" results from the derecognition of the liability after the attribution of the shares, reflecting the difference between that liability, estimated on 31 December 2014, and the value of the own shares recorded in Equity granted to the statutory bodies on 31 January 2017.**

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

The annual variable remuneration will be determined and paid on an annual basis.

Employee benefits

The amount registered under Employee benefits in the three-month period ended 31 March 2016 mainly reflects the liability reduction related to the Telephone subscription fee due to the change in average monthly cost per beneficiary.

Indemnities

During the three-month period ended 31 March 2017, this caption includes the amount of 528,208 Euros related to compensation paid for termination of employment contracts by mutual agreement.

Social welfare cost

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

During the three-month periods ended 31 March 2017 and 31 March 2016, the heading Staff costs includes the amounts of 253,088 Euros and 133,757 Euros, respectively, related to expenses with workers' representative bodies.

For the three-month periods ended 31 March 2017 and 31 March 2016, the average number of staff of the Group was 12,157 and 12,029, respectively.



24. INCOME TAX FOR THE PERIOD

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

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

Reconciliation of the income tax rate

In the three-month periods ended 31 March 2017 and 31 March 2016, the reconciliation between the nominal rate and the effective income tax rate is as follows:

	3103.2017	3103.2016
Earnings before taxes	16,504,319	29,831,670
Nominal tax rate	210%	210%
	3,465,907	6,264,651
Tax Benefits	(86,674)	(49,842)
Accounting capital gains/(losses)	(3,127)	(192,067)
Tax capital gains/(losses)	(14,772)	39,608
Impairment losses and reversals	(72,546)	381,161
Other situations, net	597,888	762,257
Adjustments related with - autonomous taxation	411,292	379,067
Adjustments related with - Municipal Surcharge	296,172	326,065
Adjustments related with - State Surcharge	1,029,553	1,080,539
Tax losses without deferred tax	455,428	481,614
Excess estimated income tax	120,632	(268,918)
Income taxes for the period	6,199,753	9,204,135
Effective tax rate	37.56%	30.85%
Income taxes for the period		
Current tax	4,486,875	5,496,634
Deferred tax	1,592,246	3,976,419
Excess estimated income tax	120,632	(268,918)
	6,199,753	9,204,135

During the three-month period ended 31 March 2017, the heading Insufficiency/(Excess) estimated income tax relates to the reimbursement of Autonomous Taxation of 2011 and 2012 in the amount of 347,036 Euros and the insufficiency of the income tax estimate of 2016 amounting to 467,669 Euros. In the three-month period ended 31 March 2016 the same caption includes the amount of 268,898 Euros regarding the tax credit allocated under the SIFIDE program of 2014 of CTT – Correios de Portugal, S.A..

Deferred taxes

As at 31 March 2017 and 31 December 2016, the balance of deferred tax assets and liabilities was composed as follows:



	31.03.2017	31.12.2016
Deferred tax assets		
Employee benefits - healthcare	69,640,526	70,523,096
Employee benefits - other long-term benefits	5,898,064	5,301,326
Deferred accounting capital gains	455,092	606,790
Impairment losses and provisions	3,055,671	3,030,558
Tax losses carried forward	328,271	327,183
Impairment losses in tangible fixed assets	346,623	360,333
Share Plan	-	1,268,470
Land and buildings	1,824,515	1,847,637
Tangible assets' tax revaluation regime	2,680,786	2,680,786
Other	340,019	274,583
	<u>84,569,568</u>	<u>86,220,762</u>
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,099,161	3,151,709
Suspended capital gains	926,035	934,821
Other	36,616	36,616
	<u>4,061,812</u>	<u>4,123,146</u>

As at 31 March 2017, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 4.1 million Euros and 0.2 million Euros, respectively.

During the three-month period ended 31 March 2017 and the year ended 31 December 2016, the movements which occurred under the deferred tax headings were as follows:

	31.03.2017	31.12.2016
Deferred tax assets		
Opening balances	86,220,762	87,535,941
Effect on net profit		
Employee benefits - healthcare	(102,259)	29,917
Employee benefits - other long-term benefits	(183,573)	(1,230,552)
Deferred accounting gains	(151,698)	(1,116,452)
Impairment losses and provisions	25,114	(5,967,001)
Tax losses carried forward	1,088	2,857
Impairment losses in tangible fixed assets	(13,710)	(45,040)
Share plan	(1,268,470)	421,330
Land and buildings	(23,122)	454,713
Tangible assets' tax revaluation regime	-	2,680,786
Other	65,436	119,265
Effect on equity		
Employee benefits - healthcare	-	3,334,998
Closing balance	<u>84,569,568</u>	<u>86,220,762</u>

	31.03.2017	31.12.2016
Deferred tax liabilities		
Opening balances	4,123,146	4,576,598
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(52,548)	(410,811)
Suspended capital gains	(8,786)	(36,858)
Other	-	(5,783)
Closing balance	<u>4,061,812</u>	<u>4,123,146</u>



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	39,441,715	320,408
Escrita Inteligente	37,444	7,863
Total	39,479,159	328,271

Regarding Tourline, the tax losses of the years 2008, 2009 and 2011 may be reported in the next 15 years, the tax losses related to 2012, 2013 and 2014 may be carried forward in the next 18 years and the tax losses of the year 2015 have no time limit for deduction. As far as Escrita Inteligente is concerned the tax losses refer to the years 2016 and 2015 and the three-month period ended 31 March 2017 and may be carried forward in the next 12 years.

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

SIFIDE

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

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

Regarding the year ended 31 December 2015, for the expenses incurred with R&D of 3,358,151 Euros, the Group will have the possibility of benefiting from a tax deduction in income tax estimated at 2,556,380 Euros. According to the notification dated 6 April 2017 of the Certification Commission, a tax credit of 1,079,209 Euros was attributed to CTT.

For the year ended 31 December 2016, the expenses incurred with R&D, of 1,895,281 Euros, the Group will have the possibility of benefiting from a tax deduction in income tax estimated at 1,006,271 Euros.

Other information

Pursuant to the legislation in force in Portugal, income tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these years are extended or suspended. Therefore, the Group's income tax returns from 2013 may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected.

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the interim condensed consolidated financial statements as at 31 March 2017.



25. RELATED PARTIES

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

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

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

During the three-month periods ended 31 March 2017 and 31 March 2016, the following transactions took place and the following balances existed with related parties:

	31.03.2017				
	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	-
Other shareholders of Group companies					
Associated companies	3,604	-	3,306	9,331	-
Jointly controlled	116,960	-	115,136	111	-
Members of the					
Board of Directors	-	-	-	1,170,220	-
Audit Committee	-	-	-	107,671	-
Remuneration Committee	-	-	-	9,360	-
General Meeting	-	-	-	-	-
	<u>120,564</u>	<u>-</u>	<u>118,442</u>	<u>1,296,694</u>	<u>-</u>

	31.03.2016				
	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	-
Other shareholders of Group companies					
Associated companies	15,641	-	3,927	816	-
Jointly controlled	224,133	-	121,105	18,664	-
Members of the					
Board of Directors	-	-	-	1,118,883	-
Audit Committee	-	-	-	71,827	-
Remuneration Committee	-	-	-	6,608	-
General Meeting	-	-	-	-	-
	<u>239,774</u>	<u>-</u>	<u>125,032</u>	<u>1,216,798</u>	<u>-</u>

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

26. OTHER INFORMATION

Regulatory proceedings

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



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

- (i) The Company has always shown and will continue to show its willingness to give access to its postal network in non-discriminatory conditions whenever the requested terms are compatible with an efficient management of the operation and with the sustainability of the universal service provision (agreements regarding access to the postal network have already been concluded with other operators);
- (ii) The Company intends to adopt good competition practices in this field which take into account both the efficiency of its postal network and the access conditions set up by universal postal service operators from other Member States.

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

Acquisition of Transporta, S.A.

As previously announced, on 15 December 2016, CTT conclude the agreement for the acquisition of the total share capital of Transporta – Transportes Porta a Porta, S.A. (“Transporta”), subject to several conditions precedent.

Having already been notified of the decision of non-opposition by the Competition Authority on 2 March 2017, the acquisition is yet subject to the verification of other conditions precedent agreed between the parties, and diligence has been carried out in order to ensure its prompt verification and it is expected that the acquisition will be completed during the 2nd Quarter of 2017.

27. SUBSEQUENT EVENTS

Share Capital increase of Banco CTT

On 27 April 2017 Banco CTT increased its share capital by 40,000,000 Euros through the issuance of **new shares. This share capital increase is aligned and in accordance with Banco CTT’s 2017-2019 Plan** as well as with the information disclosed to the market in Capital Markets Day. As a result of this operation the share capital of Banco CTT currently stands at 125,000,000 Euros.

Proposal for capital reduction and capital increase

At the Annual General Meeting held on 20 April 2017 the following resolution was adopted:

- (i) the decrease in the share capital, to release capital surplus, from €75m to €25.5m, with the decrease in the amount of €49.5m to be transferred to free reserves (through the reduction of the nominal value of each share from €0.50 to €0.17), and the share capital increase from €25.5m to €75m, corresponding to an increase of €49.5m (through the increase of the nominal value of each share from €0.17 to €0.50 and article 4 (1) and (2) of the Articles of Association of CTT shall remain unchanged) to be carried out by way of incorporation of reserves mainly resulting from retained earnings arising from revaluations of tangible fixed assets, carried out under special legislation in the amount of € 44m and other retained earnings amounting to € 5.5m; and



- (ii) adjustment of the amount of the Company's legal reserve, which will thus amount to €15m, by transferring the amount of €3m to free reserves.

The request for the Commercial registration of the mentioned operations of reduction and increase capital was submitted on 27 April 2017 and it's already concluded.

THE DIRECTOR OF ACCOUNTING & TREASURY

THE BOARD OF DIRECTORS