Annual Report

2017

CTT – Correios de Portugal, S.A. - Public Company
Avenida D. João II, 13, 1999-001 LISBON - PORTUGAL
Lisbon commercial registry and fiscal no. 500 077 568
Share Capital EUR 75,000,000.00

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CHAIRMAN'S STATEMENT

In April 2017, the General Meeting of CTT elected a new Board of Directors for the 2017/2019 term of office that I am honoured to chair, and which is now reporting results relative to its first year of mandate.

First of all, I would like to thank the former members of the Board of Directors for their dedication and commitment in such an important period for CTT as the one of the first three years immediately after the privatisation.

CTT operates in a sector going through a comprehensive transformation. Mail volumes are undergoing a structural decline. More specifically, in Portugal, mail volumes have been declining since 2001 and today we deliver c. 50% of the items that were delivered at the peak. As such, there is the imperative need to transform the company in its organisation and structure, adapting it to the new reality where it operates, where there is a clear growing preference for digital communication over traditional mail.

At the end of 2017, we announced the launch of the Operational Transformation Plan, to be implemented until 2020. This plan is a direct response to the previously referred need of transformation in the mail business and implies both structural and processes adjustments in order to accommodate for lower levels of activity whilst maintaining what has always been CTT's DNA: the commitment of assuring the universal public service in close proximity to the population and quality standards aligned with the best practices in Europe.

Globally, we notice a trend for Mail business diversification to adjacent activities which allow postal operators to leverage on their unique assets and pursue growth and future sustainability. CTT is no exception and, even though Mail still represents more than 70% of the total revenues, the Company has been significantly investing in the development of its growth levers: Express & Parcels, in both Portugal and Spain, creating an integrated Iberian offer, and Banco CTT.

It is our drive and commitment that CTT continues to distinguish itself as it has done throughout its long history of close to 500 years. We aim to remain close to the population and maintain the confidence that the Portuguese feel towards the CTT brand. We intend to remain an employer of reference and a responsible Company concerned with environmental, social and economic sustainability.

I believe our Board of Directors and Executive Committee have the motivation, knowledge and necessary experience to successfully overcome the challenges ahead.

As a final note, I would like to assure my absolute commitment to continually develop our governance model according to the three guidelines which have been followed since the company was privatised: decision-making processes involving the active and informed participation of all members of the Board of Directors, transparency, rigour and responsibility in sharing and presenting information and a fair acknowledgment of the interests of all stakeholders.

António Gomes Mota
Chairman of the Board of Directors

VICE-CHAIRMAN OF THE BOARD OF DIRECTORS & CEO'S STATEMENT

I. Introduction

2017 was a very challenging year. The decline of mail volumes accelerated more than expected, increasing pressure on revenues, only partially offset by mix and price effects. Financial Services revenues (apart from Banco CTT) continued the declining trend. On the other hand, Express & Parcels and Banco CTT revenues grew, still from a relatively smaller base, but the build-up of their contribution to CTT's profitability requires time. The operating costs continued under pressure, given CTT's commitment to the Universal Service Obligation (USO) and the cost increase driven by the growth of non-postal businesses, which also leverage on CTT's Retail and Distribution networks.

All these facts and its implications demand a call for action (and not only incremental adjustments), designed around the launch of a sizeable Operational Transformation Plan as a key element. The long-term sustainability of its competitive advantages is dependent on an intense short-term effort of CTT and its stakeholders. This demanding period will require the mobilization of relevant resources and a strong state of resilience backed by the involvement and contribution of all stakeholders – shareholders, management, employees, partners, suppliers and communities.

A building block in sustaining the mid-term transformation of the company, the Transformation Plan launched in December 2017 is focused on the postal business with the objectives of (i) improving efficiency and profitability levels and (ii) reinforcing quality of service, in compliance with regulatory requirements. It is an important reinforcement of our strategy to preserve the value of the mail business in parallel with enhancing the development of the growth levers, Express & Parcels and Banco CTT. For CTT's sustainable future it is critical to innovate, modernise and continue to execute the business diversification, in order to grow revenues and absorb the reduction of its current dependence on the mail business.

In the coming years, CTT will undergo a significant and comprehensive change, in line with the postal sector globally. During this period of transformation, our goal will be to preserve and maximise the profitability of our assets and continue to gain the trust and recognition of all of our stakeholders.

II. Postal Sector transformation acceleration and its impacts on CTT

Digitalisation is the main driver of the structural decline of physical mail, which accelerated in Portugal in 2017. The trend is global, yet its speed was less pronounced in Portugal in the period of 2014-2016 (-3.7%) than in other European countries, namely those where the digitalisation of governmental communications is at a more advanced stage. However, the addressed mail volumes decline reached 5.6% in 2017, worse than the guidance range of -4% to -5%.

On the other hand, **e-commerce growth** has been impacting positively the last-mile delivery of parcels. Postal operators are developing their Express & Parcels offer, making it a key component of their growth strategy. The volume of parcels delivered by European operators has grown at an average of 8% per year between 2012 and 2016. In 2017, the volumes delivered by CTT in Portugal and in Spain have increased by more than 20%. We believe there is still a significant upside potential in these markets, since e-commerce parcels deliveries per capita in the markets where we operate are still much lower than those of other countries.

Globalisation presents opportunities and challenges to postal players, providing access to non-domestic markets and respective international flows but promoting an increase in competition. More specifically, in Portugal and Spain we are witnessing a phenomenon of "*Iberisation*", where companies increasingly view the Iberian market as one, addressing their needs at this level (over local solutions), including those needs related with last-mile delivery of parcels.

Finally, postal operators globally have been able to reinvent themselves taking advantage of their assets to explore additional sources of value. Business **diversification** has been requiring investment in growth levers and a new mindset, resulting in the noticeable lower dependence of postal operators on the traditional business. Non-mail businesses' "share" has been increasing significantly (62% of total revenues in 2016 vs. 51% in 2011), mainly accomplished through the growth of Parcels & Logistics and Financial Services. CTT has also been pursuing a similar diversification strategy, however, it is lagging vs. the sector due to the still limited penetration of e-commerce parcels in Portugal and Spain and the "early stage" of development of Banco CTT, which was only launched in 2016. The company results are still very dependent on the Mail business performance, which still represents more than 70% of our business.

III. 2017 Results

In 2017, CTT reported revenues of €714m, of which €16m resulted from the sale of the former head office building and €698m were recurring revenues (+0.4% growth vs. the previous year). This growth has been mainly driven by the positive evolution of Express & Parcels, Banco CTT and the acquisition of Transporta (a last mile cargo and logistics company).

Mail recurring revenues decreased by 1.1% (-€6m), totaling €527m. Addressed mail volumes declined 5.6% (vs. a decline of 4.2% in 2016) and unaddressed mail volumes reported a decrease of 1.1% (vs. growth of 5.1% in 2016). Price increase and a change in product mix demand to more added value products, such as registered and international mail, enabled us to partially offset the impact of the acceleration of mail volumes decline on revenues.

The Express & Parcels business in Portugal demonstrated a good performance in 2017, growing revenues by 7.7% to €82m. This increase is explained by a sustained growth of 3.3% in the CEP (Courier, Express & Parcels) business, the acquisition of Transporta (+€9m, since May 2017) and a still sharp decline of 20.7% in the banking documents transportation activity. In Spain the growth was even more pronounced, as revenues grew by 18.2% vs. 2016. The volumes growth in Portugal and Spain was 21.5% and 26.1%, respectively, mainly driven by e-commerce. It is important to note, however, that the impact of this volumes growth on revenues has been softened by the mix progressive bias to e-commerce products and increasing market competitive pressures on prices.

As far as Financial Services are concerned, revenues declined 12.7% vs. 2016 (-€9m), mainly as a result of the termination of the agreement with Altice at the end of 2016, the decrease in revenues from the payments business due to structural decline and competitive price pressures (-€2m) and lower insurance products placements (-€2m) due to the low interest rate environment. The decrease in Financial Services revenues is partially compensated by the growth in Banco CTT, which concluded its first full year of activity with revenues totaling €8m (vs. €1m in 2016).

If, on the one hand, topline results remained relatively stable, even taking into account the difficult context of acceleration of mail volumes decline in 2017 and the continued deterioration in the Financial Services business, on the other hand, we experienced an increase in operating costs in order to support the development of our growth levers which impacted the Company's profitability.

2017 recurring operating costs amounted to €608m (+5.6% vs. 2016). Transporta (+€10m), the other Express & Parcels activities (+€7m), where variable costs increased with more activity, and Banco CTT (+€6m) explain a large part of the recurring operating costs increase. But there were also increases in staff, energy and fuel costs in the Mail business.

As a result, we witnessed the decline in the Mail recurring EBITDA margin from 18.3% in 2016 to 14.9% in 2017. Since this core business still represents more than 70% of CTT's results, the Company's consolidated EBITDA margin was heavily impacted, decreasing from 17.2% to 12.9% in the corresponding period, with 2017 recurring EBITDA amounting to €90m. CTT's growth levers are showing positive evolution in revenues, but their contribution to profitability is still small.

IV. CTT strategy: transform the postal business and continue to develop CTT's growth levers

The acceleration in mail volumes decline determines the need of an increased urgency to restructure the postal business in order to add resilience to the strategic mid-term transformation of the Company, while we continue to develop the Express & Parcels and Banking businesses, the growth levers for the future.

Postal Business Restructuring

CTT has been implementing various efficiency measures in the past years, specifically through process automation in mail and parcels sorting, insourcing of previously outsourced activities and integration of Mail and Express & Parcels distribution networks. In parallel, our growth levers were being developed, sharing the utilisation of the two largest networks of CTT (Distribution and Retail) with the postal business, thus contributing to the Mail profitability. However, given the continuous and recent accelerated decline in mail volumes, it is mandatory to further explore optimisation measures and adjust our fixed cost structure to mid-term needs, while at the same time guaranteeing high-quality operational standards and compliance with USO requirements, maintaining the proximity with the Portuguese people and CTT's positive brand awareness and trust.

Once again, in 2017 CTT has surpassed the required Overall Quality of Service Indicator, having accomplished a result of 110.1, thus complying with its regulatory obligations which establishes a minimum of 100. It is important to note that regulation for the period of 2018 – 2020 is currently being reviewed by the Regulator to which concerns quality standards and pricing policies. A final decision has not been communicated yet.

The Operational Transformation Plan was constructed in this context and is based on 4 fundamental pillars: (i) Adjustment of Human Resources (HR) policies and deepening of the External Supplies and Services (ES&S) cost reduction efforts; (ii) Reinforcement of the HR optimisation programme and rationalisation of non-core assets (real estate); (iii) Optimisation of the Retail Network maintaining proximity to the citizens; (iv) Reengineering of the Distribution Network to improve operational efficiency and quality.

With the specific measures announced, CTT aims to adapt its structure to the dynamic reality of the businesses where it operates. These measures cover a significant part of the company's costs, since they target the Mail business whose costs represent c. 75% of the total, and have impacts across all cost categories (Staff, ES&S and Central structure). The expected contribution of these measures is estimated to be up to €45m in recurring EBITDA from 2020 onwards, requiring c. €55m of one-off costs and c. €25m of additional investment in the period to 2020.

Transform and develop non-postal businesses

Continuing and enhancing the efforts to reinvent CTT is critical, being essential to maintain our investments in the growth levers (Express & Parcels and Banco CTT) and in the modernisation of the company, developing new capabilities and tools that allow efficient work in a dynamic environment, improving technological and analytical capacities. The strategic objectives are the following:

i. Grow above market in parcels and value-added services (mail & parcels)

In 2017, the volumes delivered by CTT registered a double-digit increase in both Iberian markets (growth of 21.5% in Portugal and 26.1% in Spain). Regarding the Portuguese market, it is important to stress that CTT maintains its leadership position in the CEP market.

Following the recent (late 2016) launch of a new modular offer for Express & Parcels (*e-segue*), during 2017 we focused on customer acquisition and in further development of our leadership presence in this eco-system through (i) release of an app which allows a better interface and customer experience with a broad range of features available (track urgent orders, change orders, real time notifications at key moments of the delivery process, easy return solutions) and (ii) the launch of innovative capacities in the market (partnership with marketplaces, custom made solutions, pilots of parcel lockers and same-day delivery based on a crowd shipping model and an omni-channel platform).

In May, the acquisition of Transporta was concluded. This transaction fits CTT's strategy to capture growth opportunities in adjacent markets with potential synergies and creating a new growth platform within the last-mile logistics and cargo value chain. CTT is now providing an integrated solution for its customers' various logistics and delivery needs. The integration process has been progressing as planned, with a significant amount of operational synergies already captured in the integration of sales capacities, networks, infrastructure, fleet and support services.

We continue to work strongly on reinforcing our Iberian positioning. It is important to highlight that Tourline, CTT's Spanish Express & Parcel subsidiary, accomplished breakeven at EBITDA level in the last quarter of 2017, as planned. This was achieved due to the increase of the client base, expansion of the franchisee network and decrease of the unitary distribution cost. Given the *Iberisation* phenomenon described above, it is essential for CTT to have a solid presence in Spain and well integrated with its operations in Portugal.

ii. Continue Banco CTT's path towards breakeven

2017 was another positive year for Banco CTT. Compared with 2016, the number of current accounts has tripled to 226 thousand, deposits have more than doubled to €619m, and the number of customers also more than doubled to 285 thousand. Given these results, we can clearly say that Banco CTT has been very well received by the population.

During 2017 we launched the mortgage loan products, thus completing Banco CTT offer for mass market individuals. Aligned with Banco CTT's strategy, it has been designed as a simple and value product. Our offer includes innovative features such as an app which allows to initiate and develop a large part of the process without physical presence. The first contract was signed in March and growth has been consistent since then – at the end of the year Banco CTT had granted a total amount of €66m in mortgage credit.

The encouraging performance of Banco CTT is reflected in its revenues, which increased significantly (from €1m in 2016 to €8m in 2017) and contributed positively to CTT's revenues. Banco CTT has been able to keep a tight control in its costs and investments, but has not yet, as planned, reached breakeven.

iii. Stimulate sales and increase profitability

During 2017, we implemented the remaining initiatives defined under the 2016 Commercial Excellence programme, such as the reorganisation of our sales force by industry sector, the revision of the account planning methodology, and the creation and implementation of new mechanisms to identify sales opportunities and promote cross-selling. We have also reviewed pricing and profit maximisation guidelines. These components should be continuously analysed and adapted to guarantee the continued growth of CTT's topline and profitability.

iv. Upgrade technology and data management platform (analytics, digitalisation)

In 2017 we proceeded with the implementation of the Information Systems Strategic Plan which sets the profound transformation of IT applications and infrastructures. Amongst the implemented initiatives, we highlight the modernisation of our production and invoicing platforms, that are enabling significant upgrades in interfaces (starting at the mailman with devices that allow for digitalisation resulting in more agile processes) and analytics capacities, fundamental to manage a competitive business in today's world and upgrade customer experience through physical, phone, internet and app interaction.

V. Final remarks

In these challenging times, I would like to thank the dedication and commitment of every CTT employee. I also thank the cooperation and valuable contribution of our shareholders, clients and all remaining stakeholders. We are beginning a period that will require the contribution of all to ensure CTT sustainability.

I would like to reinforce CTT's commitment to the Operational Transformation Plan, executing investments and all other initiatives while complying with high quality standards and all regulatory obligations. It is my conviction that this plan and the development of Express & Parcels and Banco CTT businesses are absolutely necessary to guarantee the sustainable future of our Company. The coming period will be demanding, but I am confident that we will successfully deliver on our ambition.

Francisco de Lacerda
Vice-Chairman of the Board of Directors & CEO

CORPORATE BODIES AND MANAGEMENT[1]

Board of Directors

Chairman:	António Sarmento Gomes Mota
Vice-Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Members[2]:	Dionizia Maria Ribeiro Farinha Ferreira Nuno de Carvalho Fernandes Thomaz (Member of the Audit Committee) 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 (Chairwoman of the Audit Committee) Maria Belén Amatriain Corbi (Member of the Audit Committee) Rafael Caldeira de Castel-Branco Valverde Guy Patrick Guimarães de Goyri Pacheco[3]

Board of the General Meeting

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

Remuneration Committee

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

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

[2] (i) Rui Miguel de Oliveira Horta e Costa tendered his resignation as member of the Board of Directors on 08/02/2017.
(ii) Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo, Manuel Cabral de Abreu Castelo-Branco, Manuel Carlos de Melo Champalimaud and Diogo José Paredes Leite de Campos ceased their functions as Members of the Board of Directors on 20/04/2017.
(iii) André Manuel Pereira Gorjão de Andrade Costa ceased his duties as Member of the Board of Directors (CFO) on 19/12/2017.

[3] Co-opted by a decision of the Board of Directors of 19/12/2017 to complete the current term of office (pending ratification at the General Meeting) for the position of Member of the Board of Directors (CFO) to replace André Manuel Pereira Gorjão de Andrade Costa.

Executive Committee [4]

Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Members:	Dionizia Maria Ribeiro Farinha Ferreira António Pedro Ferreira Vaz da Silva Francisco Maria da Costa de Sousa de Macedo Simão Guy Patrick Guimarães de Goyri Pacheco (CFO)

Audit Committee

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

Corporate Governance, Evaluation and Nominating Committee

Chairman:	António Sarmento Gomes Mota
Members:	José Manuel Baptista Fino Céline Dora Judith Abecassis-Moedas[5] João Afonso Ramalho Sopas Pereira Bento Rafael Caldeira de Castel-Branco Valverde

Statutory Auditor

Statutory Auditor (ROC):	KPMG & Associados, SROC, S.A., represented by Paulo Alexandre Martins Quintas Paixão[6]
Alternate Statutory Auditor:	Vítor Manuel da Cunha Ribeirinho

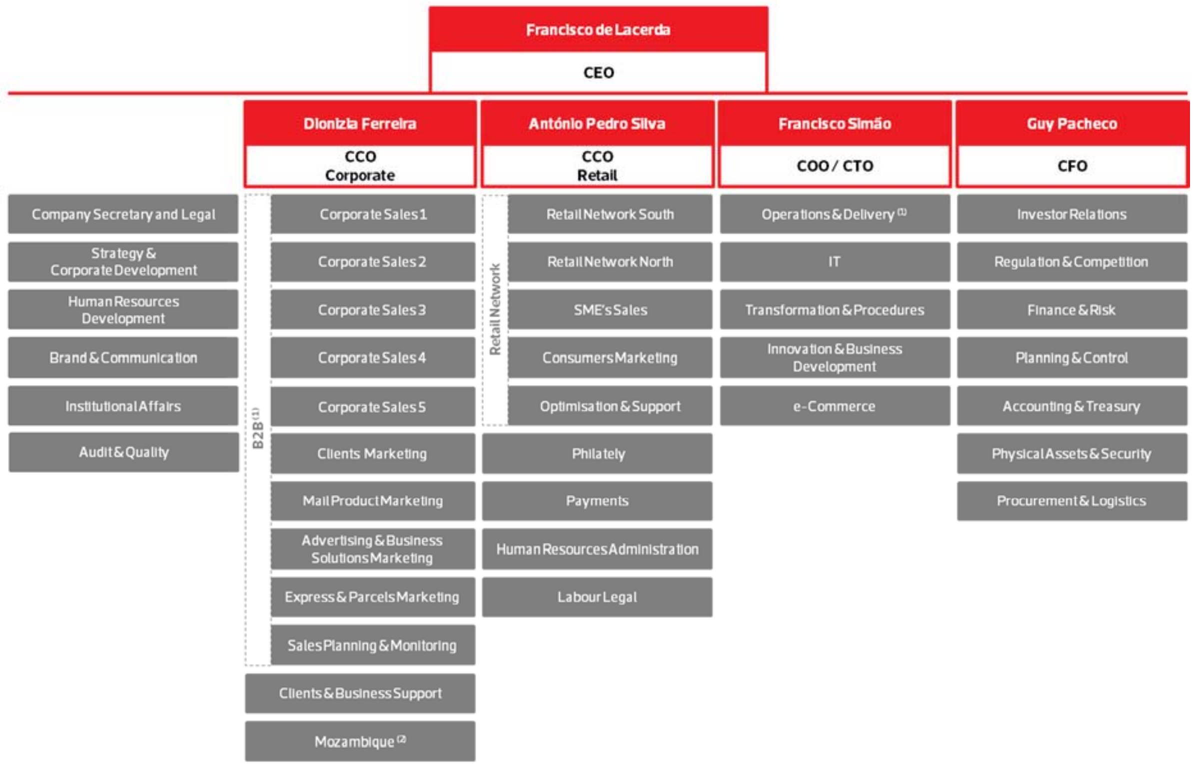
[4] Members appointed for the 2017/2019 term of office by a decision of the Board of Directors of 20/04/2017.

[5] Appointed as Member of the Corporate Governance, Evaluation and Nominating Committee by a deliberation of the Board of Directors of 14/02/2017 to replace Rui Miguel de Oliveira Horta e Costa. Re-elected for the 2017/2019 term of office.

[6] Representative appointed by the firm KMPG & Associados – SROC, S.A. to replace Maria Cristina Santos Ferreira, former representative, effective as of 1 May 2017.

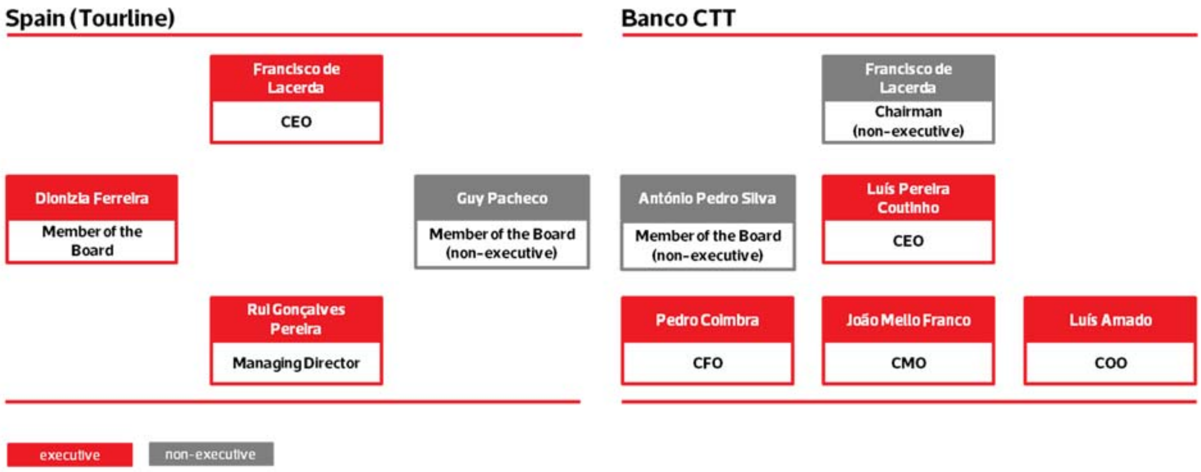
Management Organisation

EXECUTIVE COMMITTEE OF CTT: EXECUTIVE MEMBERS ON THE BOARD OF DIRECTORS OF CTT AND AREAS OF RESPONSIBILITY



(1) Includes Mailtec Comunicação, CTT Contacto, CTT Expresso and Transporta; (2) Includes CORRE.

TOURLINE AND BANCO CTT: EXECUTIVE TOP MANAGEMENT AND RELATIONSHIP WITH THE EXECUTIVE BOARD MEMBERS OF CTT



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KEY FIGURES

Economic and financial indicators (consolidated IFRS data)

€ thousand or %, except where indicated	2015	2016	2017	Δ% 17/16
Revenues (1)	727,180	695,060	697,932	0.4
Operating costs excluding depreciation, amortisation, impairments, provisions and non recurring-costs	583,205	575,561	608,025	5.6
Recurring EBITDA (2)	143,975	119,499	89,906	-24.8
Recurring EBIT (2)	119,762	94,687	60,205	-36.4
Earnings before taxes and financial results	109,932	90,883	47,093	-48.2
EBT	104,610	85,245	42,093	-50.6
Net profit for the period	72,071	61,897	27,115	-56.2
Net profit attributable to equity holders	72,065	62,160	27,263	-56.1
Earnings per share (euro) (3)	0.48	0.42	0.18	-56.3
Recurring EBITDA margin	19.8%	17.2%	12.9%	-4.3 p.p.
Recurring EBIT margin	16.5%	13.6%	8.6%	-5.0 p.p.
Net profit margin	9.9%	8.9%	3.9%	-5.0 p.p.
Capex	32,331	42,160	28,534	-32.3
Operating free cash flow (4)	68,322	2,915	38,523	1,221.5

	31.12.2015	31.12.2016	31.12.2017	Δ% 17/16
Cash and cash equivalents	603,650	618,811	626,825	1.3
Net cash	278,999	295,306	360,930	22.2
Assets	1,119,472	1,316,697	1,608,765	22.2
Liabilities	867,637	1,083,370	1,424,774	31.5
Equity	251,835	233,327	183,991	-21.1
Share Capital	75,000	75,000	75,000	-
Number of shares	150,000,000	150,000,000	150,000,000	-

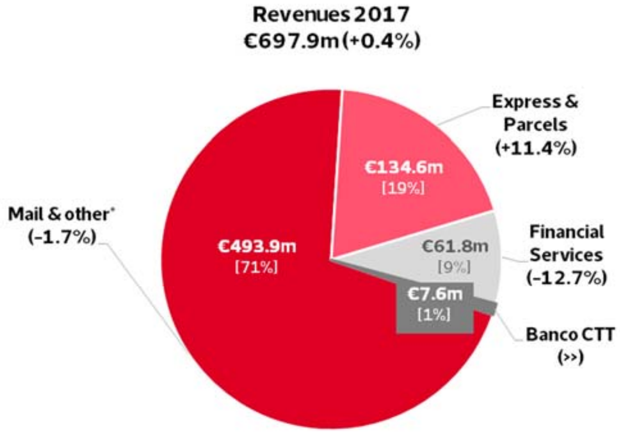
(1) Excluding non-recurring revenues.

(2) Before non-recurring revenues and costs.

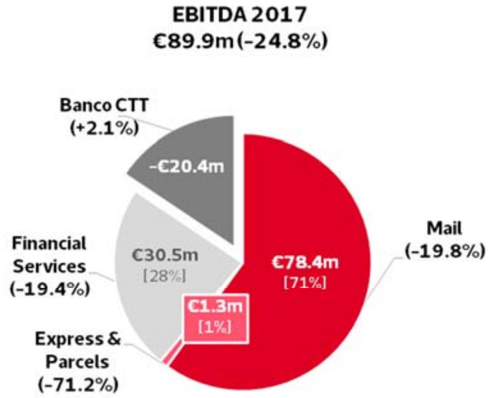
(3) It is considered the number of shares outstanding excluding 1 own share (200,177 bought in 2015, 400,534 bought in 2016 and 600,530 attributed in 31 january 2017 to the Company's executive Board Members as long term variable remuneration for the 2014/2016 term of office).

(4) Cash flow excluding the change in net Financial Services payables, banking customer deposits and other loans, credit to Bank clients, third parties other receivables and payments related to Banco CTT, financial assets available for sale, investments held to maturity, deposits at the Bank of Portugal and other banking financial assets.

Recurring revenues and EBITDA per business unit



( ) Change vs. 2016.
[ ] Weight in 2017.
*Includes revenues from CTT central structure and intragroup eliminations in the amount of -€33.6m in 2017 and -€31.0m in 2016.



( ) Change vs. 2016.
[ ] Weight in 2017, excluding -€20.4m related to Banco CTT's EBITDA.

Operating Indicators

	2015	2016	2017	Δ%17/16
Mail				
Addressed mail volumes (million items)	814.7	780.2	736.6	-5.6
Transactional mail	688.3	662.8	627.2	-5.4
Editorial mail	46.2	43.3	40.8	-5.6
Advertising mail	80.2	74.2	68.5	-7.6
Unaddressed mail volumes (million items)	473.4	497.8	492.1	-1.1
Express & Parcels				
Portugal (million items)	14.4	14.6	17.7	21.5
Spain (million items)	14.0	12.3	15.5	26.1
Financial Services				
Payments (number of transactions; millions)	61.5	57.6	53.7	-6.8
Savings and insurance (subscriptions and redemptions; € millions)	4,252.9	3,794.0	4,020.9	6.0
Banco CTT				
Number of current accounts	-	74,135	226,001	204.9
Client deposits (€m)	-	253,945	619,230	143.8
Number of branches	-	202	208	3.0
Staff				
Staff (FTE) (1)	12,462	12,479	12,787	2.5
Retail, Transport and Delivery Networks				
Post offices	619	615	608	-1.1
Postal agencies (partnership branches)	1,711	1,724	1,761	2.1
Payshop agents	3,939	4,202	4,394	4.6
Postal delivery offices	254	242	235	-2.9
Postal delivery routes	4,731	4,698	4,702	0.1
Fleet (number of vehicles)	3,530	3,609	3,626	0.5

(1) FTE = Full-time equivalent.

Sustainability Indicators

	2015	2016	2017	Δ%17/16	
Customers					
Customer satisfaction (%)	85.2	86.1	84.7	-1.4	p.p.
Total number of operating units certified (ISO standard and Retail and Delivery Networks certification)	1,183	1,167	1,254	7.5	
Retail and delivery networks certification (% coverage)	100	100	100	-	
Overall Quality of Service Indicator (OQSI, points) (1)	205.8	122.9	110.1	-12.8	
Staff					
Number of accidents	949	979	1,072	9.5	
Training (hours)	316,042	311,354	262,480	-15.7	
Women in management positions (1st management level) (%)	35.3	32.4	31.6	-0.8	p.p.
Community/Environment					
Value chain - contracts with environmental criteria (%)	99.2	99.4	98.7	-0.7	p.p.
Total CO2 emissions, scope 1 and 2 (kton.) (2) (3)	16.3	16.5	16.2	-1.4	
Energy consumption (TJ) (2) (3)	381.3	384.9	386.4	0.4	
Eco-friendly vehicles	304	326	353	8.3	
Weight of Eco product range in Direct Mail line (%) (4)	34.3	37.1	37.4	0.3	p.p.
Investment in the Community (€ thousand)	908	1,236	1,144	-7.5	

(1) The value of the 2016 OQSI published with the 2016 annual report (126.0) was recalculated according to the final Anacom decision of November 2017 relative to the formula for calculation of the indicators IQS4 - ordinary mail not delivered within 15 work days and IQS5 - priority mail not delivered within 10 work days.

(2) Includes acquisition of "green" energy (with zero carbon emissions).

(3) Indicators excluding Transporta and CORRE data.

(4) Volume.

AWARDS AND RECOGNITIONS

CTT and its senior officers received the following awards and recognitions in 2017:

- **POSTAL INDUSTRY OSCARS** (World Post & Parcels Awards)

CTT was again distinguished in the 2017 *World Post & Parcels Awards* with first prize in the Human Resource Management category for NAVEINFORMA, a process which allows any department of the company to communicate through images or written information in real time with all the employees in the computerised retail network and postal agencies, at no additional cost, using the NAVE computer system. CTT was also nominated in two other categories: Social Responsibility, for the project "Solidarity Santa Claus", and Technology, for the project "CTTADS.PT", which both received honourable mention as "highly recommended".

- **TRUSTED BRAND**

For the 14th time, CTT was again distinguished as one of Portugal's Trusted Brands, in a study carried out by *Reader's Digest* magazine, with first place in the "Postal and Logistics Services" category, winning 85% of the votes.

- **SUPERBRANDS BRAND**

CTT was one of the 34 brands distinguished nationally as a *Superbrands* brand, in the 13th edition of this international award.

- **CTT'S LEGAL SERVICES AMONG THE MOST INFLUENTIAL AND INNOVATIVE**

CTT's legal services, through the Corporate and New Business team, were distinguished as one of the most innovative in-house legal services teams of the Iberian Peninsula, being included in the 2017 Legal 500 ranking of the best advocacy professionals, a ranking of lawyers and legal companies which is recognised worldwide.

- **BEST BUY AWARD PORTUGAL 2017/2018**

In a study carried out by ICERTIAS - *International Certification Association*, CTT was elected by Portuguese internet users as the company which offers the best price-quality ratio in express delivery services; the company received the *Best Buy Award* medal.

- **BEST CONSUMER PAYMENTS SOLUTIONS PROVIDER PORTUGAL 2017**

Payshop, the company responsible for providing CTT's payments business, was distinguished in the Global Business Awards 2017, winning the award in the category Best Consumer Payments Solutions Provider – Portugal 2017.

- **LOGISTICS EXCELLENCE AWARD**

CTT received the 2017 Logistics Excellence Award for its New Architecture for the Production and Logistics Network (NARPEL) project. This is the most important logistics industry award in Portugal and is promoted by the Portuguese Logistics Association (APLOG) and the magazine Logística Moderna.

- **POSTEUROP INNOVATION AWARD**

The cttads.pt solution was distinguished with the *PostEurop Innovation Award* 2017.

- **MARKETEER AWARDS 2017**

CTT was named "Brand of the Year in the Corporate category" in the 9th edition of the Marketeer Awards. These awards are given to distinguish the best work being done in Portugal in the areas of strategy, communication, marketing and advertising.

- **WIPA GRAND PRIX**

The stamp issue commemorating the Portuguese Canning Industry was awarded the WIPA Grand Prix 2017, decided by the prestigious jury of the Vienna International Philatelic Exhibition. This was the first issue of stamps anywhere in the world issued in real cans, and it was selected as the most beautiful of 2016.

- **APOM AWARDS 2017**

The Portuguese Association of Museology (APOM) distinguished CTT as the cultural organisation of the year for the company's continuous efforts to disseminate Portugal's museum heritage through philately.

- **NEXOFIL GRAND PRIX**

The souvenir sheet "Marian Sanctuaries – Fátima" was considered the "Best Souvenir Sheet of 2016" in the Nexofil Grand Prix gala. The Nexofil awards are granted by "El Eco" magazine, the oldest and most renowned Spanish philatelic and numismatic magazine, which has been published without interruption for 73 years.

- **FUNDACOM PRIZES**

CTT, with CTT TV, won the Corporate Radio and Television category of the Fundacom Prizes, awarded for the best work in the field of organisational and strategic communications in Spanish and Portuguese. CTT also earned two honourable mentions: in the External Event (up to 1,000 persons) category, for the 2016 *Employer Brand Assessment Day*, and the In-House Publications category, for the magazine "Move-nos".

- **CTT'S LINES DISTINGUISHED IN THE 2017 *BEST AWARDS* OF THE PORTUGUESE ASSOCIATION OF CONTACT CENTRES 2017**

The CTT and CTT Expresso lines were recently awarded the silver and bronze medals respectively in the APCC Best Awards 2017, in the Transports, Distribution and Logistics category. This is the 8th award won by CTT's Contact centre, and the 5th won by CTT Expresso's Contact centre, since 2010 in the top events related with this area, showing that CTT continues in the forefront of Contact centres in Portugal.

- **SOLID REPUTATION BRAND**

CTT received a Reputation Sustainability Award after a study carried out by the consultant OnStrategy to identify and recognise those brands which have a sustained record of excellence and solidity in Portugal over 10 years.

- **WORLD LEADER IN THE SUSTAINABILITY RANKING**

CTT won first place *ex aequo* in the postal, express and logistics sector of the Carbon Disclosure Project (CDP) ranking. This is the most important energy and carbon sustainability rating in the world.

- **GREEN PROJECT AWARDS**

For the 3rd year running, CTT was distinguished in the most important national environmental award, the Portuguese Drivers' Challenge, organised by CTT, receiving honourable mention in the ''Efficient Resource Management'' category.

- **HUMAN RESOURCES PORTUGAL DISTINGUISHES CTT WITH TWO AWARDS**

CTT won the Human Resources Portugal 2016 prize in the categories of ''Gender equality'', for promoting and defending gender equality, and ''Seniors Management'', for having the best policy for senior employees.

- **EXCELLENCE IN ROAD SAFETY AWARDS**

CTT was distinguished in the 2017 Excellence in Road Safety Awards promoted by the European Road Safety Charter, for the Road Safety programme that the company has been applying since 2015. These awards, handed out every year by the European Commission, recognise the most outstanding road safety projects in Europe.

- **COUPS DE CŒUR AWARDS**

CTT's car-pooling platform, set up to reduce emissions caused by employees who commute to work, was a finalist in the environment category of the 2017 PostEurop *Coups de Cœur* awards.

PART I – MANAGEMENT REPORT

1. STRATEGIC LINES

1.1. Industry trends

The postal industry is undergoing a profound transformation. Internationally we see the adaptation of existing companies to a business environment of constant change, and a competitive environment in which their traditional business is shrinking. CTT's strategy has been defined in the light of trends in the industry, adopting best practices and success strategies, and particularly considering the specific needs of the markets in which it operates.

Industry trends may be summarised in the following points:

i. **Digitalisation** – substitution of physical processes and communications by digital technologies, with the specific consequence for the postal industry of a structural reduction in business.

ii. **Growth of e-commerce** – exponential increase in online purchases, leading to greater requirements for parcel delivery and logistics operations.

iii. **Globalisation, liberalisation and privatisation** – increased scope of activities and capacity of postal operators in an increasingly competitive environment, and driven by the need to guarantee results to the various stakeholders.

iv. **Diversification** – entry into and development of alternative business areas to mail services, increasing the profitability of postal operators' assets – particularly distribution and retail networks – and reducing their dependence on mail.

v. **Focus on efficiency** – constant operational improvement and optimisation of resources to maximise profitability, demanding flexible, agile technological architecture to allow services to be developed without prejudicing profitability levels.

vi. **Internet of Postal Things** – developing the assets of postal operators (postmen and women acting as field force, extending vehicle fleets, proliferation of points in the physical network) for data collection and provision of services under a big data concept.

1.2. Strategic lines

CTT has been adopting a diversification strategy in line with industry trends, adapting its business model to compensate for the structural decline in mail. Nevertheless, CTT is still heavily dependent on its mail business (more than 70% of its revenues versus 40% for the industry – data from IPC's Global Industry Report 2017) and is in an initial transformation phase due to the still limited penetration of e-commerce parcels in the market in Portugal, and the fact that Banco CTT only started to operate in 2016.

CTT's 2017 results came under strong pressure due to a greater decrease in mail volumes than originally foreseen, and an increase in the operating costs of this business unit resulting from CTT's commitment to the Universal Postal Obligation and its support for the company's growth levers. The growth levers, Express & Parcels and Banco CTT, demonstrate that they have potential and are in the process of growing, however they need more time before they can contribute to the Group's profitability – the contribution of Express & Parcels is still very limited, while Banco CTT is still on course to achieve break-even point.

It became therefore fundamental to review CTT's strategy to accommodate the consequences of these facts and urgently needed actions, and follow up on the strategic transformation of the company in the medium term. There is a need to give a strategic footing to the reformulation of the postal business, in order to adjust the fixed-costs structure to medium-term needs, so as to improve profitability and strengthen quality of service; at the same time, efforts must be continued and focused on transforming and developing non-postal business areas, particularly Express & Parcels and Banco CTT.

A. Reformulation of the postal business

The object of the Operational Transformation Plan is to make a strong contribution to the company's results, helping to counteract the impact of the mail volumes decline. This plan will be implemented gradually until 2020, with an annual saving expected from that year onwards of up to €45m. The Plan's initiatives cover the principal component of CTT's operating costs, the mail business unit in different cost categories (staff, external supplies and services, and central structure). Implementation of the Plan and realisation of the estimated savings involve an additional investment of around €25m and non-recurring costs of approximately €55m. Implementation will require the continuous involvement of the Executive Committee, and the Board of Directors will also monitor it closely through the Implementation Monitoring Committee created for that purpose which will be led by the Chairman of the Board and include Non-Executive Directors (including the Non-Executive Director representing the largest shareholder).

The plan can be summarised in 4 major initiatives:

1. **Adjust human resources policies and deepen the efforts to reduce external supplies and services costs**:
    a. adjust the remuneration and incentives system for the Board of Directors and employees.
    b. reduce costs not related to the growth levers, such as: IT, rentals, utilities, communications and the vehicle fleet, supported by renegotiation of contracts and rationalisation of the use of services/premises.

2. **Strengthen the human resources optimisation programme** (continued elimination of redundancies) **and rationalise non-core assets** (sale of non-core real estate to save associated costs).

3. **Optimise the retail network** by converting post offices into postal agencies or closing post offices with low customer demand, **while maintaining proximity to citizens, quality of service and compliance with regulatory obligations.**

4. **Reorganise the distribution network to improve operational efficiency:**
    a. redesign the distribution network footprint and coverage to adapt it to changes in volumes and in the mix of postal items, and consequently streamline the transportation and fleet network, and concentrate postal delivery offices.

    b. optimise operations and mail handling through the automation of sorting and sequencing processes, and reduce absenteeism while increasing staff flexibility.

B. Transform and grow non-postal businesses

The transformation of non-postal businesses requires not only the development of services but also a structure capable of capturing market opportunities and responding to customers' needs, which change constantly and increasingly. Thus, the modernisation of CTT's business model, leveraged on its existing platforms and capacities, is based among other things on the following completed, current or planned initiatives:

1. **Above-market growth in parcels and value-added services** (mail & parcels):

    i. strengthening CTT's range of services in order to grow in the B2B (business to business) and B2C (business to consumer) markets in Portugal – in 2017, specific B2B services were developed for segments with greatest growth potential (e.g. shopping network); the CTT *e-segue* app was launched to allow centralised management of parcel deliveries (e.g. tracking the course of urgent parcels, changes during the course of a parcel, real-time notifications on the mail items/parcels); automated lockers for parcel delivery (parcel lockers) pilot was launched; partnership with OLX; preparation of the pilot for instant delivery based on a crowd-shipping model on a multi-channel platform.

    ii. consolidation of the positioning of CTT as an Iberia-wide operator, to allow integrated market coverage – in the fourth quarter of 2017 Tourline reached breakeven, and in future this subsidiary shall focus on consolidating the position achieved and on ensuring that its structure and operations achieve the expected growth.

    iii. capture of international flows – focus on one-to-one partnerships with local operators for the last mile; developing the *Interconnect* project (a global e-commerce distribution network based on a partnership of international postal operators including CTT); revamping the current outbound portfolio focusing on exporting SME; and optimisation of customs clearance.

    iv. exploration of opportunities in market niches with potential for synergy with CTT's operations, particularly logistics and cargo – completion of the acquisition of Transporta and its integration into CTT, etc.

    v. developing specialist segments and business solutions (e.g. launch of the CTT Ads platform).

2. **Continue Banco CTT's path towards breakeven**

    i. expansion of Banco CTT's footprint by attracting new customers and accounts and capturing deposits, maintaining a strategy of simplicity and transparency.

    ii. accelerating the origination of a loan book – entering the mortgage loans market with its own product launched in 2017, and solutions in partnership such as consumer credit and car loans.

iii. extending the portfolio of products and cross-selling, specifically insurance and transfers – e.g. the launch in 2017 of a health insurance product in partnership with Multicare.

iv. integration of Payshop and development of payment services – migration of Payshop to Banco CTT and continuing the implementation of the Operational Transformation Plan for of the company (e.g. launch of a new site, provision of a new physical and virtual pre-payment service in Payshop agencies for purchases on the internet such as games and contents), developing the "virtual agent" project to provide information on recurrent expenditure through a web and mobile phone app, allowing users to make payments, etc..

v. developing digital channels, easy-to-use, convenient and secure solutions (e.g. creation of the Casa BCTT app to allow step-by-step monitoring, a messaging service with the Bank to obtain information on the mortgage credit process and upload lacking documents, etc.).

3. **Stimulate sales and increase profitability**:

   i. strengthening the sales organisation – reorganisation of sales teams for contract business, separating the sales forces (mail versus other businesses), redefinition of account planning methods and creation of new mechanisms to identify sales leads and increase cross-selling, review of the pricing model and margin/profitability optimisation policies and creation of a Sales Planning and Control department.

   ii. protecting the Mail value through a active regulatory management.

4. **Upgrade technology and the data-management platform**, enabling the Company to develop innovative, value-added offers, guarantee the quality of service and a continuous improvement in customer experience, guarantee efficiency and resource optimisation and strengthen the decision-making process by improving management information:

   i. strategic IT project – examples of measures implemented in 2017: all postmen were provided with mobile devices allowing processes such as paperless confirmation of registered mail and parcel delivery, and new apps (e.g. CTT App and ViaCTT App), implementation of a new sales and customer support system (CRM – Customer Relationship Management), carrying out pilot projects for process automation in support areas using Robotic Process Automation (RPA) technology, integration of Transporta's IT with CTT's IT and modernisation of management information.

   ii. infrastructure renewal plan (new technological architecture, consolidation of servers, storage and back-office infrastructure, data security).

2. BUSINESSES

2.1. Economic, sectoral and regulatory environment

2.1.1. Economic environment

International

The IMF's forecasts for the world economy point to an acceleration of growth in 2017 (3.7%, as compared to 3.2% in 2016). This evolution resulted from the combined effect of acceleration of growth in both advanced economies (2.3% in 2017, in comparison to 1.7% in 2016) and in emerging and developing market economies (4.7% in 2017, 4.4% in 2016).

Growth in the USA was 2.3% in 2017, mainly due to the improvement of private investment and the recovery of exports. Economic growth in the United Kingdom decelerated (1.7% in 2017, compared with 1.9% in 2016) due to the slowdown in household expenditure. Emerging market economies accelerated, having continued to benefit from accommodating financial conditions and, in the case of commodity exporting economies, from the increase in commodity prices at the end of 2016. Although China grew 6.8%, the pace of credit growth in this country raises some concerns regarding medium-term financial stability. In the Euro area, GDP accelerated to 2.4%, due to the pick up in exports, reflecting strong external demand as a result of the recovery of the world economy. Investment may have been more subdued, in spite of financing conditions having remained favourable and the continued accommodative stance of the ECB's monetary policy. Private consumption maintained moderate growth, benefiting from the improvement in labour market conditions and the progress made in terms of reducing household indebtedness. Among the larger Euro area economies, Spain posted the strongest growth in 2017, at 3.1%, followed by Germany (2.5%), France (1.8%) and Italy (1.6%).

World trade saw robust growth in 2017, 4.7% compared to 2.5% in 2016. In 2017, the external demand for Portuguese goods and services accelerated considerably, registering an estimated growth of 4.8% (2.0% in 2016). The main driver of this acceleration was the higher growth in demand from the business partners of the Euro area and the USA.

In a context of contained inflationary pressure and low capacity utilisation rates in most advanced economies, monetary policy in 2017 was expansionary, particularly in the Euro area, Japan and the United Kingdom. In the US, on the contrary, following the start of monetary policy normalisation at the end of 2015, the Federal Reserve decided to raise the federal funds rate three times in 2017, more specifically in March, June and December. The ECB's Governing Council decided to extend until the end of the year its asset purchase programme launched in recent years and maintained its key interest rates unchanged at historically low levels.

Short-term interest rates in the Euro area continued decreasing to historically low levels during 2017, with the 3-month Euribor standing, on average, at -0.33% in 2017 (-0.26% in 2016). In 2017 there was an appreciation of the effective exchange rate of the Euro.

In annual average terms, the price of oil increased by more than 20% in 2017 relative to the previous year, interrupting the downward trend observed in the 2013-2016 period.

Looking ahead, the ECB expects the growth of world economic activity to remain generally stable. The prospects for the advanced economies point to a sustained expansion, with a slight slowdown over the next few years. In emerging economies, the prospects are becoming more buoyant, underpinned by a slow strengthening of activity in commodity exporting countries, namely Brazil and Russia, and by resilient growth in India and China, although a slower growth trend is expected in the latter country. According to forecasts, the growth of world economic activity (excluding the Euro area) will be between 3.7% and 3.9%, over the time horizon to 2020.

National

According to the Preliminary 2017 National Quarterly and Annual Accounts of INE (National Statistics Institute), GDP grew by 2.7% in 2017 (1.6% in 2016). The contribution of domestic demand to the rate of change of GDP increased by 2.9 p.p. (1.6 p.p. in 2016), mainly reflecting the 8.4% acceleration in investment (0.8% in 2016) while private consumption increased slightly from 2.1% to 2.2%. The increased investment reflects mainly the 9.0% acceleration of Gross Fixed Capital Formation (GFCF) (1.5% in 2016), as the under construction GFCF was the component that contributed mostly to the developments in total GFCF with a 9.2% increase (after a reduction of 0.3% in 2016). Net external demand went from a zero contribution in 2016 to -0.2 p.p. in 2017, as both the exports and the imports of goods and services accelerated by 7.9% (4.4% and 4.2% in 2016, respectively). In nominal terms, the External Balance of Goods and Services represented 1.0% of GDP (1.1% in 2016), and there was a slight deterioration in the terms of trade.

Inflation, measured by the Harmonised Consumer Price Index (HCPI), increased significantly in 2017 to 1.6%, following an increase of 0.6% in 2016. Both the energy and non-energy component (with emphasis on the significant increase in the prices of services in tourism-related activities) contributed to the acceleration of prices in 2017.

In 2017, the labour market situation improved, with a rise in total employment of 3.3% (1.6% in 2016), higher than the growth in GDP, and a decrease in the unemployment rate to 8.9% (11.1% in the previous year).

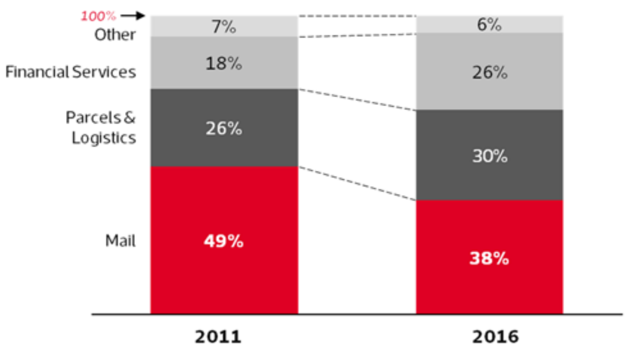
In June 2017, the Council of the European Union decided, by recommendation of the European Commission, on the closure of the excessive deficit procedure to which Portugal had been subject since 2009. Following this decision, the Portuguese budgetary situation began to be analysed according to the rules of the preventive arm of the Stability and Growth Pact. For 2017, the general government deficit should be -1.4% of GDP, 0.1 p.p. of GDP below the target set by the 2017-2021 Stability Programme and 0.2 p.p. of GDP below the State Budget for 2017. This reduction resulted, on the one hand, from the increase in revenues, with emphasis on the increase in revenues from taxes on production and imports, in particular value added tax, and from social contributions, and on the other hand from the decrease in expenditure, namely the decrease in expenditure on social benefits (arising from the decrease in the unemployment rate) and on interest payments on the public debt.

2.1.2. Sectoral framework

2.1.2.1. Postal Sector

As in previous years, the paradigm of the transformation of the postal sector continues to be evident. Thus, the drive towards efficiency and business diversification remains the strategic focus of postal operators. The weight of the postal business is decreasing, accounting for less than 40% of the sector's revenues, while Parcels & Logistics and Financial Services are emerging as the main levers of growth in the sector.

Revenues per business unit in the postal sector

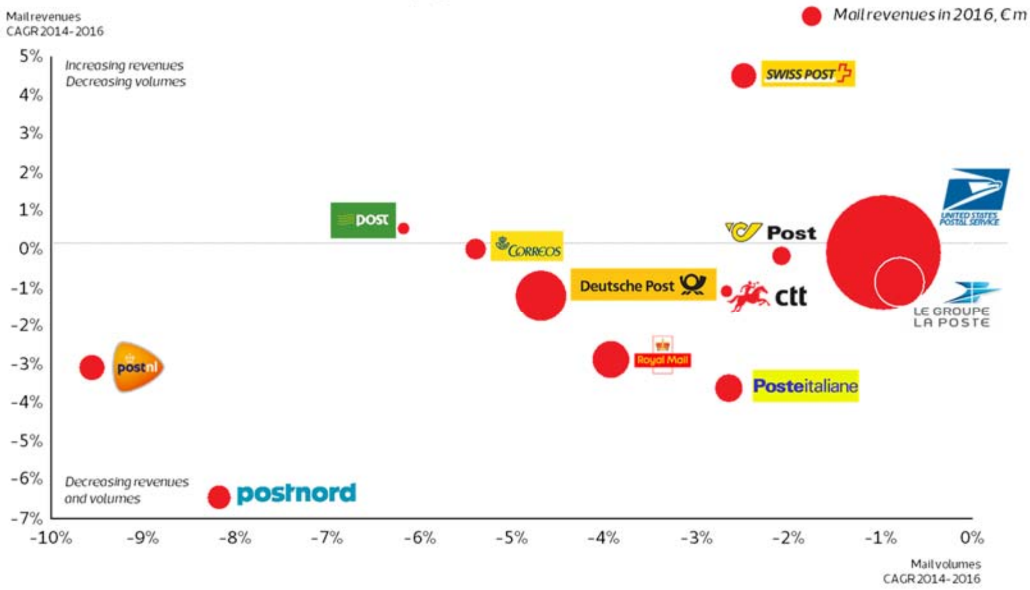


Source: IPC "*Global Postal Industry Report 2017*", report developed by *International Post Corporation* (IPC) gathering information on 48 postal operators at international level.

Mail

With regard to Mail, there is a strong pressure on volumes, a trend that is observed in most postal operators and, consequently, is reflected in the decrease in revenues associated with the mail business. The following graph shows the relationship between volumes growth and revenue growth for a number of European postal operators in a sectoral trend analysis in 2014-2016 (2017 data for all operators not yet available).

Evolution in mail volume versus revenues by operator

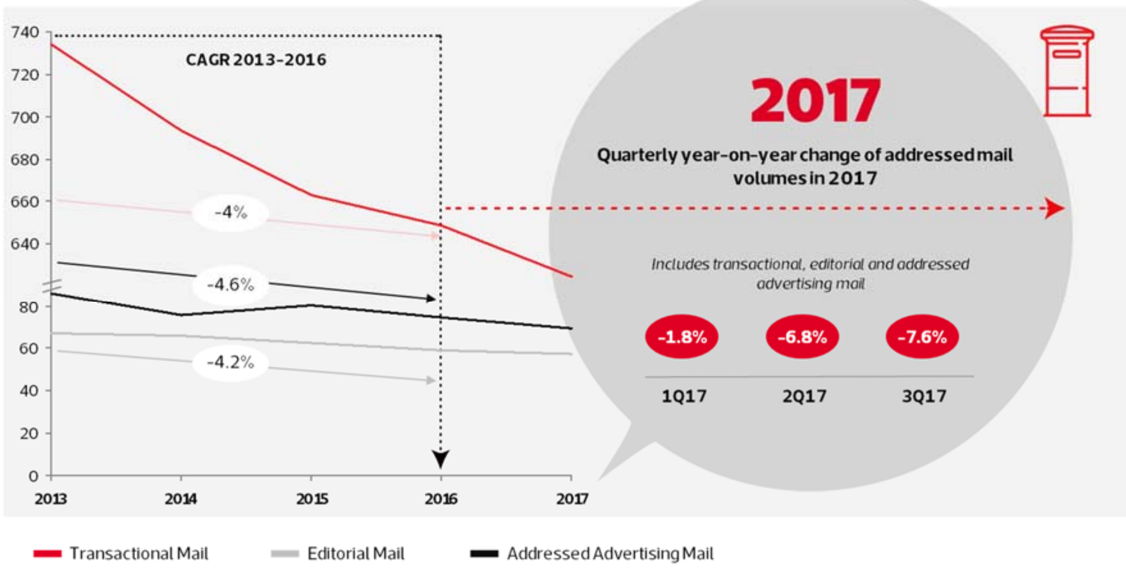


Source: IPC "*Global Postal Industry Report 2017 Data Appendix*", data base from the report prepared by the *International Post Corporation* (IPC) gathering information on 48 postal operators at international level.

2

The reality of the domestic market is similar to that of the international markets and there is a historical downward trend in all mail segments due to the digitalisation and, consequently, the substitution of mail by other means of communication. As can be seen in the graph below, which represents the evolution of mail volumes in Portugal, the decline was sharper in the editorial mail. In addition, in recent quarters there has been an acceleration of the decrease in addressed mail.

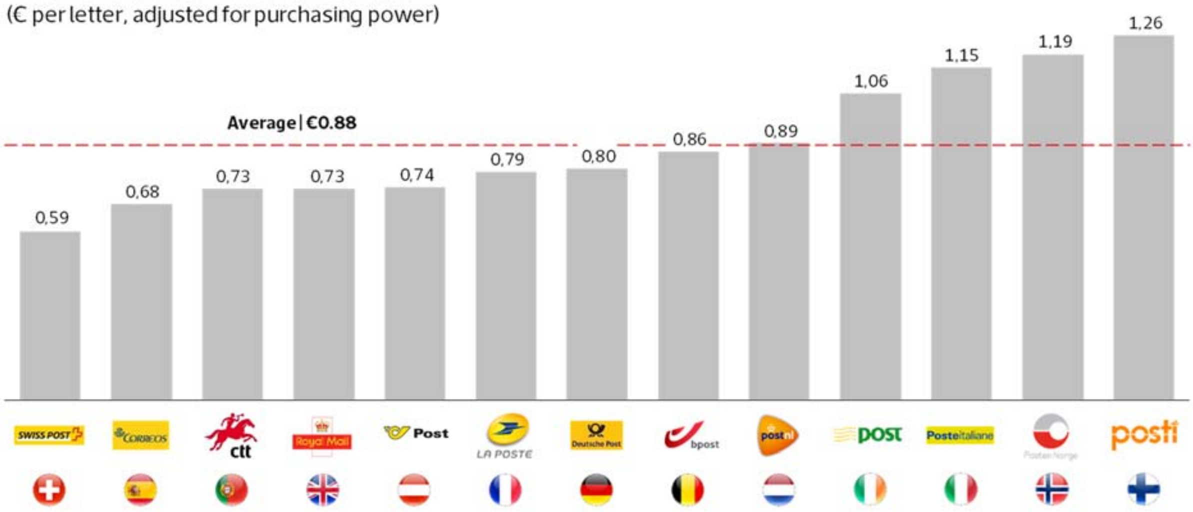
Evolution of Mail market volumes in Portugal (2012-2017)
(million items)



Source: ANACOM, "Postal Services – Statistical Information– 3rd quarter 2017"; 2017 included as last 12 months ending September.

In response to the abrupt decline in volumes, postal operators have been focusing, among other initiatives, on changing their pricing strategies, and in recent years mail prices have been growing by between 6 and 8%. In Portugal there has also been an increase in prices, but CTT continues to be one of the incumbents with the lowest prices, as can be seen in the graph below, which compares the average prices per letter adjusted for purchasing power.

Mail price of the main European operators
(€ per letter, adjusted for purchasing power)

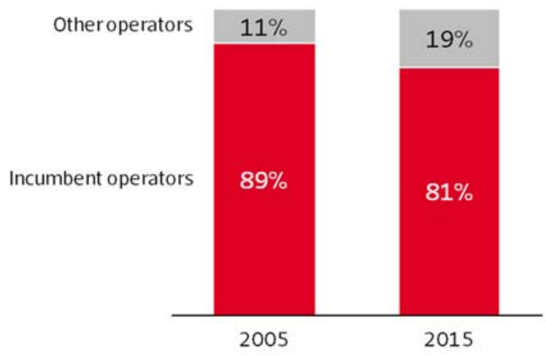


Source: *IPC Consumer Rates*, domestic mail price with delivery date above D+1 (proxy for CTT ordinary mail, which has a delivery standard of D+3), except for operators that only offer this service standard (AN Post, Bpost, Deutsche Post and Austrian Post).

In addition, the competitive pressure in the postal sector resulting from the liberalisation of the postal markets reinforces the challenges for incumbent operators which, once subject to the obligations of their contracts, have greater difficulties in remaining competitive and maintaining their market shares. As can be seen in the table below, presenting the market share of the incumbent operators before and after the liberalisation of the postal market.

Evolution of mail market shares

Considering letter volumes

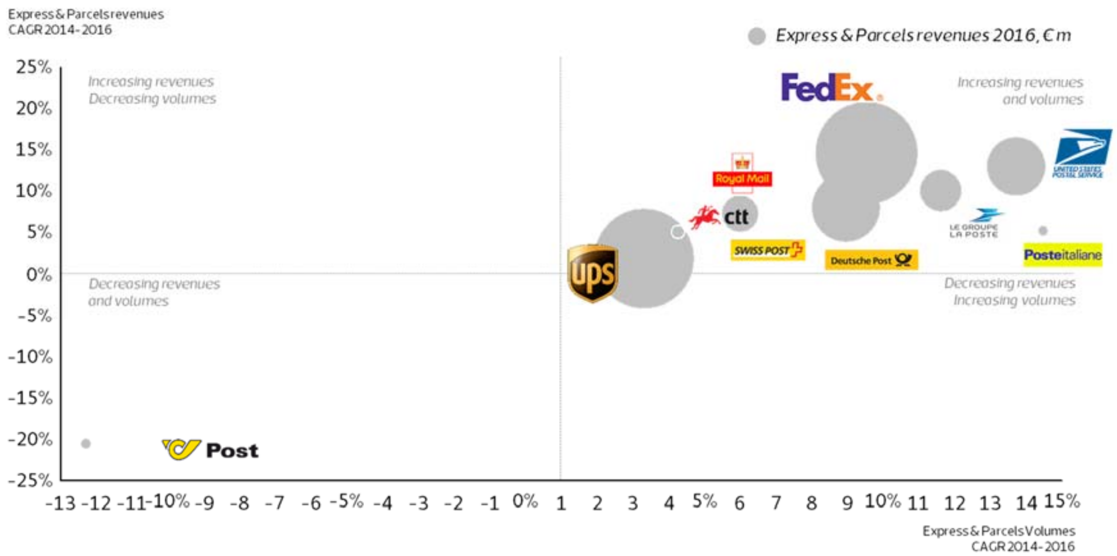


Source: UPU (*Universal Postal Union*) "*Research on Postal Markets*".

Express & Parcels

The Express & Parcels market has been countering the mail business landscape, both in the domestic market and in international markets, continuing to show signs of strong potential growth.

Evolution in Express & Parcels volumes versus revenues by operator



Source: IPC "*Global Postal Industry Report 2017 Data Appendix*", database of the report prepared by the International Post Corporation (IPC) gathering information on 48 postal operators at international level, and CTT (note: considers indicators from CTT Expresso).

6

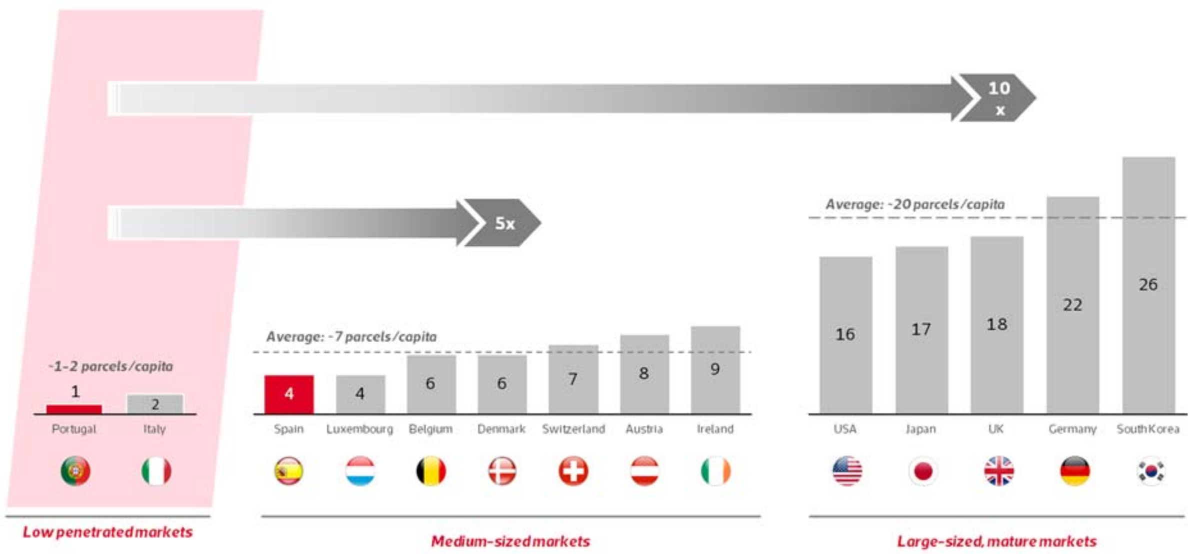
In 2016, Express & Parcels volumes grew about 8%, mostly driven by the volume of domestic B2C parcels. Until 2020, the growth in revenues of this market is expected to reach about 37% (with reference to the global Express & Parcels market in the "Global Postal Industry Report 2017" of IPC).

At a national level, there has also been a strong evolution in parcels volumes in the last few years. However, it is important to note that the growth of the parcels volumes when compared to international markets has been more moderate, since a large part of the market still refers to B2B parcels, little influenced by the growth of e-commerce, which in turn is the strong growth driver of this business.

In Portugal, the presence of companies on the internet is still incipient (40% have an online presence) and only 27% of these companies sell on this channel (Source: ACEPI / IDC "Annual Study of the Economy and Digital Society in Portugal", October 2017).

Notwithstanding, the weight of B2C parcels in the domestic market has been increasing, driven mainly by e-commerce. It is believed that the future is promising in terms of the Iberian market, since the degree of penetration of e-commerce is behind that of other markets, as can be seen in the graph below.

E-commerce parcel penetration
Parcels per capita, per year[1]

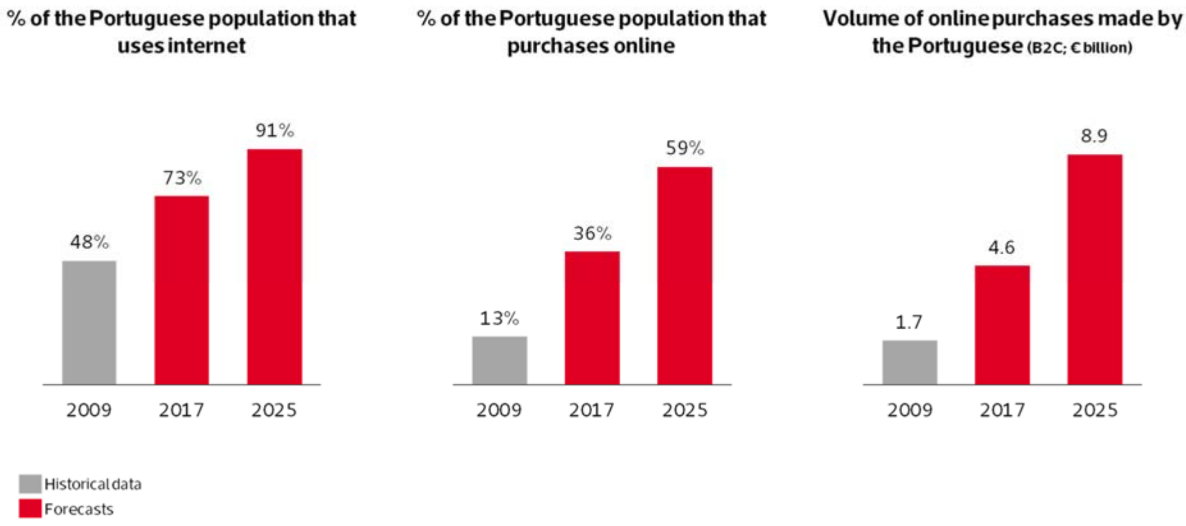


Source: CTT Analysis

[1] E-commerce relevant is defined as domestic B2C parcels, with speed typical for e-commerce shipments in the given country

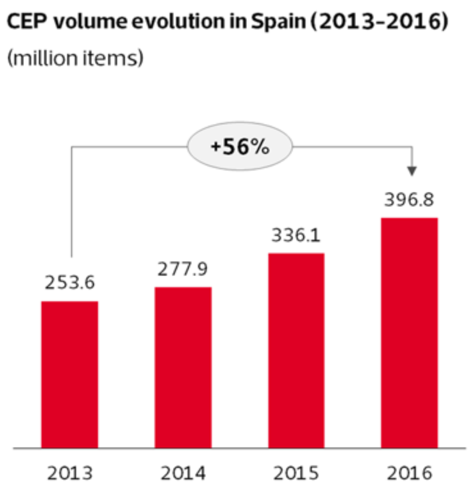
There are already signs of this evolution. Specifically in Portugal, an increasing number of Portuguese have access to the internet. This group is expected to represent more than 90% of the population in 2025. The number of Portuguese that buy online has increased significantly, with more than half of the population being expected to do so in 2025, and the volume spent on purchases increased about 170% from 2009 to 2017, being expected to double by 2025.

It is important to mention that 85% of the Portuguese that buy online have already made cross-border purchases and that 50% of the online purchases made by the Portuguese are made outside the country.



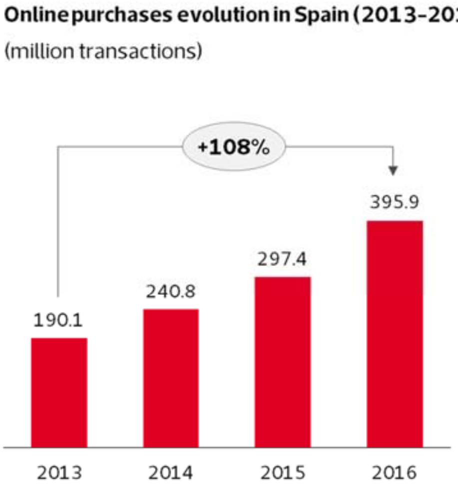
Source: ACEPI / IDC "Annual Study of the Economy and Digital Society in Portugal", October 2017

With regards to Spain, the market has grown significantly over the past few years, with the number of items sent having increased more than 50% between 2013 and 2016 (CAGR 2013-2016 of 16%). On the other hand, and in the same period, there has been an annual increase of 5% in operators' turnover, clearly showing the strong pressure that prices have been under (Source: *Comisión Nacional de los Mercados y la Competencia*, "*Análisis del sector postal y del sector de la mensajería y la paquetería*").

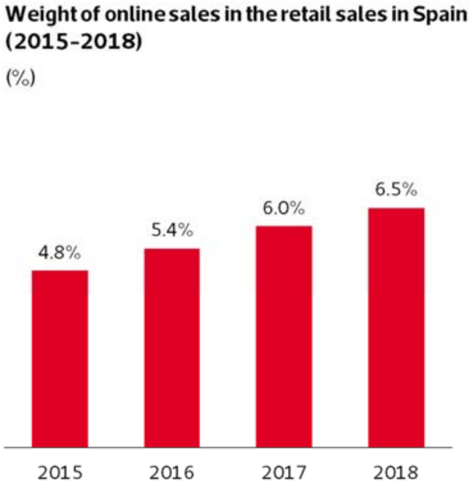


Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier & Parcels Sector", December 2017.

Regarding e-commerce, signs of a strong evolution are also evident in Spain. The number of transactions doubled between 2013 and 2016, with an annual growth of 28% (CAGR 2013-2016). In the first half of 2017, the trend continued, with a year-on-year increase of 29%. As a result, the weight of e-commerce in retail sales has been increasing and it is expected to reach 6.5% in 2018.

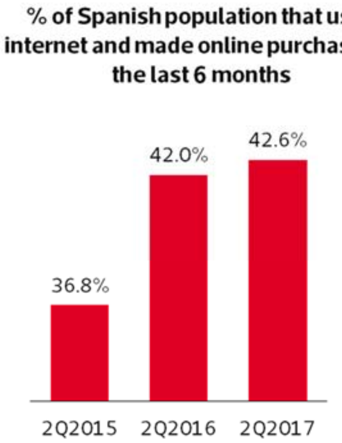


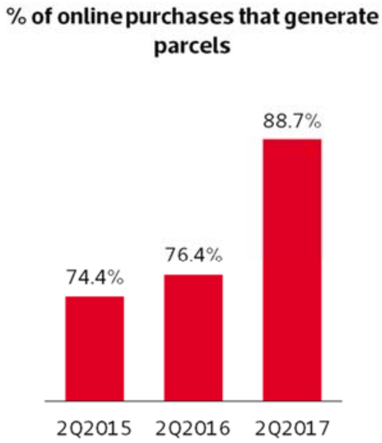
Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier & Parcels Sector", December 2017.



Source: *Statista, "Key figures of e-commerce"*.

In addition, the number of people that make online purchases has also been increasing, as well as the number of online purchases resulting in parcels.





Source: National Commission on Markets and Competition, "Analysis of the Postal Sector and the Courier and Parcels Sector", December 2017.

2.1.2.2. Financial sector

Financial Markets

In light of the favourable macroeconomic environment, financial market sentiment remained strong in advanced economies, with gains in stock markets and a further reduction in price volatility. The European Central Bank (ECB) estimates that short-term interest rates, based on the 3-month EURIBOR, are expected to remain at around -0.3% in 2017 and 2018, -0.1% in 2019 and 0.1% in 2020. Market expectations regarding nominal yields on 10-year public debt bonds in the Euro area point to around 1.1% in 2017 and 2018, 1.4% in 2019 and 1.7% in 2020.

Source: Bank of Portugal, Statistical Bulletin – January 2018.

Currently, the reference interbank interest rate levels continue to reflect the stable nature of monetary policy, namely with respect to the ECB's asset purchase programme. Interest rates have remained unchanged since March 2016, with the interest rate in the deposit facility at -0.40%[7], the rate for the main refinancing operations at 0.00%[7] and the marginal lending rate at 0.25%[7].

In 2018, financial market confidence sentiment is expected to remain anchored by prudent and conservative economic and monetary policies on both sides of the Atlantic. Two major risks will, however, remain: on the positive side, the advancement of the fiscal stimulus plan in the USA and, on the negative side, the advancement and consequences of the Brexit process.

Banking System

In a favourable context, both in terms of the macroeconomic conditions in Portugal, and the conditions in international financial markets, 2017 was a positive year for the Portuguese banking system, to the extent that it managed to reinforce its capability to perform its financial intermediation function on a regular basis. There was a significant reduction in non-performing loans (NPL), in nominal value and in percentage of loans, and a recovery of profitability, in spite of being affected in the short-term by operational adjustment processes of some institutions, with respect to staff costs. It is also important to mention the capacity for reinforcement of the prudential capital ratios.

Following processes involving the reduction of international activity and the capitalisation of some institutions, the asset reduction trend was maintained. In comparison with the first half of 2010, when they reached their maximum value, assets fell about 27.3%[8] in the first half of 2017. In general, there was a reduction of the customer loan book (-1.4%[8] in the first half) and an increase in the debt security portfolio (+1.5%[8] in the first half), mainly of securities from sovereign debt issuers, with emphasis on Portuguese public debt securities. However, there was recently a trend towards an increase of the weight of Spanish and Italian public debt securities in the portfolio.

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[7] Bank of Portugal, Portuguese Banking System. Recent Developments – 3rd quarter 2017.

[8] Bank of Portugal – Financial Stability Report – December 2017.

There was an increase in the importance of customers' deposits and a decrease in the weight of liabilities represented by securities in the financing of assets. The evolution of household deposits must be associated to the low interest rate context in new deposit operations, encouraging the channelling of resources to alternative, real and financial investments. The savings products issued by the State, offering higher rates of return than those of deposits, are noteworthy. The transformation ratio, defined by the quotient between loans (net of impairments) and customer deposits, fell 1.9 p.p.[9] in the first half of 2017 relative to the end of 2016, to stand at 93.6%[9]. Relative to June 2010, the ratio fell about 65 p.p.[9]. Financing from central banks increased 3%[9] in the first half of 2017, being mainly associated to long-term refinancing operations (LTRO). The financing from the interbank market (net of investments and claims on other credit institutions), on the other hand, fell 3.7%[9] in the first half of 2017.

In terms of liquidity, levels remain comfortable and exceed regulatory requirements. At the end of the first half of 2017, the liquidity cover ratio (LCR) of the banking system stood at 185%, which translates into an increase of 31 p.p.[9] relative to the end of 2016. This essentially reflects the increase of the liquidity buffer and the slight decrease in net outflows. The liquidity buffer is mostly composed of public debt securities, claims on central banks and cash. The ratio observed for the banking system exceeds the minimum requirement of 100% applicable from 1 January 2018.

With regards to the profitability of the Portuguese banking system, results were once again positive in the first half of 2017, essentially due to a reduction of costs with impairments and provisions, particularly credit impairments, and to a stabilisation of the net interest income, which along with an asset reduction improvement trend contributed to the improvement of the return on assets (ROA). In a context of stabilisation of staff costs and amortisation, operating costs maintained a downward trend, with a decrease in general administrative costs (represents about 35%[9] of total operating costs) and a stabilisation of staff costs (represents about 58%[9] of total operating costs) influenced by non-recurring costs associated to restructuring processes in some institutions. In the first half of 2017, the level of operating efficiency of the Portuguese banking system improved relative to the same period of the previous year, which translated into a decrease of 1.4[9] p.p. of the cost-to-income ratio, to 60.5%[9].

The reduction of the loan book affected the generation of interest in operations with customers. In addition, there was a decline in the interest rate implicit in loans. On the other hand, there was a reduction in interest costs, resulting from the lower cost incurred with customer deposits, of the retail customer segment in particular, as well as a decrease in the payment of interest associated with securities issued by institutions. The spread in operations with customers, in domestic activity, increased slightly, resulting from a reduction in the average cost of deposits larger than the decrease in the interest rate implicit in the resident non-financial private sector's loan outstanding amounts.

Solvency levels maintained their reinforcement trend in the first half of 2017, with the own funds Common Equity Tier 1 (CET 1) ratio of the Portuguese banking sector standing at 13.2%, considering the transitional provisions laid down in Regulation No. 575/2013 of the European Union (Capital Requirement Regulation – CRR). The expected entry into force of a minimum requirement of 3% expect to occur during 2018, under Basel III, is likely to be met by Portuguese institutions, since the leverage ratio is well above this minimum value, even considering a more demanding capital Tier 1 definition (fully phased-in).

[9] Bank of Portugal – Financial Stability Report – December 2017.

2.1.3. Regulatory Framework

2.1.3.1. Postal Sector

At the level of the European Union

The European Commission (EC) supported that the cross-border parcel delivery services are an essential element to enhance e-commerce across the entire EU. Within the scope of a package of measures to be developed to improve consumer and corporate access to digital goods and services, presented in 2016 by the EC on 20 December 2017, the European Council approved an agreement on the new rules relative to the cross-border parcel delivery services, aimed at increasing the transparency of prices and the regulatory supervision of these services. The agreement entails the publication by the European Commission, on a specific website for the purpose, of the public tariffs of the cross-border delivery service providers and grants the regulator more powers to monitor the parcel delivery market. The agreed text shall be formally approved by the European Parliament and then by the European Council and shall enter into force 20 days after its publication in the Official Journal of the EU.

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

At a national level

Pursuant to the Base XV of the Concession of the Universal Postal Service, on 15 September 2017, ANACOM approved the final decision on the objectives of postal network density and minimum services offer with which CTT should comply for the three-year period 2018-2020. The defined density objectives with respect to postal establishments and other points of access to the postal network, such as letter boxes, did not alter the objectives in force in the previous regulatory period, maintaining the assurance of the existence of availability and accessibility of the Universal Service provision entrusted to CTT.

In compliance with the criteria for formation of prices for the 2015-2017 period, as established by an ANACOM resolution of 21 November 2014, ANACOM approved the Universal Service price proposal presented by CTT on 31 January 2017, as later adjusted, by a resolution of 28 March 2017. The prices inherent to this proposal, which complied with the established price formation principles and criteria, became effective on 4 April 2017.

This update corresponded to an average annual variation of 2.4% in the price of the basket of letter mail, editorial mail and parcel services, not including the universal service offer to bulk mail senders, to which special prices apply.

As regards special prices for postal services included in the Universal Service that apply to bulk mail senders, these were also updated on 4 April 2017, following the proposal submitted to the Regulator on 24 March 2017.

Under the company's tariff policy for 2017, the mentioned updates correspond to an average annual variation of 1.9% in prices, also reflecting the effect of the updating of prices for reserved services (service of legal summons and notifications by post) and for special prices for bulk mail.

As the Universal Postal Service provider and in order to provide a standardised and non-discriminatory service to operators that wish to use the Universal Service network, as of February 2016, CTT made available to postal operators with an individual license an offer to access its network that is deemed competitive and that safeguards the network's security and the Universal Service provision efficiency. This offer consists of a basic service of collection, transport, sorting and delivery of non-priority letter mail with a maximum weight of 2kg that allows items to be sent nationally or internationally using the Business Mail counters of Lisbon, Taveiro (Coimbra) and Maia (Porto) as access points.

Further regarding access to elements of the postal infrastructure by other postal operators, access is available as of March 2016 to deliveries to P.O. Boxes through which postal operators can directly drop-off mail addressed to P.O. Boxes located in CTT post offices, and the return service of mail found in the CTT network with postage from other operators.

In terms of the quality of the Universal Postal Service, following the new Postal Law, the measurement of quality indicators through a measurement system carried out by an independent external entity was initiated as of the 4th quarter of 2016, which is operated by an international company. Following some weaknesses detected in the measurement process, this entity is implementing a number of measures to improve the operation and stability of the new quality of service measurement system.

According to the legal framework, the quality of service parameters and the performance objectives associated to the universal service provision, as well as the criteria to which the price formation must comply are set by the regulatory entity. On 11 January 2018, ANACOM approved a draft decision on the quality of service parameters applicable as of 1 July 2018 until the end of 2020. This draft decision provides for a reformulation of the quality of service indicators that CTT will have to comply with, defining, namely, a set of 24 indicators that compare with the 11 previous indicators, as well as the setting of more demanding objectives for some indicators. On the same date, ANACOM also approved a draft decision on the criteria for universal postal service price formation, for the 2018-2020 three-year period. The new rules will be applied to the prices in force in 2019 and 2020, which must be updated according to the inflation value less 1.28 percentage points, also taking into consideration correction factors for inflation and volumes. The rules currently in force will be applied in 2018, which were defined by ANACOM in 2014. Within the scope of the public consultation which these draft decisions were submitted to, CTT is analysing their impact, taking into account the evolution of the decline in mail volumes and the changing needs of consumers, due to the new reality brought about by new information and communication technologies, and the future sustainability of the Universal Postal Service.

2.1.3.2. Financial Sector

New requirements and demands, with implications at various levels, namely on the business model, have been shaping the banking reality of the last few years.

The Basel Committee for the Banking Supervision (BCBS) published new Basel III reforms (also known informally as Basel IV) which include new rules for the calculation of risk weighted assets (RWA), more risk-sensitive standardised methods and greater limitations to the use of internal models. Regarding the changes to the calculation of RWA, these shall not be permitted, when based on internal models, to stay below the minimum capital floor limit of 72.5%. In all of the types of risk included in the designated Pillar I, the calculation of the capital requirements of all banks, regardless of their business line, size or calculation model, shall be affected. In addition, this agreement also introduced new changes to the leverage ratio, through the inclusion of an additional buffer of own funds for the designated Globally Systematically Important Banks (G-SIBS). These changes increase banks' capital requirements, in order to improve the quality and capacity to absorb losses and resist contexts of liquidity shortage. As a result, these directives will have consequences for some European banks, due to the significant increase of their RWA, placing pressure on their capital ratios.

The implementation of the new accounting standard, known as International Financial Reporting Standard 9 - IFRS 9, as of January 2018, is a new challenge for the financial sector, mainly due to the new policy of constitution of impairments, which obliges financial institutions to report loan losses earlier. Banks shall thus have to define risk segments, plan the future performance of various contracts, project cash flows and, consequently, determine the different risk parameters that, for each time frame, depend on macroeconomic scenarios and models.

In addition to these new directives, there are two more that enter into force in 2018 and that may affect the performance of financial institutions, namely of payments (PSD2) and capital markets (MiFID II). PSD 2 (Payment Services Directive 2) is a European directive of payment services, whose objective is to allow for greater transparency and innovation in payment institutions. This new regulation will have a profound impact on the banking sector at a worldwide level, permitting any entity to have access to a payment account or current account (duly authorised by its account holder), with no bank intermediation required. In relation to MiFID II (Markets in Financial Instruments Directive), its objective is to strengthen the protection of the investor and enhance the transparency and quality of the operation of financial markets and services rendered, covering all the entities that are part of the financial instruments markets. This directive reinforces the duties of the financial institutions, namely with regard to the collection of client information, marketing and monitoring of financial instruments and, in addition, the duties of recording and registering communications between the financial institutions and their clients.

2.2. Mail

2.2.1. Business

The recurring revenues[10] of the Mail business unit reached €527.5m in 2017, corresponding to a 1.1% decrease relative to 2016.

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

Mail Volumes

Million items

	9M17	9M16	Δ	4Q17	4Q16	Δ	2017	2016	Δ
Transactional Mail	476.2	504.9	-5.7%	151.0	157.9	-4.3%	627.2	662.8	-5.4%
Editorial Mail	30.7	31.9	-3.8%	10.1	11.3	-10.9%	40.8	43.3	-5.6%
Advertising Mail	49.4	54.6	-9.5%	19.2	19.6	-2.2%	68.5	74.2	-7.6%
Addressed Mail	**556.3**	**591.4**	**-5.9%**	**180.3**	**188.8**	**-4.5%**	**736.6**	**780.2**	**-5.6%**
Unaddressed Mail	**371.9**	**361.4**	**2.9%**	**120.2**	**136.3**	**-11.8%**	**492.1**	**497.8**	**-1.1%**

The decline in revenues mainly reflects the evolution of addressed mail volumes which fell 5.6% in 2017, with a slowdown in decline in the 4th quarter (-4.5%) relative to the first nine months of the year (-5.9%).

The decrease in addressed mail volumes was mainly impacted by the decline in transactional mail volumes (-5.4%), whose downward trend moderated in the 4th quarter (-4.3%). The year-on-year decline in the last quarter was lower that the declines in the 2nd quarter (-7.6%) and in the 3rd quarter (-6.9%).

The annual evolution in transactional mail volumes (-5.4%) was due, in large part, to the decline in ordinary mail (-7.2%), whose impact is relevant since it represents 78% of the transactional mail volumes. The decline in the volume of this service deepened in the banking and insurance (-10.7%) and telecommunications and utilities (-8.5%) sectors, in line with the trend observed over the last few years in the behaviour of the large customers that replace physical mail with digital communication.

Registered mail volumes contributed with an increase of 0.5% to the evolution of transactional mail volumes after having decreased 8.8% in 2016 relative to 2015. In 2017 there was an increase in registered mail volumes with origin in some contractual customers of the industry and services sectors which counterbalanced the slight decline in consumption of the State and central and local Public Administration customers

The evolution of editorial mail volumes in 2017 (-5.6%) was mainly conditioned by the marked decline in volumes in the last quarter of the year (-10.9%) with origin (i) in a significant reduction of the number of items of publications that benefit from the reading incentive scheme that cover the

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

regional and local press and (ii) in a reduction of the items from customers of an associative nature (orders, unions and other associations).

The updating of the prices of the basket of letter mail, editorial mail and parcel services occurred as of 4 April. The average annual price change for the Universal Service in 2017 was 1.9%, contributing to mitigate in part the effect of the volume decline on revenues.

Addressed advertising mail volumes decreased by 7.6% in 2017, registering a slight recovery in the 4th quarter (-2.2%) mainly caused by the growth in this period of the volume of items in campaigns conducted by a large customer.

The less favourable performance of unaddressed advertising mail volumes in the 4th quarter of 2017 relative to the same quarter of 2016 (-11.8%) brought about a slight decline in the volume for the year (-1.1%). The focus on the diversification of the portfolio of customers, namely on small, occasional customers that grew 25% relative to the previous year, did not enable counterbalancing the decline in the volumes from large customers, namely of the large-scale distribution and retail sectors. In the 4th quarter, some large customers did not conduct final year campaigns (anticipated or postponed until 2018), others reduced the coverage of the campaigns (resulting in lower volumes), others developed "2 in 1" campaigns thus decreasing their frequency and others opted to replace physical campaigns with digital campaigns.

The CTT Ads solution, launched in the 1st quarter, did not have any visible effects in 2017 on advertising mail volumes or revenues. In the 4th quarter, there was a strong campaign to attract new customers and the launch of a new offer in the portfolio - promotional gifts - which obtained a positive acceptance from the market.

Business Solutions

CTT offers a portfolio of corporate solutions that collectively generated an income of €8.8m in 2017, developing offers that combine physical and digital communication, such as: dematerialisation, proximity and business intelligence solutions, document production (through Mailtec Comunicação, the market leader in printing and enveloping), mail and document digitalisation, geographic and georeferencing solutions, the Online Receipts solution, as well as ViaCTT, a secure e-mail with controlled access.

In 2017, within the scope of the dematerialisation, proximity and business intelligence solutions, the CTT solution for this sector was presented at the National Meeting of Water and Sanitation Management Entities (ENEG), which aims to unify and simplify in a single service all the necessary competencies surrounding the billing process (meter readings, printing & finishing of invoicing and power cut notices, collection of invoices and sorting of returned mail).

In the document production area, the trend of shifting from black to colour printing continues, with considerable growth (+30%) in both continuous printing and cut-sheet printing. In this regard, a decision was made to rent a colour-printer, with cut-sheet inkjet technology that enters into operation in the 1st quarter of 2018 and that will meet the needs of the printing & finishing market, with a specific focus on price and colour production.

In 2017, the Recibos Online (Online Invoices) – a retail electronic invoice solution – exceeded three million processed invoices with the number of users registered on the recibosonline.pt portal having doubled relative to 2016. The fact that this solution has been available since July 2017 in more than 1,900 post offices and postal agencies contributed to this growth.

In 2017, CTT was selected by one of the largest Large-scale Distribution chains operating in Portugal to implement the Recibos Online solution in its stores, with availability to the public in general planned for the start of 2018. The partnership programme continued in 2017, with a Portuguese software development company specialised in retail invoicing joining the partnership, with the objective of integrating CTT's innovative solution in the software developed, simplifying and accelerating its distribution. Finally, in the 2nd half of 2017, the project involving the renewal of the web portal of Recibos Online and the development of the mobile application for Android and iOS was initiated.

Philately

In 2017, Philately generated €8.4m in revenues, which corresponded to an increase of 11.6% relative to the previous year due to various major national and international events having been translated into philatelic products with a significant commercial appeal. This evolution is the result of: the commemoration of the "Centenary of Fátima" event with a set of two dedicated issues and the publication of a thematic book, the launch of SLB (Sport Lisboa e Benfica) products in association with the football club, and a range of products designed to celebrate the 40 years of the "Star Wars" saga .

To finish the year on a high note, CTT won three quality awards: (i) Grand Prize of the 2017 WIPA World Exhibition, for the "Canning Industry" philatelic issue, ii) 2017 APOM (Portuguese Association of Museology) Prize attributed to CTT as "Cultural Institution of the year" - "For the relentless dissemination of the national museological heritage through Philately" and iii) Nexofil Grand Prize attributed to the philatelic souvenir sheet "Marian Sanctuaries - Fátima", considered the "Best Philatelic Souvenir Sheet of 2016".

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

Issues and Editions 2017	
Issues 2017	
• Figures from History and Culture • António Guterres – Secretary-General of the UN • 800 years of the Foundation of the Dominican Order • Centenary of the Fátima Apparitions • Remembering Mário Soares • Lions Club international - 100 Years • Portugal in WW 1914-18 • Universidade Católica Portuguesa - 50 Years • 150 Years of the Abolition of the Death Penalty in Portugal • The Public Security Police - 150 Years • Mafra National Palace - Tricentennial • Biblioteca Joanina, the Library of University of Coimbra – 300 Years • Postal Service in Portugal - 500 Years	***Historical and Cultural Figures***

Issues 2017	
• Visit of His Holiness Pope Francis • Fruits of Portugal • Historic Cafés (2nd Group) • Traditional Desserts of Portugal (1st Group) • Traditional Desserts of Portugal (1st Group) - Self-Adhesive • Our Cities - Porto (2nd Group) • Rally de Portugal - 50 Years • The Portuguese Textile Industry • Start Wars - 40 Years • Start Wars Saga (Self-Adhesive) • Archbishops of Braga (1st Group) • Cascais-European Youth Capital 2018 • Portugal/North - Self-Adhesive • Madeira - Self-Adhesive • Idanha and Óbidos - UNESCO Creative Cities	***Themes***
• Portugal-India Joint Issue • Portugal-Israel Joint Issue	***International Projection***
• Lisboa – Iberian-American Capital of Culture • UNESCO – 2017 International Year of Sustainable Tourism • Azores - Geopark • Madeira – Madeira's Peaks • Trees of the Mediterranean • EUROPA – Castles and Fortifications	***Environment and Sustainability***

Editions
• Fátima - 100 Years • The Portuguese Textile Industry • Historic Cafés of Portugal • Railway, Peoples and Memoirs • My 2017 Stamp Album • Portugal in Stamps 2017

2.2.2. Retail Network

The Retail Network is the key sales channel of CTT's products and services. In an increasingly digital economy, convenience and proximity will continue to play a relevant role in consumers' choices regarding interaction channels.

Management of business in the Retail Network is based on the following fundamental vectors: (i) development of the Mail business, namely added-value mail , (ii) channel of proximity for the marketing of financial services as a pillar for developing Banco CTT in particular and for the ongoing placement of public debt with the retail market through its network and (iii) provision of convenience services to the population, services of general interest, by taking on the role of local multi-service assistance, services to citizens, pension payments and other welfare services by postal money order and parcel pick-up and drop-off in the solutions offered for e-commerce.

In 2017, the strategy of rationalisation of the offer of third-party products, the reinforcement of partnerships in strategic segments and the strengthening of CTT's positioning as the single entity for the provision of proximity services was continued. Among the various initiatives carried out, the following are noteworthy:

- Payment of the Mobility Social Subsidy in the Autonomous Regions of the Azores and Madeira. In 2017, CTT carried out more than 276,000 reimbursement operations (+8% more than the previous year);
- Agreement with Casa Campião for the sale of the classical lottery in all post offices which generated annual revenues of about €5m;
- New partnership with PhoneHouse for the marketing of mobile phones and accessories in 207 post offices;
- Launch of the Electronic Notice of PO Boxes which offers greater convenience to customers who now receive an alert by SMS and/or email whenever they receive correspondence in their PO Box, thus avoiding unnecessary travel.
- Development of actions to lease out space as a means of generating a profit from the pre-existing infrastructures and liven up post offices space, allowing partners to test new markets, promote products and/or attract new customers, taking advantage of the 'normal' attendance of the post offices.
- Ongoing commitment to the marketing of books, as the main anchor of the retail offer in post offices, and of the meuselo and meupostal personalised products.

In 2017, the implementation of the Kaizen methodology (culture of continuous improvement and elimination of waste in the creation of value) in the Retail Network was initiated. In this context, the Kaizen Daily - daily team management method - and the Kaizen project - method of reviewing post offices procedures aimed at simplifying and eliminating waste - are being developed. Involves review of processes dealing with notified objects, cash management, inventory management and customer service.

With regards to postal agencies, optimisation measures were put into practice with a view to offering customers greater convenience and the new management model that allows advancing saleable material without prior purchase to providers whose activity is classified as Local Government (usually Parish Councils) or Support for Public Administration (RIAC) was extended to another 31 postal agencies, bringing the total to 35.

At the end of 2017, the Retail Network was made up of 2,369 contact points, with 608 own post offices, 1,761 postal agencies and 1,899 stamp sales points. The offer of services, under self-service and in some cases available 24 hours a day, is complemented by 175 automatic stamp vending machines and 14 automatic postal product vending machines.

2.2.3. Operations

In 2017 the management of operations remained focused on the reorganisation of the operational cycle, greater synergies between (mail, express & parcels) networks and improvement of operational efficiency.

Sorting

The sorting network is composed of 3 production and logistics centres, 7 logistics and delivery centres and 1 business mail centre. The activities of the production and logistics centres are carried out by 42 automated mail sorting machines (of which 24 are Mail sequencing machines, 2 Flats sorting machines and one "Rest Mail" machine) and 54 video encoding posts.

In 2017, a daily average of 1.9 million items (ordinary letter mail) were automatically sorted by delivery routes, of which about 1.8 million (80.6% of total volumes) were automatically sequenced (door to door).

Automation of the postal service continues to register high levels of address recognition, with flat letter mail achieving correct assignment rates of 95% for 7-digit postcodes and 69% for 10-digit postcodes.

The "Rest Mail" machine sorted more than 21 million items during 2017, which represented an increase of 48% relative to the previous year.

The Mailmanager solution continues to register sustained growth, with 17 million scanned images and 9.1 million full documents, which corresponds to an increase of 70% in the number of images produced relative to the previous year.

It is important to note the implementation of the NARPEL (New Architecture for the Production and Logistics Network) project, which involved operational changes: (i) in the mail and EMS routeing model, (ii) in the operational video encoding model, in the reinforcement of the activity of the North and the South sorting centres (through the transfer of 4 equipment which were installed in Pinheiro de Fora), (iii) a new sorting model, (iv) new layouts in the sorting centres and the creation of a new sorting and delivery office in Mirandela (which was added to the other 5 on the Mainland and Islands).

Regarding the GEO10 project, it is important to mention the addressing information, either by introducing the toponymy approved by the local government, or by integration of the data collected by CTT, totalling 4,785 million doors with identification and enabling a coverage of 98% of the Portuguese population and of 98% of the entire territory.

In terms of customs-related activities, which registered a significant growth as the Presentation-to-Customs Fee generated revenues of €2.2m, it is important to note the cooperation with the Brazilian postal operator in the exchange of electronic messages at customs clearance and the start of the dematerialisation of customs clearance notices sent electronically. Arising from the new rules imposed by the legal system of the Customs Code, on 19 June CTT became responsible for the process of preparing the Customs Declarations of Postal Consignment (DARP), with an impact on the operation of the Airmail Unit (EPA) and on the International Production Line (LPI) with the adequacy of the physical and human means allocated to this activity.

Transport

The transport network operates with 244 vehicles, which travel approximately 45.5 thousand km/day. In 2017, the national transport network covered a total of nearly 11 million km, thanks to ever more efficient vehicles acquired under the fleet renovation that has been carried out over the last few years.

Within the scope of the NARPEL project previously mentioned, operational efficiency gains were obtained from the logistics network with important contributions to the reduction of the kilometres covered and to the cost reduction in this transport activity. It is important to mention that this project won the 2017 logistics excellence award in Portugal attributed by the Portuguese Association of Logistics.

Regarding air and sea transport, the plane/cargo ship operation of the MAIS (Madeira Air Integrated Solutions) Group was begun, as an alternative solution to air freight by TAP, with gains in the optimisation and management of the operation and in the quality of service for the destination Madeira, increase in transport capacity and gains.

The Road Safety Programme was developed with regular monitoring of road accidents, the holding of practical training actions involving defensive training and the module on sustainability and energy efficiency. It is important to mention the attribution by the European Union of the "Excellence in Road Safety Award" to CTT for the current Road Safety Programme.

Delivery

The delivery network is made-up of 235 postal delivery offices (PDOs), including 60 delivery support offices (DSO) and 2 delivery support services (one in Lisbon and another in Coimbra), organised into 4,702 delivery routes, which cover around 244 thousand km/day.

In this area, it is important to mention the continuous reorganisation and optimisation of PDOs with the implementation of new and more efficient organisations. During 2017, 114 interventions took place in PDOs representing 37.3% of total volumes. Besides, 13 operating premises (DSO/PDO) were centralised, thereby contributing to a greater streamlining of production infrastructures in the distribution network.

The implementation of the MOGU (Motorisation of Urban Delivery Routes on Foot) project will contribute to the reduction of down time during delivery, where there are increasingly fewer items per point and also to better address the rise in volumes in the mail distribution network. It was implemented, in a first phase, in 4 PDOs in Lisbon and Oporto, and will be extended to other PDOs during 2018.

The project involving the dematerialisation of the delivery lists of items with track & trace (EMS and registered letters), by tracking their delivery through the use of PDAs (Personal Digital Assistants) was completed in November. These are now available on all delivery routes.

The availability of point-of-sale terminals in PDOs was also extended, reaching a total of 144 PDOs that use them, which provides customers with greater convenience for making payments.

As a result of the initiatives undertaken over the last few years aimed at maximising the capacity of the mail distribution network for the delivery of EMS, it is important to mention that in 2017 about 74% of all EMS volumes was delivered by the mail distribution network, as in 2016.

The Electric Vehicle for Urban Delivery (VEDUR) project was launched in July, representing a commitment to vehicles adapted to the new challenges of postal delivery. A pilot with an innovative electric tricycle was conducted in partnership with the Portuguese start-up UOU mobility, to replace postmen's delivery routes currently performed on scooters or on foot. The pilot, undertaken in PDO Aveiro, will allow the extension of this initiative and offer new equipment for use on an additional number of delivery routes. The advantages are indisputable, such as the ability for customisation with a local partner, the improved load capacity needed to cope with the growth of e-commerce and the enhancement of sustainable mobility with electric vehicles.

2.3. Express & Parcels

The recurring revenues[11] of this business unit reached €134.6m in 2017, an increase of 11.4% relative to the previous year. This business unit encompasses the activities of CTT Expresso and Transporta in Portugal, Tourline Express in Spain and CORRE in Mozambique.

Portugal

The revenues of this business in Portugal[12] grew 7.7% to stand at €81.8m, which includes €8.9m from Transporta (€7.8m of cargo, €1.0m of logistics and €0.1m in other income). The revenues in Portugal excluding Transporta and Altice remained practically unchanged relative to the previous year (+0.1%). This evolution resulted, on the one hand, from an increase of 3.3% in the CEP (Courier, Express & Parcels) business and, on the other hand, from a sharp decline in the banking business (-20.7%) which currently has a small weight (about 6.3%) in the global revenues of this business area in Portugal. It should be mentioned, however, that in the 4th quarter of 2017, the decline in the banking business abated due to the recovery of two of the largest customers which will allow in the near future to offset the effect of the reduction of the number of branches of the main banks on the revenues of this business.

The contribution of small businesses, mainly through the use of the remote sales channel (telemarketing, digital), was relevant for the evolution of revenues in 2017. Small businesses already represent about 10% of the revenues of the CEP business, and grew 17% relative to the previous year. The Retail Network and the postal agencies also made a significant contribution towards this performance, with an annual growth of 4% due to the increased efficiency in cross-selling and up-selling for the range of Express products. It is also important to note that in 2017 multi-annual contracts were renewed for periods between 2 and 3 years, representing approximately 10% of invoicing.

Volumes in Portugal reached a total of 17.7 million items in 2017, having grown 21.5% relative to 2016 (7.4%, excluding about 2.0 million items of Transporta). The performance of CTT Expresso resulted from the B2C segment due to the growth of activity of the main e-commerce customers, with emphasis on fashion and accessories, and from the B2B segment due to the acquisition of new customers in the retail sector and in the sector of logistics operators.

The CTT e-segue offer, launched in November 2016, gave the market convenience, flexibility and predictability based on fast information suited to the participants therein (mainly the recipient) and the possibility of interacting by changing delivery conditions (address, date and time slot). This offer, geared towards the e-commerce segment, by increasing the value proposal and the range of services directed at the e-buyer and by also focusing on the SME segment that is growing due to the positive evolution of the economy, will limit the effect of the average price reduction per item (growth of the number of small-sized items and competitive pressure in the key accounts segment).

The functionalities of the CTT e-segue were reinforced with the launch in October 2017 of the CTT e-segue App (available for Android and iOS), together with the introduction of new features (Live Tracking and multi-item dispatches).

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

[12] Including revenues from intra-group transactions with companies of other business units and Other operating income of Portugal, Spain and Mozambique.

It is important to highlight that in a survey of B2C customers (Source: Study on the CEP market in Portugal conducted by the Institute of Marketing Research (IMR), September 2017), 80 to 90% of the respondents, when questioned about which functionalities they considered "very relevant", replied that they were: delivery attempts, time windows of collection and delivery, notifications, changes of the delivery data and returns – which coincide with the main functionalities of the CTT e-segue service.

E-commerce is a fundamental driver for the growth of the parcels business. Its activity in CTT, in terms of delivered volumes (last mile) in Portugal, increased more than 30% in 2017.

The following initiatives are noteworthy:

- continuation of contacts with potential international partners in order to develop the e-commerce business in the cross-border component, with emphasis on the partnerships with SingPost E-Commerce (SPEC), One World Express (OWE), E-Total / OTEL and Correios do Brasil.
- launch in December and in partnership with the OLX Portal of a new solution that includes the dispatch, via Click & Ship, of the CTT e-Segue offer, with other payment/collection, return and verification services.
- establishment of as partnership with Phone House, allowing the extension of the network of CTT delivery points to an additional 100 post offices, providing greater accessibility and convenience to online buyers to collect their parcels.
- establishment of commercial partnerships with two national e-commerce platforms, aimed at offering their customers with online stores on these platforms automatic integration with CTT's shipping and delivery systems of their parcels.
- launch in November of a pilot of automated lockers for parcel delivery – *Parcel Lockers*, in the city of Lisbon, available in 5 locations of major circulation of people, constituting an improvement in the convenience of the CTT e-Segue offer.
- launch in December of a pilot, still in a "controlled environment", regarding a dynamic delivery solution based on a mobile application and in an urban context, in Lisbon, aimed at meeting the quick delivery needs of e-commerce – *Same Day & Instant Delivery*. The actual pilot in the market will take place at the start of 2018.
- holding of the 2nd "*e-Commerce Day*" of CTT in November, based on a conference on e-commerce development opportunities and prospects in Portugal, bringing together relevant partners and customers of CTT. It also involved the public launch of various innovative initiatives and solutions of CTT and the publication of the "*CTT e-Commerce Report*" on the e-commerce market in Portugal.
- development and implementation of the various scheduled activities within the scope of the Interconnect programme, namely the holding of pilot tests with Standard Packets and Premium objects (in outbound and inbound terms) and the entry into production of Premium objects (inbound), aimed at the creation of a postal network involving more than 30 postal operators with an integrated offer of cross-border e-commerce services.

On 4 May 2017, CTT's acquisition of the total share capital of "Transporta – Transportes Porta a Porta S.A." was completed.

This acquisition falls under the expansion and diversification strategy, aimed at capturing growth opportunities in adjacent markets with business synergies with the CEP market. On the one hand, the fact that Transporta offers integrated logistics solutions and operates in the goods distribution and transport market in Portugal, allows CTT to expand and reinforce its presence in these markets. On the other hand, by focusing its operations on the >30kg cargo distribution and transport market, it allows CTT to widen its range of services provided and offer even more integrated solutions to its customers.

The process of integration of Transporta into CTT has been ongoing since May, aimed at recovering the sustainability of the company and improving its productive and operational efficiency. The aim is to capture synergies of various kinds: synergies in the migration of items between networks (moving items from the Transporta network to the CTT network and vice-versa according to the degree of competitiveness of each network in the various types of volumes), infrastructure and fleet synergies, as well as optimisations in network costs, human resources and other costs.

Spain

In Spain, the revenues of the business stood at €51.2m, +18.2% than in the previous year, which corresponds to an average price decrease of 5.8%. This decrease results from both the growth of the number of customers with lower prices (of a major customer in particular) and the change of the profile of items with the growth of e-commerce. Volumes increased 26.1%, resulting in 2017 becoming the year with the highest number of items in the history of Tourline.

The strategy outlined for the recovery of Tourline is based on two key principles: (i) growth of volumes, enabling the dilution of the fixed cost structure, and (ii) growth of the number of franchised post offices which allows, on the one hand, greater independence relative to large customers (usually with aggressive prices) and, on the other hand, reduce delivery costs when transferring own delivery to delivery by franchisees.

To this end, operational changes were made (profile of items, cut times and use of logistic platforms) providing capacity for greater growth in volumes, using current installed capacity.

For Tourline, the year of 2017 was marked by a strong and progressively higher growth of items at controlled costs, which allowed benefiting from economies of scale to reach the fourth quarter with a positive EBITDA, for the first time since the second quarter of 2013.

Mozambique

The year of 2017 was characterised by the political difficulties in the country and by the situation of armed conflict in the north central region which, although the situation is calmer, has not yet reached lasting peace. It is also important to note the slowdown in the inflation rate and the appreciation of the local currency versus the Euro/US Dollar which resulted in the closure of many companies operating in the Mozambican market.

CORRE increased its revenues and consolidated its position as the largest Mozambican logistics operator operating in the services sector. In order to address the lack of budget allocation for the various State sectors, CORRE intensified its collection model and restricted the application of credit concession policies.

The growth of revenues of the business in local currency (Metical) relative to 2016 reached 7.0%, +7.3 million Meticals due to the evolution of the banking business (+5.1 million Meticals; +8.8%). Revenues (excluding internal customers of the Group) in Euros reached €1.6m and grew 4.4% year-on-year, due to the unfavourable impact of the exchange rate.

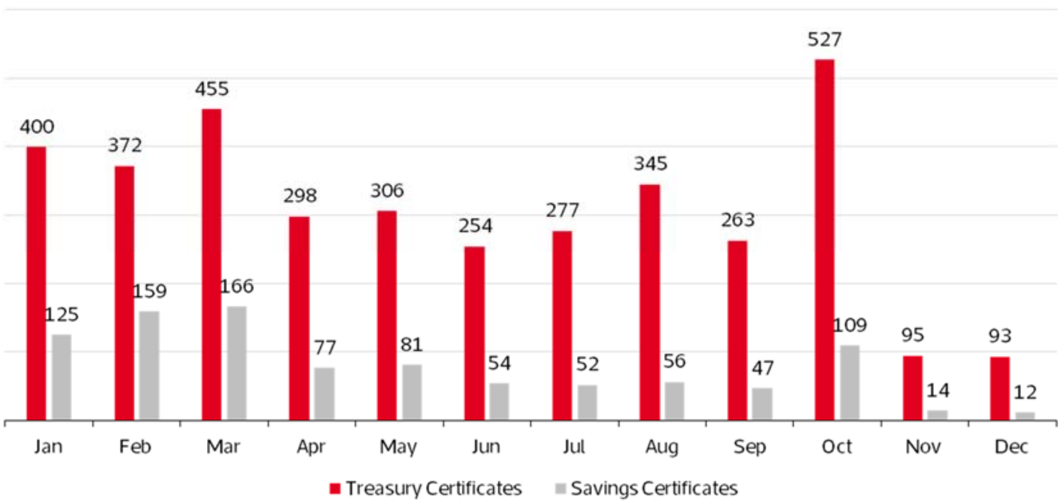
2.4. Financial Services

In 2017, this business unit included all CTT, S.A.'s financial services that are focused on retail, as well as payment activities, directed at the business segment. They are provided through the Retail Network and the Payshop business with its vast network of agents. Revenues[13] of this business unit reached €61.8m in 2017, -12.7% than in 2016. The decrease of €9.0m is mainly due to the recognition of €3.2m in 2016 relative to the memorandum of understanding concluded with Altice in 2015 and to the decrease in revenues from payment services, and insurance services and PPRs (Retirement Savings Plan) of €2.4m and €1.5m, respectively.

The last quarter of 2017 was marked at the end of October by the change in the savings area, of the Public Debt products of the responsibility of the Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E. (Portuguese Treasury and Debt Management Agency), with the Treasury Certificates Poupança Mais (CTPM) having been substituted by the new Treasury Certificates Poupança Crescimento (CTPC), reflecting the improvement of the Portuguese Public Debt rating. The placement of the new CTPC remained at levels below the previous CTPM, although the aggregate volume placed in the year could grow, increasing by €483m relative to the previous year, since the public debt products marketed by CTT maintained the interest rate advantage relative to most bank deposits whose average return stood at historically low levels, below 0.3%.

Therefore, in 2017, revenues for the savings segment essentially originated from the placement of Public Debt Certificates.

Public Debt Placement – 2017 (€million)



Postal money orders and transfers of funds, which represent about 15% of the total revenues of this business area, registered a decrease of 6.3% in revenues mainly due to the decrease in national money orders (-7.4%), namely those destined for payment of social benefits that have gradually been replaced by other forms of payment.

In the management of the payments business, the following is noteworthy in 2017:

- The "virtual agent" project which, after signing the contract with the Portuguese startup OneBiller in the first half of the year, is under development. This project will materialise into an innovative application, with the ambition to bring the Portuguese ever closer to CTT's

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

unique payment brand. It will be a web and mobile application that aims to consolidate and provide information on recurrent expenditure, helping users to manage all the costs and make all the payments at the distance of a click.

- the launch of a new service of physical and virtual pre-payments for Internet purchases, an easy, quick and safe alternative to acquire games and other contents of internationally renowned brands, such as Sony PlayStation, Sony Plus, Nintendo and X-box. In the last quarter, PayShop sponsored the largest national gaming event, "Lisboa Games Week", with the objective of intensifying the association of these high notoriety brands to Payshop agents.
- the extension of the PuDO - *Pick-up & Drop Off* service, within the scope of the partnership between Payshop and Expresso of delivery and collection of express parcels at Payshop agents. This service is implemented at a total of 100 agents and during the year a total of 1,784 pick-ups were conducted.
- the new mobility solutions whose objective is to increase the number of customers using the Public Transport ticketing system and provide solutions associated to parking, to companies whose activity consists of the management and operation of concessions related to parking spaces on the road and in underground and surface parking lots. In 2017, there were two companies subscribing to the parking solutions, ESSE and EPORTO, and Transportes Intermodais do Porto (TIP) confirmed the reinforcement of the ticketing solutions of Payshop.
- the launch of the new Payshop website, more dynamic, effective and useful for stakeholders, whether they are final customers, Payshop agents or current or potential customers/suppliers.

In 2017, 54 million transactions relative to payment services were carried out, corresponding to revenues of €21.1m. It is important to mention the increase in the number of transactions, relative to 2016, of the following products: +29% in integrated solutions (on-site payments integrated with MB or direct debit) and +6% in Internet Related services (online Payshop references and pre-paid cards).

At the end of the year, the 50 best agents of the Payshop network were distinguished. The number of agents reached 4,394 in 2017.

2.5. Banco CTT

The revenues[14] of this business unit reached €7.6m in 2017 (about €1.0m in 2016). At the end of 2017, Banco CTT reached a new historical mark, its first complete year of activity, totalling more than 20 months since its opening to the public in March 2016. It is present all over the country in 208 post offices and has the trust of about 285 thousand customers, through the opening of more than 226 thousand current accounts.

The focus on simplifying the everyday life of the Portuguese and the diversification of the offer in 2017, namely with the launch of Mortgage Loans, has allowed Banco CTT to reinforce the relationship of trust and proximity with its customers. This is confirmed by the continuous growth of banking activity, with emphasis on the capture of deposits worth more than €619m, of which about €409m correspond to current accounts, the success of the offer of Banco CTT Credit Cards, with more than 49 thousand cards issued, and the intermediation of Consumer Credit and Car Loans in partnership with Cetelem, available both at post offices and on the Bank's website, whose amount of loans granted exceeded €36m in 2017.

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

In the 4th quarter of 2017, Banco CTT continued to reinforce its commitment to Mortgage Loans, having launched a new advertising campaign which ended on 26 November, and was present on various media, namely television, radio, outdoor, online and in-store communication, with the motto "Mortgage Loans as simple as it gets". The campaign emphasised the low spread, the simplicity of the conditions of access and the transparency of costs without needing to subscribe additional products. At the end of 2017, the amount of credit granted to customers came to about €79m, of which €66.1m refer to mortgage loans.

Banco CTT intends to provide its customers with accessible, convenient, reliable and innovative services. The objective for 2018 is to thus continue the strategy of simplicity, transparency and competitiveness for all its offer, in order to grow in terms of customers, resources and credit granted, solidifying its presence and enhancing its growth in the Portuguese banking sector.

On 4 January 2018, Banco CTT's share capital was increased from €125.0m to €131.4m, fully paid-up by means of the transfer of all the shares representing the share capital of Payshop in the amount of €6.4m from CTT to Banco CTT.

3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

3.1. Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 31 December 2017. It should be read in conjunction with the consolidated financial statements and the accompanying notes, which have more detailed information. The present review includes the consolidation of the activities of the parent company and its subsidiaries as included in note 8 of the consolidated financial statements. In addition, a review is carried out by CTT without consolidating Banco CTT, which is treated as a financial investment to facilitate the analysis of the impact of Banco CTT on the CTT accounts. This also allows CTT to have an overview of the Balance Sheet excluding financial assets, which besides being specific are autonomous and segregated assets.

It is important to highlight the following relevant facts occurred during 2017 for a better understanding of the company accounts:

- Banco CTT opened up to the public on 18 March 2016, currently having 208 branches in CTT post offices. Since the opening over 226 thousand current accounts were opened, with approximately 285 thousand clients, having been captured over €619.2m in deposits. Credit to bank clients amounted to a total of €79.3m as at 31 December 2017. The share capital is €125m.

- In May 2017 CTT acquired the total share capital of "Transporta – Transportes Porta a Porta, S.A." for the amount of €1.7m. This company offers integrated logistics solutions for the transport and delivery of goods in Portugal. This acquisition falls within the scope of CTT's expansion and diversification strategy, both through a new offer of delivery of items above 30 Kg and through the creation of a new growth platform for the company, within the cargo and last-mile logistics chain.

  Staff costs include €1.1m relative to the human resources optimisation programme of Transporta aiming at the company's sustainability as well as at its productive efficiency and gradual operational integration within CTT group.

- On 19 December 2017, CTT approved the operational transformation plan, the objectives of which are: optimising the retail network; reengineering the distribution network to improve operational efficiency; optimising operations and mail handling; and reinforcing the HR optimisation programme and the rationalisation of non-core assets. In 2017, provisions were made for:
  - Staff costs of €11.9m for the HR optimisation programme.
  - An amount of €1.7m to optimise the retail network.

- The sale of real estate in Rua de S. José, in Lisbon, for €25m, that resulted in a pre-tax accounting gain of €16.2m, with a tax impact of €2.1m.

In the full year 2016, there were also other relevant facts that positively impacted the results of that year:

- €9.6m were recognised, related to the memorandum of understanding entered into with Altice in June 2015.

- The provision for onerous contracts was reversed (€6.5m), relating to Conde Redondo (due to the termination of the long-term lease agreement), Casal Ribeiro and Restauradores buildings (due to their requalification).

Consolidated revenues increased by 0.4% compared to 2016, driven by growth in the Express & Parcels segment (+€13.8m; + 11.4%) and by Banco CTT first full year of activity (+€6.7m).

The evolution of the revenues in 2017 was negatively affected by the gains related to the memorandum of understanding with Altice recognised in the previous year (€9.6m in 2016) and by the decrease in sales and services rendered in the Mail segment (-€5.1m; -1.0%), with mail volumes declining by 5.6%, and the decrease in the Financial Services segment (-€5.2m; -8.0%), especially due to the reduction in payment solutions, PPR (Retirement Savings Plans)and life and health insurance.

The operating activity generated a recurring EBITDA of €89.9m, -24.8% (-€29.6m) than that obtained in the previous year, with an EBITDA margin of 12.9% compared to 17.2% in 2016.

In the full year 2017, CTT achieved a consolidated net profit of €27.3m, -56.1% (-€34.9m) than in the previous year, corresponding to a consolidated net profit per share of €0.18, compared to €0.42 in 2016, contributing to this decrease the termination of the Altice agreement, the effect of the reversals of provisions in 2016 referred to above and the expenses provisioned in 2017 arising from the operational transformation plan in progress.

These results reflect a 5.6% increase (+€32.5m) in recurring operating expenses (excluding impairment, provisions, depreciation / amortisation and non-recurring expenses), of which €6.2m (+28.6%) relate to the Banco CTT segment, €10.3m relate to Transporta in the Express & Parcels segment and €13.3m (+3.1%) to the Mail segment.

Consolidated income statement

Thousand Euros	2017	2016	△% 17/16
Revenues	**697,932**	**695,060**	**0.4**
Sales and services rendered	676,008	669,669	0.9
Sales	19,386	20,082	-3.5
Services rendered	656,622	649,586	1.1
Financial margin	3,390	26	12,938.5
Other operating income	18,534	25,365	-26.9
Operating costs excluding impairments, provisions, depreciation/amortisation and non-recurring costs	**608,025**	**575,561**	**5.6**
Cost of sales	12,765	13,904	-8.2
External supplies and services	241,586	223,258	8.2
Staff costs	340,076	328,394	3.6
Other operating costs	13,598	10,005	35.9
Earnings before depreciation/amortisation, impairments and provisions, non-recurring results, interest and taxes (recurring EBITDA)	**89,906**	**119,499**	**-24.8**
Impairment of accounts receivable, net	(614)	549	-211.8
Provisions, net	319	1,251	-74.5
Impairment of other financial banking assets	(117)	-	n.a.
Impairment of non-depreciable assets	-	-	n.a.
Depreciation/amortisation and impairment of investments, net	(29,289)	(26,611)	10.1
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	**60,205**	**94,687**	**-36.4**
Company restructuring	(17,313)	(10,588)	63.5
Costs associated to studies and advice services for strategic projects	(10,904)	(9,676)	12.7
Other non-recurring income and costs	15,106	16,459	-8.2
Earnings before interest and taxes	**47,093**	**90,883**	**-48.2**
Financial results, net	(5,001)	(5,869)	14.8
Gains/losses in associated companies	-	230	-100.0
Earnings before taxes (EBT)	**42,093**	**85,245**	**-50.6**
Income tax for the period	(14,977)	(23,348)	-35.9
Net profit before non-controlling interests	**27,115**	**61,897**	**-56.2**
Non-controlling interests	(148)	(263)	43.7
Net profit for the period attributable to equity holders	**27,263**	**62,160**	**-56.1%**

Note: Revenues and costs exclude non-recurring items.

3.1.1. Revenues

Thousand Euros	2017	2016	△% 17/16
Mail	527,493	533,551	-1.1%
Express & Parcels	134,596	120,810	11.4%
Financial Services	61,800	70,761	-12.7%
Banco CTT	7,615	962	691.6%
CTT Central Structure	102,411	100,101	2.3%
Intragroup eliminations	(135,983)	(131,125)	-3.7%
Revenues	**697,932**	**695,060**	**0.4%**

Note: Revenues exclude non-recurring items.

The Mail segment, which includes the letter mail postal service revenues of CTT, including the USO (Universal Service Obligation), represents the greatest weight in terms of revenues, amounting to €527.5m, with a decrease of 1.1% (-€6.1m) in the year 2017 in comparison to the previous year.

Sales decreased by €0.7m (-3.7%), mostly due to the decrease in retail products: mainly lottery by -€1.1m (-18.0%) as a consequence of supply problems arisen between the end of 2016 and the middle of the 2nd quarter of 2017, but also due to the drop of €0.5m (-12.9%) in merchandising. Conversely, philatelic products increased by €0.9m (+12.7%).

Services rendered decreased by €4.4m (-0.9%), continuing to be influenced by the evolution of addressed mail volumes which decreased by 5.6%. This decrease was mitigated by the average increase in the prices of the USO services of April 2017, which represents a 1.9% increase in 2017 vs the previous year, and by the effect of a change in the price mix as a result of the growth of higher added-value products, namely registered mail and "green mail".

It is also worth noticing the growth in prices and volumes of presentation-to-customs services (+€1.2m; +96.8%), and international mail (+€3.2m; +15.4%), with a favourable evolution of revenues generated by foreign operators, which contributed to the continuing growth trend of volumes received from Asian countries. In the opposite direction, it is important to point out the reductions verified in business solutions of printing & finishing (-€1.1m; -12.6%).

The other operating income in the Mail segment decreased by €0.9m (-2.2%).

The Express & Parcels segment with €134.6m of revenues recorded an increase of 11.4% (+€13.8m) compared to the previous year.

Services rendered increased €16.6m (+14.4%), reflecting a growth in Spain of €7.7m (+18.1%) and in Portugal of €8.9m (+12.6%), of which €8.8m concerning Transporta, with an increase in volumes from external customers of 26.1% in Spain and 21.5% in Portugal. In Mozambique services rendered recorded an increase of €0.1m (+4.4%) due to the evolution of the exchange rate, since in terms of MZN there was an increase of 7.0%, i.e. +7.3m MZN in revenues mainly due to the baking business growth and the price increase.

On a year-on-year comparison basis, it is to be noted the negative impact on other operating income of the termination of the memorandum of understanding entered into with Altice for an amount of €3.2m.

The Financial Services segment with €61.8m of revenues registered a 12.7% (-€9.0m) decrease when compared to the previous year.

Services rendered decreased by €5.2m (-8.0%), influenced by the declines of €2.4m in payment solutions (in particular invoices, mobile phones and ticketing), €1.7m in savings and insurance products (in particular in PPR and life and health insurance), and €0.6m in money orders and transfers.

Other operating income decreased by €3.7m (-77.1%), with -€3.2m (-100%) resulting from the termination of the memorandum of understanding with Altice and -€0.6m (-56.5%) derived from the improvements made in the direct allocation method of VAT deduction, with a lower impact than in 2016.

The Banco CTT segment reached revenues of €7.6m (+€6.7m than in 2016, the Banco CTT opening year), which translated into €3.4m in financial margin and €4.2m mainly related to commissions received. The net interest income shows the profitability of the available-for-sale financial assets portfolio and the growing focus on the credit to customers. Health, life and multi-risk insurance, commissions for attracting consumer credit agreements and credit cards, as well as transactionality revenues contributed to the commissions received.

The CTT Central Structure shows an increase of €2.3m in revenues, due to a €2.2m increase in staff costs.

3.1.2. Operating costs [15]

Thousand Euros	2017	2016	△% 17/16
Cost of sales	12,765	13,904	-8.2
External supplies and services	241,586	223,258	8.2
Staff costs	340,076	328,394	3.6
Other operating costs	13,598	10,005	35.9
Operating costs	**608,025**	**575,561**	**5.6**

Note: Excluding non-recurring items.

Recurring operating costs amounted to €608.0m, +5.6% (+€32.5m) compared to the previous year. This year-on-year growth was mostly the result of +€17.1m from Express & Parcels due to the integration of Transporta (+€10.3m) and an increase in variable costs in Portugal and Spain (+€5.9m) related to traffic growth, +€6.2m from Banco CTT segment and +€5.2m of staff remuneration in the Mail segment, the main reasons being the increase in the services provided to the other segments in both the Retail and Distribution networks and the salary revision agreed with the organisations representing the workers.

The evolution of the operating costs in 2017 is broken down as follows:

a) The recurring cost of sales decreased €1.1m (-8.2%) following the sales evolution, namely in what concerns lottery and merchandising products.

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

b) The recurring external supplies and services costs increased by 8.2% (+€18.3m) when compared to the previous year.
The cost reduction from initiatives of optimisation and rationalisation of operations, from the distribution networks integration, as well as other efficiency measures, didn't allow to absorb the recurring external supplies and services, especially due to:

- Banco CTT segment activity increase (+€2.8m; +23.9%);
- Integration of Transporta since May 2017 (+€7.8m);
- Distribution and transport/routes costs increase in Tourline (+€4.8m, +17.1%) resulting from the volume growth and from the strengthening and the creation of new routes;
- Energy and fuel costs increase (+€1.8m; +12.5%).

c) The recurring staff costs reached €340.1m, increasing €11.7m (+3.6%) when compared to the previous year, mainly due to the following additions: +€2.3m in staff costs related to the increase arising from the salary revision agreed with the organisations representing the workers with effect as of January 2017; +€2.7m (+30.4%) in fixed-term contract staff due to a higher operating activity; +€2.6m (+26.7%) in staff costs at Banco CTT segment, +€1.9m (+79.2%) related to the lower cut in the benefit associated with the "telephone subscription fee" and +€2.4m in staff costs at Transporta.

d) The recurring other operating costs increased by €3.6m (+35.9%), largely due to the increase in banking services costs (+€0.5m; +21.8%) and in unfavourable exchange rate differences (+€2.1m; +299.8%).

Operating costs by segment are as follows:

2017 – Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	**Operating costs**
External supplies and services	99,939	109,419	9,128	14,644	40,640	(32,183)	**241,586**
Staff costs	246,548	21,484	3,843	12,195	56,099	(92)	**340,076**
Other costs	55,043	2,356	18,040	1,174	5,671	(55,922)	**26,363**
Allocation to CTT central structure	47,515	-	271	-	-	(47,785)	**-**
Operating costs	449,044	133,259	31,281	28,013	102,411	(135,983)	**608,025**

Note: excludes non-recurring items.

2016 – Operating costs by segment

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

Note: Excluding non-recurring items.

The Mail segment recorded a significant amount of operating costs as it includes the functions of mail sorting, transport, delivery, sales, as well as the retail network, areas of major significance in terms of operating costs, particularly due to the number of allocated workers and assets. These operating activities also provide services to the other segments – sorting/transport and especially delivery of parcels for the Express & Parcels business unit, financial services and banking services rendered in the Retail Network, and commercial management and sales services provided to the

Group – thus increasing synergies via the scalability of the unique assets, in both the distribution and retail networks.

In 2017 the Mail segment recorded €449.0m of recurring operating costs, an increase of €13.3m (+3.1%) compared to the previous year, with special emphasis on the remunerations of fixed-term contract staff (+€2.9m; +35.5%) and permanent staff (+2,3m; +1,0%), electricity and fluids (+€1.3m; +11.6%), post office managers, delivery outsourcing and partnerships (+€0,4m; +8.0%), the main reasons being the increase in the activity of the other segments in both networks and the salary review agreed with the organisations representing the workers. Also, unfavourable exchange differences (+€2.4m; +698.5%) and costs with foreign operators (+€0.8m, +4.4%).

The Express & Parcels segment recorded an increase of €17.1m (+14.7%) in recurring operating costs, of which:

- +€10.3m concerning Transporta largely due to subcontracting transport (€6.3m), rental of buildings (€0.6m) and staff costs (€2.4m);
- +€4.8m related to the growth of transport/routes costs (+€2.6m; +31.4%) and delivery costs (+€2.3m; +11.3%)in Spain;
- +€0.8m related to the increase in external subcontracting of EMS collection and delivery due to traffic volume increase;
- +€0.3m for the use of synergies within the group, leading to an increase in the internal billing of the EMS collections and deliveries in the group.

The Financial Services segment reported a decrease of €1.6m (-4.9%) in recurring operating costs, with an emphasis on the cost reduction in the transport of valuables (-€0.4m; -12.2%), in Payshop agents' commissions (-€0.3m; -14.3%), in sales incentives (-€0.8m; -68.9%) and internal services provided by the retail network (-€0.4m; -3.4%). Conversely, it is important to mention the costs increase with banking services (+€0.3m; +28.4%).

The Banco CTT segment registered €28.0m in recurring costs in 2017, +€6.2m (+28.6%) than in 2016 due to the increase in the banking activity in relation to the previous year:

- Staff costs of €12.2m (+€2.6m; +26.7%), mainly because 2017 was the first full year of activity, due to an increase in the headcount, sales incentives and multiple employment.
- External supplies and services costs of €14.6m (+€2.8m; +23.9%), mainly related to transactionality systems (interbank fees for transaction services provided to customers), communications, IT systems and Contact Center.

The CTT Central Structure showed a cost increase of €2.3m (+2.3%), of which €2.2m are related to staff costs namely €1.9m due to the lower reduction in the benefit associated with the "telephone subscription fee" (in 2016 a €2.4m decrease of this liability was recognised and in 2017 the recognition was €0.5m).

3.1.3. Recurring EBITDA

The recurring EBITDA[16] amounted to €89.9m, -24.8% (-€29.6m) than the one recorded last year.

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

Recurring EBITDA by segment			
mil euros	2017	2016	△% 17/16
Correio	78,449	97,825	-19.8%
Expresso & Encomendas	1,337	4,639	-71.2%
Serviços Financeiros	30,519	37,861	-19.4%
Banco CTT	(20,398)	(20,826)	2.1%
EBITDA recorrente	**89,906**	**119,499**	**-24.8%**

Note: Excluding non-recurring items.

3.1.4. Non-recurring results

In 2017 CTT recorded negative non-recurring results of €13.1m, which include:

(i) Other operating income (+€16.3m), mainly those resulting from the sale of real estate at Rua de S. José, in Lisbon, and associated interests.

(ii) External supplies and services (-€9.9m):

- -€9.3m of costs associated with studies and strategic projects, especially those related to Banco CTT (-€3.8m), to the Commercial Excellence programme (-€1.9m), to other strategic projects (-€0.8m), to the HR Talent Management plan and diverse consulting (-€1.9m);
- -€0.6m of sales commission regarding the real estate of the Rua de S. José, in Lisbon.

(iii) Staff costs (-€14.7m), including:

- -€11.9m related to the HR optimisation programme;
- -€1.1m regarding the human resources optimisation process at Transporta;
- -€0.6m resulting from the completion of the "Long-term variable remuneration – Share Plan".

(iv) Other costs (-€0,6m), including:

- -€0.4m refer to a donation.

(v) Net depreciation/amortisation, impairments and provisions amounting to -€4.3m, mainly concerning:

- -€1.7m, a provision for optimisation of the Retail Network;
- -€1.1m impairment of Mailtec's goodwill;
- +€0.1m other impairments and provisions.

2017 Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	Central CTT Structure	Intragroup eliminations	Others non allocated	Total
Other operating income	2	-	-	-	16,345	-	-	16,346
External supplies and services	2,688	195	7	3,780	3,226	-	-	9,896
Staff Costs	10,069	1,645	148.9	-	2,801	-	-	14,663
Other costs	25	-	-	-	530	-	-	555
Non-recurring results that affect EBITDA	**(12,780)**	**(1,840)**	**(156)**	**(3,780)**	**9,787**	**-**	**-**	**(8,768)**
Depreciation/amortisation and impairment of investments, net	1,580	-	-	-	-	-	(199)	1,381
Impairment of accounts receivable, net	-	484	-	-	-	-	-	484
Impairment of non-depreciable assets	1,133	-	-	-	-	-	-	1,133
Provisions net	1,730	(144)	-	-	(241)	-	-	1,345
Non-recurring results that affect EBIT	**(17,223)**	**(2,180)**	**(156)**	**(3,780)**	**10,029**	**-**	**199**	**(13,111)**

2016 Non-recurring results

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

3.1.5. Financial results

The financial results reached a negative amount of €5.0m, representing an increase of 11.3% (+€0.6m) in relation to 2016.

Interest income and financial revenues decreased by 43.3% (-€0.3m) when compared to the previous year, due to the low remuneration rates of term deposits, to lower liquidity levels and to the preservation of a conservative policy regarding liquidity applications by CTT.

Financial costs incurred amounted to €5.4m, mainly incorporating the financial costs of €5.2m associated with the financial update of the employee benefits liability, as well as, but of little relevance, interest associated with financial leasing operations and bank loans (€0.2m).

Financial results

Thousand Euros	**2017**	**2016**	**△% 17/16**
Interest income	381	672	-43.3
Interest expenses	(5,381)	(6,540)	-17.7
Interest expenses (financial)	(151)	(217)	-30.4
Interest costs with employee benefits (accounting)	(5,231)	(6,323)	-17.3
Gains/losses in associated companies	0	230	-100.0
Financial results	**(5,001)**	**(5,638)**	**11.3**

3.1.6. Net profit

In 2017 CTT achieved a consolidated net profit attributable to equity holders of €27.3m, 56.1% lower than the one obtained in the previous year, corresponding to consolidated earnings of €0.18 per share and a net margin of 3.9% (8.9% in 2016). If the non-recurring effects in both years were excluded, the net profit would have decreased by 37.5%.

3.1.7. Capex

The Group's investment amounted to €28.5m, -32.3% (-€13.6m), compared to 2016, the year in which the initial phase of the launch of Banco CTT took place with significant investments in the opening of branches and in adapting the computer system ("Core Banking System"). In 2017, the following investments stand out: those associated to (i) Banco CTT, but with less expression, namely in computer systems, ATMs, works, furniture and other equipment to adapt the post offices, amounting to a total of €6.6m, (ii) the renewal and expansion of the fleet (€2.0m), (iii) the change of the SAP platform (€3.2m) and other IT transformation initiatives (€3.5m), (iv) the development of computer systems to support the Express & Parcels business (€2.3m) and (v) security and works in buildings and premises (€2.3m).

The company continues to invest in strategic IT systems development, such as management information, e-commerce and commercial excellence and in accounting and operational processes, which aim to provide the company with the necessary tools and agility to face the market challenges and the change, which occurs ever more rapidly and sometimes in a disruptive manner.

3.1.8. Financial position

Consolidated statement of financial position

Thousand Euros	31.12.2017	31.12.2016	△% 17/16
Non-current assets	678,474	452,618	49.9
Current assets	930,291	864,080	7.7
Total assets	**1,608,765**	**1,316,697**	**22.2**
Equity	183,991	233,327	-21.1
Total liabilities	1,424,774	1,083,370	31.5
Non-current liabilities	282,738	269,533	4.9
Current liabilities	1,142,037	813,837	40.3
Total equity and liabilities	**1,608,765**	**1,316,697**	**22.2**

Total assets reached €1,608.8m (+€292.1m vs 31.12.2016), of which €449.9m (+€282.2m vs 31.12.2016) are related to applications, financial assets and credit held by Banco CTT broken down as follows:

- €267.3m concerning investments held to maturity and financial assets available for sale;
- €103.2m of other bank financial assets, mainly investments in credit institutions and in the interbank market; and
- €79.3m of credit to bank clients, especially factoring operations, mortgage loans and other credits.

Total assets also include the increase in cash and cash equivalents by €8.0m (+1.3%).

Equity decreased by €49.3m (-21.1%) following the dividend distribution for the year 2016 (€72.0m), which occurred in May 2017, for a net profit of €62.2m in 2016 which compares with the net profit of €27.3m in 2017.

On 31st January 2017, a total of 600,530 own shares were granted to the Executive Directors of the Company, as long-term variable remuneration, having reduced its reserve by €5.1m and recorded a non-recurring cost of €0.6m.

The liabilities increased by €341.4m (+31.5%), of which the increase of €365.3m (+143,8%) in banking client deposits from Banco CTT should be emphasised, along with the reduction of €61.8m related to financial services payables.

Employee benefit liabilities (post-retirement and other long-term benefits) in 2017 amounted to €270.0m, a decrease of 0.8% (-€2.3m) when compared to December 2016, of which stand out:

- the termination of the Share Plan as a long-term variable remuneration related to the 2014/2016 term of office (-€4.5m);
- the reduction of the liability with other benefits by €0.9m, including the one related to the "telephone subscription fee" benefit of €0.5m;
- the reduction of the suspension agreements amount by €2.2m;
- the increase of €4.9m in Healthcare due mainly to the effect of actuarial losses;
- the Pension plan of Transporta (€0.4m) recorded in 2017.

Liabilities with post-retirement benefits and other long-term employee benefits

Thousand Euros	31.12.2017	31.12.2016	△% 17/16
Liabilities	**270,020**	**272,317**	**-0.8**
Healthcare	253,972	249,110	2.0
Staff (suspension agreements)	3,312	5,495	-39.7
Other long-term employee benefits	12,340	13,231	-6.7
Share plan	0	4,481	-100.0
Pension plan (Transporta)	356	0	n.a.
Other benefits	40	0	n.a.

3.1.9. Cash flow

The net change in cash and cash equivalents amounted to +€8.0m, which is mainly the result of:

- +€283.1m in the operating cash flows related to Banco CTT;
- +€67.3m in cash flows from operating activities (excluding the cash flows from financial services and Banco CTT);
- -€57.6m in changes in financial services receivables/payables;
- -€31.2m in payments related to tangible and intangible assets;
- +€25.4m of other investment cash flows, of which €22.5m refer to real estate located at Rua de S. José, in Lisbon;
- -€234.6m of Banco CTT's financial assets (includes available-for-sale financial assets, investments held to maturity and other bank financial assets of Banco CTT);
- - €72.0m of dividend payment.

The adjusted cash flow in 2017 was -€33.3m and adjusted operating free cash flow amounted to €38.5m, increasing from the €2.9m in 2016, due to the improvement in operating cash flow and the sale of real estate in Rua de S. José in Lisbon.

Cash flow

Thousand Euros	Reported			Adjusted*		
	2017	2016	△% 17/16	2017	2016	△% 17/16
Cash flow from operating activities	**291,077**	**268,217**	**8.5**	**44,329**	**23,750**	**86.6**
Cash flow CTT excluding FS and Banco CTT				*67,337*	*43,598*	*54.4*
Banco CTT cash flow				*(23,009)*	*(19,848)*	*-15.9*
Cash flow from investment activities	**(240,433)**	**(185,602)**	**-29.5**	**(5,805)**	**(20,835)**	**72.1**
Capex	(31,219)	(29,514)	-5.8	(31,219)	(29,514)	-5.8
of which Banco CTT				*(5,380)*	*(9,977)*	46.1
Banco CTT financial assets**	(234,627)	(164,767)	-42.4			
Other	25,414	8,679	192.8	25,414	8,679	192.8
Operating free cash flow	**50,645**	**82,616**	**-38.7**	**38,523**	**2,915**	**1,221.5**
Cash flow from financing activities	**(71,947)**	**(72,420)**	**0.7**	**(71,947)**	**(72,420)**	**0.7**
of which dividends	*(72,000)*	*(70,265)*	*-2.5*	*(72,000)*	*(70,265)*	*-2.5*
Other* **	29,317	4,966	490.4	135	-	n.a.
Net change in cash and cash equivalents	**8,014**	**15,161**	**-47.1**	**(33,289)**	**(69,505)**	**52.1**

* Cash flow from operating activities excluding the changes in the financial services receivables/payables and Cash Flow Statement items: "Banking customer deposits and other loans", "Credit to bank clients", third parties "Other receivables/payments" regarding Banco CTT , "Financial assets available for sale", "Investments held to maturity", "Demand deposits at Bank of Portugal" and "Other banking financial assets".
** Including financial assets available for sale, investments held to maturity and investments in credit institutions held by 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 Balanced Sheet.

3.1.10. Financing

The company holds financial leasing operations (related to the acquisition of basic equipment and vehicles), bank loans in Corre in order to fund operating activities and a cash pooling system used within CTT scope, particularly by Tourline, to support the activity.

Net financial debt (excluding financial liabilities and assets of Banco CTT) is negative by €163.3m, if we include the liabilities with employee benefits is positive by €30.6m.

Net debt

Thousand Euros	31.12.2017	31.12.2016	△% 17/16
Financial debt	**10,378**	**9,807**	**5.8**
Bank loans and other loans	10,322	8,813	17.1
Financial leasings	56	994	-94.4
Net cash	**360,930**	**295,306**	**22.2**
Net financial debt	**(350,551)**	**(285,499)**	**22.8**
Banking client deposits	619,230	253,945	143.8
Other banking financial assets	17,882	1,218	1,368.1
Financial assets (Banco CTT)	(449,896)	(167,700)	168.3
Net financial debt (excluding financial liabilities and assets of Banco CTT)	**(163,336)**	**(198,036)**	**-17.5**
Net financial debt (excluding financial liabilities and assets of Banco CTT)/EBITDA	*-1.8 x*	*-1.7 x*	*0.1 x*
Liabilities with employee benefits	270,020	272,317	-0.8
Deferred tax assets related to employee benefits	(76,045)	(77,093)	-1.4
Net debt (incl. Liabilities with employee benefits)	**30,638**	**(2,813)**	**-1,189.2**
Net debt/EBITDA	*0.3 x*	*0.0 x*	*-0.3 x*

Net cash

Thousand Euros	31.12.2017	31.12.2016	△% 17/16
Net cash			
(+) Cash and cash equivalents	626,825	618,811	1.3
(–) Net Financial Services payables	(265,896)	(323,506)	-17.8
Net cash	**360,930**	**295,306**	**22.2**

3.1.11. Impact of Banco CTT results on the consolidated results

The analysis of the balance sheet and income statement without the full consolidation of Banco CTT allows for a clear view of the CTT Group without the assets / liabilities related to the activity of Banco CTT.

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

Consolidated income statement

Thousand Euros	2017	2016	△% 17/16
Revenues	708,021	696,470	1.7
Operating costs	(633,854)	(578,582)	9.6
Earnings before financial income and taxes	**74,167**	**117,887**	**-37.1**
Financial results	**(26,302)**	**(27,077)**	2.9
Gains/losses in associated companies	*(21,302)*	*(21,208)*	-0.4
Earnings before taxes	**47,865**	**90,811**	**-47.3**
Income tax for the period	(20,749)	(28,914)	-28.2
Net profit for the period	**27,115**	**61,897**	**-56.2**
Non-controlling interests	(148)	(263)	43.7
Net profit for the period attributable to equity holders	**27,263**	**62,160**	**-56.1**
EBITDA	**105,316**	**127,495**	**-17.4**

Consolidated statement of financial position

Thousand Euros	31.12.2017	31.12.2016	△% 17/16
Non-current assets	408,302	393,226	3.8
Current assets	567,562	669,901	-15.3
Total assets	**975,864**	**1,063,127**	**-8.2**
Equity	183,991	233,327	-21.1
Total liabilities	791,873	829,800	-4.6
Non-current liabilities	282,652	269,512	4.9
Current liabilities	509,221	560,288	-9.1
Total equity and liabilities	**975,864**	**1,063,127**	**-8.2**

Impact of the exclusion of Banco CTT from the consolidation perimeter on the economic position (Profit & Loss) in 2017:

- +€27.1m of revenues and +€24.2m of EBITDA;
- -€21.3m of financial results, which reflect the equity method of Banco CTT, due to the negative net profit.

Impact of the exclusion of Banco CTT from the consolidation perimeter on the financial position (Balance Sheet) in 2017:

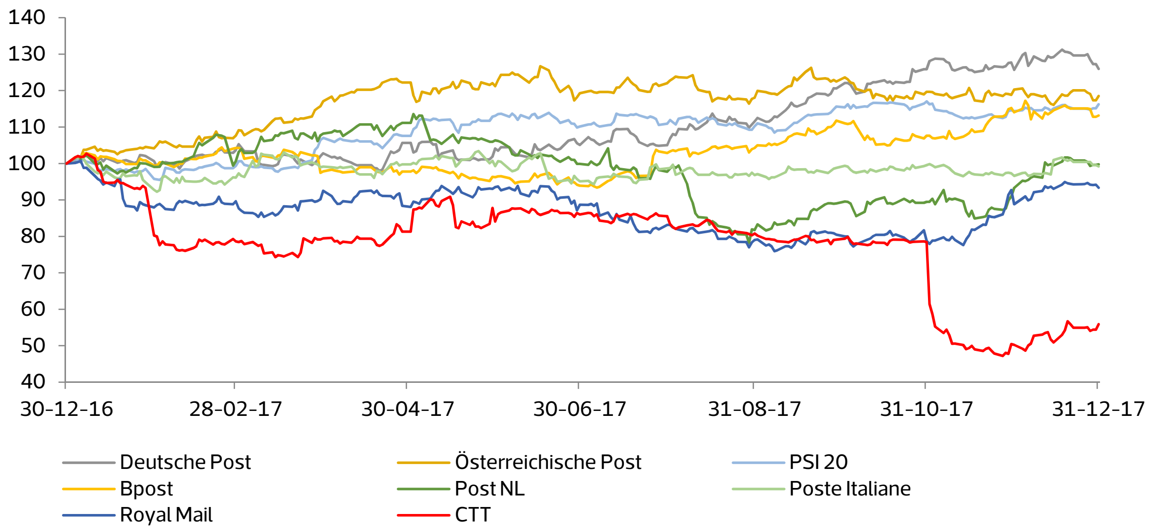
- -€632.9m on assets;
- -€235.0m concerning cash and cash equivalents.

3.2. CTT share performance

In 2017, CTT paid a dividend of €0.48 per share and the CTT share price depreciated by 45.59%. Hence, the total shareholder return or TSR (capital gain + dividend, calculated on the basis of the share price as at 31 December 2016) was -40.68%. During this period, the PSI 20 had a total shareholder return of 19.32%.

In terms of share price appreciation, the best performer of the EU postal sector in 2017 was Deutsche Post, whose shares appreciated by 27.26%. On the same basis, the PSI 20 index appreciated by 15.15% in the year 2017.

CTT share price performance vs PSI 20 index & sector
(Year 2017 - rebased at 100 as at 31 Dec 2016)



[1] Royal Mail share price in Euro.

Throughout the year 2017, circa 268 million CTT shares were traded, corresponding to a daily average of 1.05 million shares, which translates into an annualised turnover ratio of around 180% of the share capital, which is a strong measure of the share liquidity level. As at 29 December 2017, in the last trading session of the year, the closing price of the CTT shares was €3.507.

4. HUMAN RESOURCES

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

Current activity

As at 31 December 2017, the number CTT employees (permanent staff and on fixed-term contracts) was 12,163, fourteen more (+0.1%) than in 2016. This increase includes the 139 workers at Transporta, acquired by the company in May 2017. Excluding Transporta, the number of employees fell by 1.0% (-125) compared to 2016.

Number of employees

	31.12.2017	31.12.2016	Δ 2017/2016	
Mail	9,756	9,774	-18	-0.2%
Express & Parcels	1,094	1,027	67	6.5%
Financial Services	87	96	-9	-9.4%
Banco CTT	184	162	22	13.6%
Other	1,042	1,090	-48	-4.4%
Total, of which:	**12,163**	**12,149**	**14**	**0.1%**
Permanent	11,122	11,247	-125	-1.1%
Fixed-term contracts	1,041	902	139	15.4%
Total in Portugal	11,715	11,702	13	0.1%

Together, the operations and distribution departments (6,609 employees, of which 4,600 are delivery postmen) and the retail network (2,755 employees) represent around 77% of all CTT employees.

Employee turnover in 2017, excluding the integration of Transporta, shows a slightly higher number of employees leaving the company than new recruitments.

431 employees left the company, due to retirement (65) and death (25). The company recruited 138 new employees, 107 in Portugal (4 in CTT Expresso, 2 in Transporta, 36 in Banco CTT and 65 in CTT SA) and 31 abroad (in Tourline Express).

Among the employees leaving the company, it should be noted that 161 left in the context of the Human Resources Optimisation Programme, a part of the current Operational Transformation Plan.

The recruitment policy aimed to obtain competences lacking in the group which are indispensable for its strategic options (banking, commercial activities, IT, etc.).

On 28 June 2017, effective from January 2017 and therefore affecting the accounts for the first half, a Revision Agreement for CTT's 2016 Company Agreement was signed with the eleven Trade Unions represented in the company, agreeing a pay increase on the following terms: basic monthly salary up to €1,267.20, an increase of 1.0%; basic monthly salary between €1,267.21 and

€1,889.60, an increase of 0.75%; basic monthly salary between €1,889.61 and €2,772.30, an increase of 0.65%. An identical increase was applied in subsidiary companies.

It was also agreed to set the minimum monthly wage in the various Group companies at €600.00 with effect from 1 July 2017. This review of fixed remuneration represented an important adjustment for the lower levels of remuneration.

The Revision Agreement takes into account the importance of a climate of social stability and peace within the Company, which is a goal of both CTT and the signing Trade Unions, seeking to value employees' work.

Development of human capital

In the context of strengthening and developing the human capital required for the growth of CTT, the measures taken to promote the recruitment of employees with new skills and resources were extended, particularly to strengthen the growth areas.

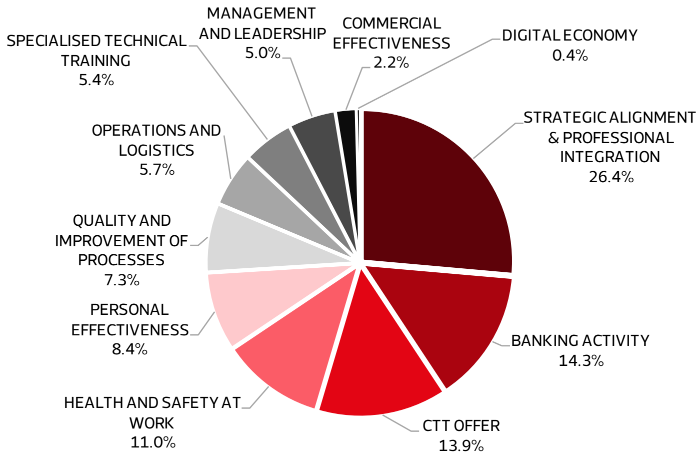
In this context, the selection process for the 3rd edition of the Trainee Programme, *Trainee 2017* – "Your potential moves us", was launched with a view to attracting and retaining young people of high potential, promoting their development within a structured overall programme, contributing to the rejuvenation of staff, fostering a mobility culture and positioning CTT as an "employer of first choice". This edition of the programme is now being implemented with 14 newly recruited trainees.

For the third consecutive year since CTT became established as a Public Company, a variable annual remuneration was allocated, at a lower level than the previous year, taking into account the company's results for 2016. This extraordinary bonus is paid on an individual basis, differentiated in consideration of personal merit and the levels of performance and absenteeism of the various functional groups. It was paid to more than 7,750 employees and totalled around 3.4 million euros.

Pursuing a policy of good practices in human resource management after the principles and objectives of a CTT talent model had been established, the 2017 talent management programme was put into effect, assessing competences and identifying potential for a number of management and employee positions in various departments and functional groups. Assessments and feedback sessions were held to analyse the management structure, and subsequently performance plans were developed for execution in the 2018-2019 period.

In terms of training, 2017 saw strong investment to bolster and promote skills geared toward i) attaining the stipulated goals and addressing new challenges, ii) gaining or developing knowledge in the new growth areas, such as the banking business, iii) professional and personal development, and iv) motivation, involvement and strengthening the commitment of employees to the company, its culture and values.

Training Volume per Programme



In 2017, a total of 262,000 hours of training were undertaken with 11,000 employees, with particular stress on the following areas: strategic alignment and professional integration; health and safety at work (especially for employees working in the operational departments and the retail network); banking (for teams in the post offices which began to provide Banco CTT services); and CTT services (especially for the Retail Network and the Contact Centre).

Distance training was of particular importance because of the gains in efficiency which it can generate; more than 14,000 training actions were carried out, representing 26% of the total number of hours of training executed in 2017, translating into an increase of 4% over the previous year.

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

5.1. Quality of Service

In 2017, the perception of CTT customers of the quality of the postal service remained quite positive, with 84.7% of the customers who responded to the satisfaction survey considering that the overall quality of CTT was good or very good.

The OQSI (Overall Quality of Service Indicator) stood at 110.1 points, compared to a target of 100.

In 2017, there were continued efforts to keep management systems certified. In this context, the external certification audit of CTT Expresso occurred in April, and that of Mailtec in May. The audit for the maintenance of the certification of the sorting centres occurred in July, also with very positive results.

Services certification was maintained in all the post offices, postal delivery offices and 204 postal agencies, as was the quality and environment certification of the subsidiary company CTT Contacto after an external audit in November.

At the end of the year, CTT obtained its corporate certification, which recognises the compliance with the ISO requirements of cross-company human resources processes, IT, physical resources and security, procurement and logistics, all of which serve CTT's internal departments and certified management systems.

Contact Centre

In 2017 the telephone line (55%) and the e-mail channel (45%) of the Contact Centre were the means used most frequently by customers to contact the company; in recent years it has been noticed that the latter has grown at the expense of the former.

Overall, more than 2.6 million contacts were recorded, representing an increase of 20% over the previous year. There were 1.4 million answered telephone calls, which represents a year-on-year increase of 14% over 2016. This evolution was mainly due to an increase in contacts related to customs clearance (in e-commerce) and with searches for items. There were 1.2 million e-mail contacts, an increase of 28% over the previous year, related particularly with tracking items.

Of note are the awards made to CTT and CTT Expresso by the APCC (Portuguese Association of Contact centres) Best Awards 2017, in the Transport, Distribution and Logistics category (mentioned above); the main purpose of these awards is to recognise organisations in Portugal which have made the most noticeable efforts to adopt and implement good practices in the running of their Contact Centres, in strategic, operational and technological management and in human capital, contributing to recognition and appreciation of the industry in general.

5.2. Innovation and development

Today, with the vertiginous rate of progress in Information and Communication Technologies, all businesses are digital – including postal services, and they too are having to reinvent themselves. The paradigm has changed: on the one hand, everything that can be digitalised is being, and very quickly; on the other, it is now clearly the final user (e-buyer/addressee) who sets the pace (date, time, place and manner of delivery/receipt). Furthermore, the rate of digital transformation continues to accelerate, on various levels, through, for example: the *Internet of Things*, *big Data*, automation and artificial intelligence. CTT accepts these realities in order to transform them, by innovation, into new business opportunities.

Development of solutions, products and services

- Reinforcement of theMail business:
  - launching the CTTAds.pt service for the design, production and contracting of advertising campaigns distributed using CTT network, including a new line of advertising services: "Brindes de Marca" which allows every customer to personalise the promotional material with its own logo. This service received the *PostEurop Innovation Award* for 2017.
  - availability of the newly developed features of the ViaCTT service, including access via an app.
  - extension of the Online Receipts service (ROL): present in more than 1,200 post offices and postal agencies, and a study on integrating the service with partners and major customers.
  - introduction of innovative printing technology to improve the Printing & Finishing service.
  - start-up of the VEDUR (Electric Urban Distribution Vehicle) project: pilot route with an innovative electric tricycle developed by a Portuguese startup company.
  - automatic feed system for the Rest Mail machine, based on the use of robots and an automated arm.
  - installation of the new bar-code reading system (able to capture the 5 faces of EMS objects), contributing to an increase in the productivity of the parcel sorting service and strengthening the revenue assurance by filing important information about each parcel.

- The following advances have been made in e-commerce:
  - consolidation/expansion of the CTT *e-segue* system (and associated functions) to both contract and occasional customers and in the physical channels (CTT post offices and postal agencies), complemented with a dedicated app.
  - availability of parcel lockers for parcel deliveries in 5 high-volume locations, constituting an improvement in the convenience of the CTT *e-segue* service.
  - launch of a pilot for dynamic distribution based on a mobile application in the urban context (Lisbon), ensuring rapid delivery for e-commerce (Same Day & Instant Delivery).
  - integration of the CTT despatch services with various e-commerce platforms.
  - exploration of new partnerships to extend the geographical range of the Express2Me service.
  - execution of various activities/developments in the context of the Interconnect (eCIP) programme, particularly pilot tests with Standard packets and Premium items (outbound and inbound) and launch of production for Premium items (inbound).

- Highlights in the financial area were the advances made in Banco CTT and Payshop:
  - The Mortgage product, based on the innovative Casa Banco CTT app, allows the customer to carry out the whole process of contracting the loan and purchasing the property, including uploading documents.
  - Payshop offers services in various areas and in its agents' network: new pre-paid services for online purchases of international brands, creation of a Virtual Agent in partnership with the Portuguese startup OneBiller, partnership with CTT Expresso to make the Payshop network available for delivery/collection of parcels and signing up new companies to its ticket purchasing services.

Corporate initiatives

- Launch of a new application for smartphones (App CTT), offering more functions to allow the customer to personalise his stamps ("Meuselo") and postcards ("Meupostal"), and purchase tickets in advance for shows (Bilheteira). The customer can also obtain details of all despatches, tolls payable, information about CTT post offices and order the SIGA service.

- Reformulation of the company's IT infrastructure in the following areas, allowing maintenance costs to be reduced.

- Important features of the transformation of the company's IT:
  - new version S/4 *Hana & Hybris Billing* of the SAP environment. Current implementation will gradually be extended to the whole group and all its business.
  - introduction of the Robotic Process Automation (RPA) technology, which has speeded up organisational processes.
  - implementation of the customer and sales support system, with gradual inclusion of all group companies leading to synergies which will improve customer service.
  - providing CTT at various levels with advanced *Big Data* analytical tools, to leverage future projects resulting in greater efficiency and the creation of new products and services.
  - availability of the new portal allowing CTT customers to speed up their customs processes and receive constant feedback through a self-service option.

- The "+Innovation by CTT" programme – CTT's Innovation and Development Management System, offered the following:
  - in Ideas Management, 3 cycles of challenges were held, with more than 1,700 users and 700 ideas submitted - some of which led to concrete implementations and/or influenced current projects in the business units and operations departments.
  - in CTT Exterior Observatory, the identification of startup companies with solutions in line with CTT's objectives and strategy, resulting in various types of collaboration (pilot and/or technical/commercial partnerships).
  - in Exploratory Innovation, exploration, analysis and sharing with the organisation the most significant trends in various topics.

5.3. Sustainability

CTT was one of the first Portuguese companies in the postal industry to integrate the UN's Sustainable Development Goals (SDG) into its business strategy.

The Board of Directors includes four women (31% of the total), and CTT's administration and supervision organs comply with legal minimum. The company's equality plan was approved, including 17 measures in various areas.

The training offered reached 262,000 hours and the rate of absenteeism was 6.8%. A total of 1,072 accidents at work was reported (none fatal). Drivers' Challenge (to assess eco-efficient driving) involved 4,700 drivers and received an honourable mention in the Green Project Awards 2017.

A total of 130 volunteers and their family members were involved in 16 voluntary environmental and social actions. Community initiatives were supported with funding worth €1.1m, and a partnership programme was launched to offer preferential prices to CTT employees.

In climate change actions, CTT obtained Leadership level A in the Carbon Disclosure Project 2017, the most important international carbon exchange rating (only two Portuguese companies and two others in the postal industry reached this level); the company's carbon targets, absolute and intensity, were approved by SBTi – Science Based Target Initiative (the only company in the industry whose targets were approved) and CTT was the company with the greatest reduction in emissions in the industry worldwide, -76% (2008-2016).

CTT Expresso was the first Portuguese company in the industry to fully compensate its CO_2 emissions, which it did by a participative vote in facebook which involved more than half a million people.

In the area of biodiversity, the 4th edition of the "A Tree for the Forest" project - a partnership between CTT and Quercus to help reforest critical areas of Portugal - reached more than 8 million people, with a record sale of 65,000 kits.

The eco-portfolio showed relative stability in DM Eco, with reasonable growth in "green" mail. CTT's eco-services now represent nearly 12% of its total turnover.

The CTT car-pooling platform, which seeks to reduce emissions from employees who commute to work, was a finalist in the environment category of the 2017 *PostEurop Coups de Cœur* awards.

Fuel consumption fell by 1.8%, electricity, gas and air-conditioning grew by 3.5%; overall energy consumption was stable (+0.4%). CO_2 emissions in scopes 1 and 2 fell by 1.4%. The purchase of 40 electric vehicles and one hybrid vehicle brought the CTT ecological fleet up to 353 vehicles, the biggest in the country.

For the purposes of complying with the obligations set forth in article 508-G of the Portuguese Companies Code, as amended by Decree-Law no. 89/2017 of 28 July, CTT chose to disclose the information regarding the CTT Group's non-financial statements in the Sustainability Report. This report contains information that is sufficient for an understanding of the evolution, performance, position and impact of CTT Group activities, including environmental and social issues and those related to the workers, equality between women and men, non-discrimination, respect for human rights, the fight against corruption and attempted bribery.

The Sustainability Report is available on the CTT website at http://www.ctt.pt/ctt-e-investidores/sustentabilidade/politicas-relatorios-indices.html?com.dotmarketing.htmlpage.language=1#panel2-1.

6. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

Subsequent events

Optimisation of the Retail Network

Aiming at the present and future sustainability of the company, the Board of Directors of CTT approved an Operational Transformation Plan that provides for, among other measures to be applied during its implementation, the optimisation of the presence of the postal customer service activity according to demand, always ensuring an adequate quality in the provision of services, namely the Universal Postal Service.

In a first stage (1st quarter of 2018), 25 CTT post offices (CTT Retail Network) were identified to be optimised resulting in an increase of 3 points of access, as 20 post offices were replaced by 23 postal agencies within the more than 2,360 Access Points existing countrywide. It is important to note that this optimisation does not jeopardise the presence of CTT and its capillarity throughout the national territory, fully complying with the criteria of geographical density this company is required to meet as the Universal Postal Service Concessionaire. CTT continues to guarantee a service of proximity to the populations and to its customers given the existing for the services it provides, namely the Universal Postal Service – including the payment of postal money orders for social benefits (retirement pensions and other), collection of utilities invoices, handling of ordinary and priority mail, receiving registered items and parcels, among others.

Share capital increase of Banco CTT

On 4 January 2018, Banco CTT's share capital increase of €6,400,000 was carried out by transferring to Banco CTT all the shares representing the share capital of Payshop (Portugal), S.A.. This operation is in line with the strategy of concentrating the CTT Group's business lines related to the financial sector at Banco CTT as well as with the project submitted to Banco de Portugal at the time of its creation and information transmitted at Capital Markets Day.

Additionally, on 7 March 2018, a new share capital increase was made in the amount of €25,000,000.00 (from €131,400,000.00 to €156,400,000.00), by means of the issuance of new shares without par value and for an issuance value of €1 each, to be fully subscribed and paid in cash by CTT as single shareholder. This is also in line with the 2016-2018 and 2017-2019 Plans approved by the Board of Directors of Banco CTT, as well as with the information transmitted in the Capital Markets Day.

Future perspectives

The year 2018 will be another challenging year as it will mark the beginning of the implementation of the Operational Transformation Plan, focused on improving the profitability, efficiency and quality levels of the postal business, while maintaining the proximity to the Portuguese population and complying with all regulatory obligations. It will address a large part of the CTT cost base, across all cost categories, and, although it is expected to have a positive contribution on recurring EBITDA, it will necessitate a significant amount (c. €20m in 2018) of restructuring costs and €25m of incremental Capex in the next couple of years. The plan is necessary to prepare the next wave of growth and operational efficiency of CTT, however, it will have a significant impact on dividend policy in the short term, due to the high one-off costs in the first two years of its implementation.

We believe that the rate of decline of mail volumes will continue to be affected predominantly by the structural trend toward electronic substitution, and less by macroeconomic factors. It should remain close to the trend observed during 2017, although it may still vary slightly depending on the behaviour of domestic consumption and e-government initiatives. Similar structural trends, are affecting the Financial Services business, namely payments and transfers.

The impact of Mail and Financial Services on the consolidated revenues should continue to be offset by strong growth in the parcels and banking businesses, although from what is still a very small base. Electronic commerce will continue to be the main driver of growth in the parcels business while for Banco CTT 2018 should be a year of the beginning of the monetisation of the strong customer acquisition, mainly through the offer of mortgage loans and consumer credit. Complementary acquisitions are also in consideration for Banco CTT to reduce time-to-market and to profitability.

In January 2018 a draft the decision published on quality of service requirements indicated that a set of much more demanding requirements is likely to be introduced, although the exact level and the corresponding negative impact of complying with those on CTT's operating cost base are still unclear.

Balance sheet optimisation measures, such as optimisation of working capital and sale of non-core assets will continue as announced in the operational transformation plan, with slight estimated positive contribution to CTT's earnings and cash flow.

7. PROPOSAL FOR THE APPROPRIATION OF RESULTS

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

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

Under the terms of article 295(1) of the Portuguese Companies Code ("PCC"), a minimum of 5% is intended for the constitution of the legal reserve and, if necessary, its reintegration until this reserve reaches 20% of the share capital. As the share capital is €75,000,000.00, 20% is calculated at € 15,000,000.00, whereby the legal reserve as at 31 December 2017 corresponds to the minimum amount required by the Articles of Association and the PCC.

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

Distributable profits are the financial year's net profit after the constitution or increase of the legal reserve and after negative retained earnings have been covered, if applicable. As at 31 December 2017, the legal reserve is fully constituted and retained earnings are positive. For the financial year ended 31 December 2017, net profit for the year in the individual accounts amounted to €27,263,244.00.

Given the accounting rules in force, an amount of €1,702,843.00 is already reflected in the stated net profit regarding profit sharing with CTT employees.

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

a) the net profit for the 2017 financial year, totalling €27,263,244.00, as per the individual financial statements, is allocated as follows:
Dividends*.. €27,263,244.00;

b) an amount of €14,364,534.00 that is booked as Retained Earnings is appropriated in the form of dividends*;

c) an amount of €15,372,222.00 that is booked as Free Reserves is appropriated in the form of dividends*.

d) a maximum amount of €1,702,843.00 (already considered in the individual financial statements) is allocated to CTT employees (not including any of the members of the Board of Directors of CTT) as bonuses.

* distribution of €57,000,000.00 in dividends, which corresponds to €0.38 per share.

Lisbon, 7 March 2018

The Board of Directors,

8. DECLARATION OF CONFORMITY

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

Lisbon, 7 March 2018

The Board of Directors

The (non-executive) Chairman of the Board of Directors

António Sarmento Gomes Mota

The Chief Executive Officer (CEO) & Vice-Chairman of the Board of Directors

Francisco José Queiroz de Barros de Lacerda

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

Dionizia Maria Ribeiro Farinha Ferreira

The (non-executive) Member of the Board of Directors and of the Audit Committee

Nuno de Carvalho Fernandes Thomaz

The (non-executive) Member of the Board of Directors

José Manuel Baptista Fino

The (non-executive) Member of the Board of Directors

Céline Dora Judith Abecassis-Moedas

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

António Pedro Ferreira Vaz Silva

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

Francisco Maria da Costa de Sousa de Macedo Simão

The (non-executive) Member of the Board of Directors

João Afonso Ramalho Sopas Pereira Bento

The (non-executive) Member of the Board of Directors and Chairwoman of the Audit Committee

Maria Luísa Coutinho Ferreira Leite Castro Anacoreta Correia

The (non-executive) Member of the Board of Directors and of the Audit Committee

Maria Belén Amatriain Corbi

The (non-executive) Member of the Board of Directors

Rafael Caldeira de Castel-Branco Valverde

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

Guy Patrick Guimarães de Goyri Pacheco

(SIGNED ON THE ORIGINAL)

PART II – FINANCIAL STATEMENTS

Consolidated and individual financial statements

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016
Euros

		Group		Company	
	NOTES	31.12.2017	31.12.2016	31.12.2017	31.12.2016
ASSETS					
Non-current assets					
Tangible fixed assets	5	199,855,908	208,921,781	183,397,373	192,866,766
Investment properties	7	6,164,849	9,291,983	6,164,849	9,291,983
Intangible assets	6	47,501,684	38,916,723	19,789,332	14,803,744
Goodwill	9	9,523,180	7,700,739	-	-
Investments in subsidiary companies	10	-	-	124,181,057	102,976,700
Investments in associated companies	11	296,260	296,260	295,779	295,779
Other investments	13	1,503,572	1,503,572	1,503,572	1,503,572
Investments held to maturity	14	245,827,759	93,986,115	-	-
Shareholders	51	-	-	2,658,000	5,125,000
Other non-current assets	24	1,375,223	1,306,148	1,092,403	1,110,991
Credit to bank clients	20	64,263,948	-	-	-
Financial assets available for sale	15	3,175,180	4,473,614	-	-
Other banking financial assets	16	11,831,122	-	-	-
Deferred tax assets	50	87,155,739	86,220,762	86,007,545	85,578,604
Total non-current assets		**678,474,423**	**452,617,698**	**425,089,910**	**413,553,139**
Current assets					
Inventories	18	5,696,996	5,407,685	5,022,455	4,721,728
Accounts receivable	19	132,480,130	122,113,270	95,987,068	94,323,683
Credit to bank clients	20	15,083,442	7,103,905	-	-
Shareholders	51	-	-	3,755,511	3,722,399
Income taxes receivable	37	1,552,005	3,587,614	1,564,777	3,569,641
Deferrals	21	6,600,115	6,128,931	5,111,904	4,937,995
Investments held to maturity	14	15,721,373	1,108,428	-	-
Other current assets	24	32,338,234	30,033,571	27,922,910	27,784,833
Financial assets available for sale	15	2,576,194	1,973,711	-	-
Other banking financial assets	16	91,417,084	59,054,303	-	-
Cash and cash equivalents	23	626,825,397	618,811,099	376,590,733	475,068,122
		930,290,969	855,322,515	515,955,358	614,128,399
Non-current assets held for sale	22	-	8,756,999	-	8,756,999
Total current assets		**930,290,969**	**864,079,515**	**515,955,358**	**622,885,398**
Total assets		**1,608,765,392**	**1,316,697,213**	**941,045,268**	**1,036,438,537**
EQUITY AND LIABILITIES					
Equity					
Share capital	26	75,000,000	75,000,000	75,000,000	75,000,000
Own shares	27	(8)	(5,097,536)	(8)	(5,097,536)
Reserves	27	79,947,883	34,891,671	79,897,560	34,878,197
Retained earnings	27	34,268,089	93,589,211	34,336,935	93,602,685
Other changes in equity	27	(32,634,996)	(27,137,824)	(32,653,520)	(27,137,824)
Net profit		27,263,244	62,160,395	27,263,244	62,160,395
Equity attributable to equity holders		183,844,211	233,405,918	183,844,211	233,405,918
Non-controlling interests	30	146,738	(79,135)	-	-
Total equity		**183,990,949**	**233,326,782**	**183,844,211**	**233,405,918**
Liabilities					
Non-current liabilities					
Accounts payable	34	-	375,379	-	375,379
Medium and long term debt	31	73,689	127,145	-	-
Employee benefits	32	252,919,533	250,445,608	252,595,578	250,445,608
Provisions	33	26,028,332	14,127,483	29,550,059	20,327,302
Deferrals	21	316,892	334,191	316,892	328,093
Deferred tax liabilities	50	3,399,121	4,123,146	3,368,115	4,086,530
Total non-current liabilities		**282,737,567**	**269,532,952**	**285,830,644**	**275,562,913**
Current liabilities		-	-	-	-
Accounts payable	34	384,533,294	444,863,700	361,001,085	426,559,977
Banking clients' deposits and other loans	35	619,229,680	253,944,840	-	-
Shareholders	51	-	-	12,821,447	7,341,360
Employee benefits	32	17,100,808	17,390,573	17,069,013	17,390,573
Short term debt	31	10,304,390	9,679,829	-	724,749
Deferrals	21	1,432,696	4,177,609	1,425,534	4,169,848
Other current liabilities	36	91,553,848	82,562,725	79,053,334	71,283,201
Other banking financial liabilities	16	17,882,160	1,218,205	-	-
Total current liabilities		**1,142,036,875**	**813,837,479**	**471,370,413**	**527,469,707**
Total liabilities		**1,424,774,442**	**1,083,370,431**	**757,201,057**	**803,032,619**
Total equity and liabilities		**1,608,765,392**	**1,316,697,213**	**941,045,268**	**1,036,438,537**

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONSOLIDATED AND INDIVIDUAL INCOME STATEMENT FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Euros

		Group				Company			
		Twelve months ended		Three months ended		Twelve months ended		Three months ended	
	NOTES	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Revenues		**714,277,808**	**696,821,564**	**196,296,866**	**177,995,598**	**583,908,852**	**581,972,346**	**158,676,975**	**145,777,234**
Sales and services rendered	4/40	676,007,522	669,668,571	174,738,334	172,407,094	523,146,929	531,057,316	131,770,987	134,466,373
Financial margin	41	3,389,566	26,051	1,286,975	57,443	-	-	-	-
Other operating income	42	34,880,720	27,126,942	20,271,557	5,531,061	60,761,923	50,915,030	26,905,988	11,310,861
Operating costs		**(667,184,555)**	**(605,938,692)**	**(185,524,160)**	**(157,474,393)**	**(511,177,014)**	**(479,459,501)**	**(142,078,930)**	**(123,541,799)**
Cost of sales	18	(12,765,389)	(13,906,199)	(4,516,990)	(3,644,134)	(9,786,292)	(10,974,792)	(3,676,801)	(2,778,799)
External supplies and services	43	(251,481,693)	(232,037,064)	(69,322,584)	(61,967,575)	(151,248,904)	(147,577,382)	(40,298,117)	(38,080,515)
Staff costs	45	(354,739,819)	(338,387,481)	(97,239,677)	(91,027,468)	(313,470,667)	(301,774,716)	(86,775,925)	(81,609,379)
Impairment of accounts receivable, net	46	(1,098,235)	(45,623)	(164,418)	19,735	(48,025)	547,695	(107,413)	182,638
Impairment of non-depreciable assets, net	9	(1,133,312)	-	(1,133,312)	-	(1,133,312)	(2,402,186)	(1,133,312)	-
Impairment of other financial banking assets, net	46	(117,234)	-	(117,234)	-	-	-	-	-
Provisions, net	33	(1,025,880)	16,343,680	(1,784,786)	8,877,961	(997,450)	13,805,988	(1,844,061)	6,738,555
Depreciation/amortisation and impairment of investments, net	47	(30,670,452)	(27,468,094)	(7,915,390)	(7,562,231)	(23,135,944)	(22,479,167)	(5,864,218)	(6,148,896)
Other operating costs	48	(14,152,541)	(10,437,910)	(3,329,769)	(2,170,681)	(11,356,420)	(8,604,940)	(2,379,083)	(1,845,404)
Earnings before financial income and taxes		**47,093,253**	**90,882,873**	**10,772,706**	**20,521,205**	**72,731,838**	**102,512,845**	**16,598,045**	**22,235,435**
Financial results		**(5,000,539)**	**(5,638,167)**	**(1,276,689)**	**(1,658,727)**	**(27,257,136)**	**(16,612,738)**	**(6,272,429)**	**(3,691,998)**
Interest expenses	49	(5,381,464)	(6,540,106)	(1,354,556)	(1,737,672)	(5,293,890)	(6,466,598)	(1,324,962)	(1,718,438)
Interest income	49	380,925	671,599	77,867	78,945	444,227	733,475	93,897	95,628
Gains/losses in associated companies	10/11/12	-	230,340	-	-	(22,407,472)	(10,879,615)	(5,041,363)	(2,069,188)
Earnings before taxes		**42,092,714**	**85,244,706**	**9,496,017**	**18,862,478**	**45,474,702**	**85,900,107**	**10,325,616**	**18,543,437**
Income tax for the period	50	(14,977,391)	(23,347,639)	(1,752,715)	(2,761,819)	(18,211,458)	(23,739,712)	(2,571,939)	(2,417,717)
Net profit for the period		**27,115,323**	**61,897,067**	**7,743,302**	**16,100,659**	**27,263,244**	**62,160,395**	**7,753,677**	**16,125,720**
Net profit for the period attributable to:									
Equity holders		27,263,244	62,160,395	7,753,677	16,125,720				
Non-controlling interests	30	(147,921)	(263,328)	(10,375)	(25,061)				
Earnings per share:	29	0.18	0.42	0.05	0.11	0.18	0.42	0.05	0.11

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL STATEMENT OF COMPREHENSIVE INCOME FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016
Euros

		Group				Company			
		Twelve months ended		Three months ended		Twelve months ended		Three months ended	
	NOTES	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Net profit for the period		**27,115,323**	**61,897,067**	**7,743,301**	**16,100,659**	**27,263,244**	**62,160,395**	**7,753,677**	**16,125,720**
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)	27	18,482	19,820	2,308	19,820	73,855	19,820	18,373	19,820
Changes to fair value reserves	27	36,849	14,014	(2,458)	3,820	-	-	-	-
Employee benefits (non re-classifiable adjustment to profit and loss)	27/32	(7,579,217)	(11,827,990)	(7,579,217)	(11,827,990)	(7,603,118)	(11,827,990)	(7,603,118)	(11,827,990)
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)	27/50	2,082,045	3,334,998	2,082,045	3,334,998	2,087,423	3,334,998	2,087,423	3,334,998
Other changes in equity	27/30	6,775	49,777	1,497	(24,738)	-	54,380	-	(18,459)
Other comprehensive income for the period after taxes		**(5,435,066)**	**(8,409,381)**	**(5,495,826)**	**(8,494,090)**	**(5,441,841)**	**(8,418,792)**	**(5,497,322)**	**(8,491,631)**
Comprehensive income for the period		**21,680,257**	**53,487,686**	**2,247,476**	**7,606,569**	**21,821,403**	**53,741,603**	**2,256,355**	**7,634,089**
Attributable to non-controlling interests		(141,146)	(254,457)	(8,879)	(27,519)				
Attributable to shareholders of CTT		21,821,403	53,742,143	2,256,354	7,634,089				

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 DECEMBER 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**	**(1,873,125)**	**33,384,112**	**(18,644,832)**	**91,727,994**	**72,065,283**	**175,322**	**251,834,754**
Appropriation of net profit for the year of 2015		-	-	-	-	72,065,283	(72,065,283)	-	-
Dividends	28/30	-	-	-	-	(70,264,792)	-	-	(70,264,792)
Acquisition of own shares	27	-	(3,224,411)	-	-	-	-	-	(3,224,411)
Share plan	27/30	-	-	1,493,546	-	-	-	-	1,493,546
		-	**(3,224,411)**	**1,493,546**	**-**	**1,800,491**	**(72,065,283)**	**-**	**(71,995,658)**
Other movements	27/30	-	-	-	-	40,906	-	8,871	49,777
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(8,492,992)	-	-	-	(8,492,992)
Changes to fair value reserves	27	-	-	14,014	-	-	-	-	14,014
Adjustments from the application of the equity method	27	-	-	-	-	19,820	-	-	19,820
Net profit for the period		-	-	-	-		62,160,395	(263,328)	61,897,067
Comprehensive income for the period		**-**	**-**	**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**	**(79,135)**	**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**	**(79,135)**	**233,326,782**
Share capital increase	27	49,500,000	-	-	-	(49,500,000)	-	367,020	367,020
Share capital decrease	27	(49,500,000)	-	49,500,000	-	-	-	-	-
Appropriation of net profit for the year of 2016		-	-	-	-	62,160,395	(62,160,395)	-	-
Dividends	28/30	-	-	-	-	(72,000,000)	-	-	(72,000,000)
Attribution of own shares	27	-	5,097,527	(4,480,638)	-	-	-	-	616,890
		-	**5,097,527**	**45,019,362**	**-**	**(59,339,605)**	**(62,160,395)**	**367,020**	**(71,016,090)**
Other movements	27/30	-	-	-	-	-	-	6,775	6,775
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(5,497,172)	-	-	-	(5,497,172)
Changes to fair value reserves	27	-	-	36,849	-	-	-	-	36,849
Adjustments from the application of the equity method	27	-	-	-	-	18,482	-	-	18,482
Net profit for the period		-	-	-	-	-	27,263,244	(147,921)	27,115,323
Comprehensive income for the period		**-**	**-**	**36,849**	**(5,497,172)**	**18,482**	**27,263,244**	**(141,146)**	**21,680,257**
Balance on 31 December 2017		**75,000,000**	**(8)**	**79,947,883**	**(32,634,996)**	**34,268,089**	**27,263,244**	**146,738**	**183,990,949**

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

CTT-CORREIOS DE PORTUGAL, S.A.
INDIVIDUAL STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017 AND 31 DECEMBER 2016
Euros

	NOTES	Share capital	Own Shares	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Total
Balance on 1 January 2016		**75,000,000**	**(1,873,125)**	**33,384,652**	**(18,644,832)**	**91,727,994**	**72,065,283**	**251,659,972**
Appropriation of net profit for the year of 2015		-	-	-	-	72,065,283	(72,065,283)	-
Dividends	28	-	-	-	-	(70,264,792)	-	(70,264,792)
Acquisition of own shares	27	-	(3,224,411)	-	-	-	-	(3,224,411)
Share plan	27	-	-	1,493,545	-	-	-	1,493,545
		-	**(3,224,411)**	**1,493,545**	**-**	**1,800,491**	**(72,065,283)**	**(71,995,658)**
Other movements	27	-	-	-	-	54,380	-	54,380
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(8,492,992)	-	-	(8,492,992)
Adjustments from the application of the equity method	27	-	-	-	-	19,820	-	19,820
Net profit for the period		-	-	-	-	-	62,160,395	62,160,395
Comprehensive income for the period		**-**	**-**	**-**	**(8,492,992)**	**74,200**	**62,160,395**	**53,741,603**
Balance on 31 December 2016		**75,000,000**	**(5,097,536)**	**34,878,197**	**(27,137,824)**	**93,602,685**	**62,160,395**	**233,405,918**
Balance on 1 January 2017		**75,000,000**	**(5,097,536)**	**34,878,197**	**(27,137,824)**	**93,602,685**	**62,160,395**	**233,405,918**
Share capital increase	27	49,500,000	-	-	-	(49,500,000)	-	-
Share capital decrease	27	(49,500,000)	-	49,500,000	-	-	-	-
Appropriation of net profit for the year of 2016		-	-	-	-	62,160,395	(62,160,395)	-
Dividends	28	-	-	-	-	(72,000,000)	-	(72,000,000)
Acquisition of own shares	27	-	-	-	-	-	-	-
Disposal of own shares	27	-	5,097,527	(4,480,638)	-	-	-	616,890
		(0)	**5,097,527**	**45,019,363**	**-**	**(59,339,605)**	**(62,160,395)**	**(71,383,110)**
Other movements	27	-	-	-	-	-	-	-
Actuarial gains/losses - Health Care, net from deferred taxes	27	-	-	-	(5,515,695)	-	-	(5,515,695)
Changes to fair value reserves	27	-	-	-	-	-	-	-
Adjustments from the application of the equity method	27	-	-	-	-	73,855	-	73,855
Net profit for the period		-	-	-	-	-	27,263,244	27,263,244
Comprehensive income for the period		**-**	**-**	**-**	**(5,515,695)**	**73,855**	**27,263,244**	**21,821,403**
Balance on 31 December 2017		**75,000,000**	**(8)**	**79,897,560**	**(32,653,520)**	**34,336,935**	**27,263,244**	**183,844,210**

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONSOLIDATED AND INDIVIDUAL CASH FLOW STATEMENT FOR THE TWELVE MONTH PERIODS ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016
Euro

	NOTES	Group 31.12.2017	Group 31.12.2016	Company 31.12.2017	Company 31.12.2016
Cash flow from operating activities					
Collections from customers		655,317,131	635,704,808	536,059,315	528,435,377
Payments to suppliers		(246,570,916)	(248,660,942)	(147,060,663)	(162,807,260)
Payments to employees		(324,501,764)	(320,864,833)	(283,736,046)	(286,160,731)
Banking customer deposits and other loans		365,387,763	253,545,420	-	-
Credit to bank clients		(71,995,568)	(7,103,546)	-	-
Cash flow generated by operations		377,636,646	312,620,906	105,262,605	79,467,386
Payments/receivables of income taxes		(14,010,391)	(29,664,480)	(10,579,526)	(25,009,386)
Other receivables/payments		(72,549,019)	(14,738,983)	(84,363,267)	(13,506,804)
Cash flow from operating activities (1)		291,077,236	268,217,444	10,319,812	40,951,196
Cash flow from investing activities					
Receivables resulting from:					
Tangible fixed assets		-	239,510	-	239,510
Investment properties		4,057,971	4,944,750	4,057,971	4,944,750
Non-current assets held for sale		22,500,000	2,500,000	22,500,000	2,500,000
Financial assets available for sale		24,470,000	28,916,956	-	-
Investments held to maturity		4,547,673	19,579,730	-	-
Other banking financial assets		139,035,000	136,480,000	-	-
Interest income		583,657	994,839	499,715	858,239
Dividends		-	-	7,348,350	7,930,641
Loans granted		-	-	2,250,000	9,649,364
Payments resulting from:					
Tangible fixed assets		(20,696,380)	(13,347,974)	(16,044,112)	(10,680,428)
Intangible assets		(10,522,634)	(16,165,688)	(4,285,698)	(5,428,345)
Financial investments		(1,728,091)	-	(47,234,500)	(52,726,000)
Financial assets available for sale		(23,933,418)	(35,421,240)	-	-
Investments held to maturity		(167,577,821)	(115,350,055)	-	-
Demand deposits at Bank of Portugal		(28,963,648)	(3,792,333)	-	-
Other banking financial assets		(182,205,000)	(195,180,000)	-	-
Loans granted		-	-	(4,798,000)	(8,024,364)
Cash flow from investing activities (2)		(240,432,691)	(185,601,505)	(35,706,274)	(50,736,632)
Cash flow from financing activities					
Receivables resulting from:					
Loans obtained		9,274,084	8,343,271	-	-
Payments resulting from:					
Loans repaid		(7,646,409)	(5,480,000)	-	-
Interest expenses		(547,800)	(805,675)	(366,178)	(736,893)
Finance leases		(1,027,115)	(988,800)	(724,749)	(463,064)
Acquisition of own shares	27	-	(3,224,411)	-	(3,224,411)
Dividends	28	(72,000,000)	(70,264,792)	(72,000,000)	(70,264,792)
Cash flow from financing activities (3)		(71,947,240)	(72,420,408)	(73,090,927)	(74,689,161)
Net change in cash and cash equivalents (1+2+3)		(21,302,695)	10,195,531	(98,477,389)	(84,474,597)
Changes in the consolidation perimeter		134,862	-	-	-
Cash and equivalents at the beginning of the period		613,845,248	603,649,717	475,068,122	559,542,719
Cash and cash equivalents at the end of the period	23	592,677,416	613,845,248	376,590,733	475,068,122

Cash and cash equivalents at the end of the period	**592,677,416**	**613,845,248**
Sight deposits at Bank of Portugal	32,755,981	3,792,334
Outstanding checks of Banco CTT / Checks clearing of Banco CTT	1,392,000	1,173,518
Cash and cash equivalents (Balance sheet)	**626,825,397**	**618,811,099**

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

CTT – CORREIOS DE PORTUGAL, S.A.

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

TABLE OF CONTENTS

1. INTRODUCTION

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

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

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

On 31 January 2013 the Portuguese State through the Order 2468/12 – SETF, of 28 December, determined the transfer of the investment owned by the Portuguese State in CTT to Parpública – Participações Públicas, SGPS, S.A..

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

During 2013, CTT's capital was opened to the private sector. Supported by Decree-Law no. 129/2013 of 6 September and the Resolution of the Council of Ministers ("RCM") no. 62-A/2013, of October 10, the RCM no. 62-B/2013, of 1 0 October and RCM no. 72-B/2013, of 14 November, the first phase of privatisation of the capital of CTT took place on 5 December 2013. From this date, 63.64% of the shares of CTT (95.5 million shares) were owned by the private sector, of which 14% (21 million shares) were sold in a Public Offering and 49.64% (74.5 million shares) by Institutional Direct Selling. On 31 December 2013 the Portuguese State, through Parpública - Participações Públicas, SGPS, S.A. held 36.36% of the shares of CTT, 30.00% by detention and 6.36% by allocation.

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

The shares of CTT are listed on Euronext Lisbon.

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

These financial statements were approved by the Board of Directors and authorised for issue on 7 March 2018.

1.2- Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of presentation

The consolidated and individual financial statements were prepared under the assumption of going concern and are prepared under the historical cost convention, in accordance with the International Financial Reporting Standards, as adopted by the European Union as at 31 December 2017.

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

In addition to the standards that became effective as of 1 January 2017, described in Note 2.1.1, and which are set out in the accounting policies adopted in the preparation of the consolidated and individual financial statements as at 31 December 2017 and described in Note 2.2 through Note 2.30, there are additional issued standards and interpretations, described in Note 2.1.2, which did not became mandatory in the year starting on 1 January 2017.

2.1.1 New standards or amendments adopted by the Group and the Company

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

- **Amendments to IAS 12 –** On 19 January 2016, and applicable for annual periods beginning on or after 1 January 2017, IASB issued amendments clarifying the requirements on recognition of deferred tax assets for unrealised losses, to address diversity in practice (endorsed by EU Commission Regulation 1989/2017, 6 November).
- **Amendments to IAS 7 Disclosure initiative –** On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2017, IASB issued amendments which require companies to provide information about changes in their financing liabilities in order to provide information that helps the investors to better understand changes in a company's debt (endorsed by EU Commission Regulation 1990/2017, 6th November).
- **Improvements to IFRS (2014-2016) –** The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendment to IFRS 12 (clarification of the scope of the Standard), with effective date for annual periods beginning on or after, 1 July 2018.

The **Group** and the **Company** had no impact from the adoption of these amendments on its financial statements.

2.1.2 New standards, amendments and interpretations issued, but without effective application to the years starting on 1 January 2017 or not early adopted

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

- **IFRS 9 Financial instruments (issued in 2009 and revised in 2010, 2013 and 2014)** – IFRS 9 was endorsed by EU Commission Regulation 2067/2016, 22nd December 2016 (with an effective date of application for periods beginning on or after 1 January 2018).

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces the hedging requirements. IFRS 9 (2014) introduces limited amendments to the classification and measurement requirements of IFRS 9 and new requirements to address the impairment of financial assets.

  New requirements of IFRS 9

  The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains three measurement categories for financial assets: amortised, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL). A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding. If the debt instrument that are SPPI are held under a business model whose objective achieved both by collecting contractual cash flows and by selling, the measurement would be at fair value through other comprehensive income (FVOCI), keeping the revenue form interest presenting in profit or loss.

For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI (FVOCI). Those amounts recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment.

All other financial assets, either the financial assets held under a business model of trading, either other financial instruments who do not comply with SPPI criteria, would be measured at fair value through profit and loss (FVTPL). T

In this situation, includes Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI that would be measured at fair value with changes in fair value recognised in profit or loss (FVTPL).

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety, confirming that exist embedded derivatives, it should be measured at fair value through profit and loss (FVTPL).

The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

IFRS 9 established a new impairment model base on "expected losses" that replace the current "incurred losses" in IAS 39. So, loss event will no longer need to occur before an impairment allowance is recognised. This new model will accelerate recognition of losses form impairment on debt instruments held that are measured at amortised cost or FVOCI.

If the credit risk of financial asset has not increased significantly since its initial recognition, the financial asset will attract a loss allowance equal to 12 month expected credit losses.

If its credit risk has increased significantly, it will attract an allowance equal to lifetime expected credit losses thereby increasing the amount of impairment recognised.

As soon as the loss event occur (what is current define as "objective evidence of impairment"), the impairment allowance would be allocated directly to financial asset affected, which provide the same accounting treatment, from that point, similar to the current IAS 39, including the treatment of interest revenue.

The mandatory effective date of IFRS 9 is 1 January 2018.

Adoption of IFRS 9 by Banco CTT

Classification and measurement

The Bank assessed its financial assets at the date of transition testing its adherence to the business model defined as well as the economic objective intended (SPPI - Solely Payments of Principal and Interest test). The Bank does not expect to have categories reclassification in comparison to the previous standard.

Impairment

The adoption of IFRS 9 represents a significant change on the methodology and calculation of impairments in banks.

Due to the absence of a past records, the Bank will support the calculation based on benchmarking of parameters making the needed adjustments in order to migrate from the vision of loss incurred to the vision of expected credit loss (ECL).

The analysis framework of credit risk is based on a model of individual and collective analysis. In the collective analysis, basically, the Bank will consider that the probability of default (PD) is constant over the instrument's life and apply in stage 2 a methodology of survival rate to calculate a PD of each period of life that it is multiplied for the Loss Given Default (LGD), in turn, it is a function of excepted exposure in each period and the existing collateral in the operation. Finally, the Bank updates the expected value of the all periods considered (12 months in stage 1, life time in stage 2 and 3).

In the individual analysis, the Bank will begin by evaluating the existence of objective evidence of impairment. If it does not exist, the credit losses are treated as stage 1. If there is objective evidence of impairment, the impairment losses are calculated by comparing the present value of expected future cash flows discounted at the original effective interest rate of each contract and the accounting value for each credit. The losses are recorded against profit or loss.

In the portfolio of securities and cash and cash equivalents and financial investments, the impairments are calculated by assigning i) a probability of default that derives from the rating of the issuer or counterparty, and ii) a Loss Given Default (LGD) that results from market parameters.

Impact on transition

The Group estimates that the impact of the transition to IFRS 9 at Banco CTT will be a negative impact on retained earnings by approximately € 650 thousand, net of deferred tax, as a result of the impairment recognised on financial assets on the balance sheet as at 31 December 2017.

The quantification of the impact of the implementation of IFRS 9 on 1 January 2018 is still preliminary and may change considering that the Bank continues to improve and validate the models and framework, being this work, and quantification of the impacts still underway. In addition, new accounting policies, assumptions, judgments and estimation techniques used are subject to changes that may occur until the Bank settles the financial statements for the year 2018.

Adoption of IFRS 9 by the remaining companies of the Group

Classification and measurement
The Group does not expect to have categories reclassification in comparison to the previous standard.

Impairment
Regarding the remaining companies, the Group will apply the simplified method and register expected credit losses until maturity for all account receivables. The expected credit losses were calculated based on past records of credit losses throughout the period considered statically relevant estimating the rate of expected losses by companies and customer typology. The historical losses incurred were adjusted in order to reflect the differences between the expected economic conditions and those of the historical period used.

Regarding the cash and equivalents and financial investments, the impairments are calculated by assigning: i) a probability of default that derives from the rating of the issuer or counterparty, and ii) a Loss Given Default (LGD) that results from market parameters.

Impact on transition
The expected preliminary impact at the remaining companies of the Group, is a decrease of retained earnings approximately by € 500 thousands at 1 January 2018 from the cash and equivalents and financial investments impairments and a decrease up to € 750 thousands from the additional impairment on account receivables. These values are net of deferred tax.

- **IFRS 15 – Revenue from Contracts with Customers** - The IASB, issued on 28 May 2014, IFRS 15 Revenue from Contracts with Costumers. IFRS 15 was endorsed by EU Commission Regulation 1905/2016, 22 September 2016. This standard revokes IAS 11 Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue- Barter Transactions Involving Advertising Services. The effective date of application for periods beginning on or after 1 January 2018.

  The revenue recognition model according to IFRS 15 is based on five steps in order to determine when the revenue should be recognised and the amount:

  (i) Identify the contract with a customer;
  (ii) Identify the performance obligations in the contract;
  (iii) Determine the transaction price;
  (iv) Allocate the transaction price; and
  (v) Recognise revenue.

  According to the new model, the revenue recognition depends on whether the "performance obligations" are satisfied over the period or, on the contrary, the control of the goods or services is transferred to the customer at a given point in time. The revenue should be recognised for the amount that the company expects to receive.

  At the date of the publication of these consolidated and individual financial statements, the Group has already carried out a preliminary measurement of the impacts of the application of IFRS 15, highlighting the following impacts:

  a) Sales of philatelic and pre-paid products

The revenue is currently recognised when the philatelic and pre-paid products are sold. Under IFRS 15, the revenue should be recognised only when the performance obligation is satisfied, i.e., only at the moment of the effective utilisation of the products for mail delivery purposes. However, as some of these products have never been used by the clients, for example the philatelic products for stamps collection, the CTT performed a customer survey in order to obtain information regarding the use pattern of these products and, in this way, the percentage of the products that are not expected to be used. In these situations, the revenue should be recognised at the time of the sale. In the remaining situations, the adoption of the IFRS 15 implies the deferral of the revenue given the current policy.

b) Rendering of postal services

The revenue from the rendering of postal services (mail and parcels) is currently recognised when the customer requests the service in our retail network. According to IFRS 15, the revenue should be recognised only when the performance obligation is satisfied, i.e., only when the mail or parcel is delivered to the final customer. The adoption of the IFRS 15 implies the deferral of the revenue given the current policy.

The presentation and disclosure requirements in IFRS 15 are more detailed and extended implying a higher level of disclosures associated to the revenue recognition given the current procedures, namely, the judgments performed.

The Group decided to adopt IFRS 15 using the cumulative effect method (''modified retrospective approach''), with the effect of the initial application of this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

The estimated preliminary impact of the IFRS 15 adoption, net of deferred taxes, is a decrease on retained earnings at 1 January 2018 between € 500,000 to € 1,000,000.

- **IFRS 16 – Leases** - **IFRS 16 – Leases** - The IASB, issued on 13 January 2016, IFRS 16 Leases, effective (with early application if applied at the same time IFRS 15) for annual periods beginning on or after 1 July 2019. This new standard replaces IAS 17 Leases.

  IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), introducing a single, on-balance sheet lease accounting model for lessees.

  The lessee should recognise all leases on-balance sheet at the beginning of the contract, recognising:

  - A right-of-use (RoU) asset representing its right to use the underlying asset during the contract period;
  - A lease liability representing its obligation to make lease payments until the end of the contract.

  The adoption of IFRS 16 will also imply impacts on income statement considering that the depreciations of RoU and interest will be recognised separately instead of the current recognition of the leases as external supplies and services.

  The lessee may opt for the non application of this standard for:

  - Short-term leases (less than 12 months) which do not contain purchase option;

- o Leases of low-value assets.

At the date of the publication of these consolidated and individual financial statements, the Group has already carried out an inventory of the existing lease contracts that might include right-of-use assets and is currently performing a technical analysis of these contracts considering the new standard IFRS 16. Additionally, the Group is evaluating the impacts of the application of the different transition options and the recognition of the exemptions established in IFRS 16. Therefore, it is not possible to quantify the impacts inherent to the adoption of this standard. The Group decided not to apply the early adoption of IFRS 16 on 1 January 2018.

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

- **IFRS 14 – Regulatory Deferral Accounts** - The IASB issued on 30 January 2014 a standard that defines interim measures for those adopting IFRS for the first time and has activity with regulated tariff. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. This standard is not applicable to the **Group** or **Company**.

- **IFRIC 22 – Foreign Currency Translations and Advance Consideration** - It has been issued on 8 December 2016, IFRIC 22, effective for annual periods beginning on or after 1 January 2018. This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date). The **Group** and **Company** do not expect a significant impact form this interpretation.

- **IFRIC 23 - Uncertainty over Income Tax Treatment** - On June 7, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to appeal a tax examination which resulted in a payment to a taxation authority The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favourable outcome in favour of the entity on the matter concerned. In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method. IFRIC 23 becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The **Group** and **Company** do not expect a significant impact form this interpretation.

- **Other Amendments** – It was also issued by IASB:
  - On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 on Classification and Measurement of Share-based Payment Transactions.
  - On 8 December2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 on Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40.
  - The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value).
  - The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale).

The **Group** and the **Company** expect no impact from the adoption of these amendments on their financial statements.

2.2 Consolidation principles

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

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

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

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

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

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

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

2.3 Segment reporting

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

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

(i) that engages in business activities from which it may earn revenues and incur expenses;

(ii) whose operating results are reviewed regularly by the entity's chief operating decision maker in order to make decisions about resources to be allocated to the segment and assess its performance; and

(iii) for which discrete financial information is available.

2.4 Transactions and balances in foreign currency

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

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

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

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

	2017		2016	
	Close	Average	Close	Average
Mozambican Metical (MZM)	70.57000	71.51167	74.54000	69.82333
United States Dollar (USD)	1.19930	1.13703	1.05430	1.10661
Special Drawing Right (SDR)	1.18747	1.19554	1.27534	1.25621

Source: Bank of Portugal

2.5 Tangible fixed assets

Tangible fixed assets are recorded at their acquisition or production cost, minus accumulated depreciation and impairment losses, where applicable. The acquisition cost includes: (i) the purchase price of the asset, (ii) the expenses directly attributable to the purchase, and (iii) the estimated costs of dismantlement or removal of the asset and restoration of the location (Notes 2.20 and 33).

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

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

Land is not depreciated.

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

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

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

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

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

2.6 Intangible assets

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

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

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

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

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

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

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

2.7 Investment properties

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

a) use in the production or supply of goods or services or for administrative purposes, or

b) sale in the ordinary course of business.

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

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

The depreciation rates are between 10 and 50 years.

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

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

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

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

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

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

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

2.9 Goodwill

Goodwill represents the excess of the acquisition cost compared with the fair value of the identifiable assets, liabilities and contingent liabilities of each entity that is acquired and included by the full consolidation method, or subsidiary, on the respective acquisition date, in accordance with IFRS 3 (Revised) – Business Combinations. Under the exception provided by IFRS 1 – First-time Adoption of the International Financial Reporting Standards, the **Group** has applied the provisions of

IFRS 3 only for the acquisitions made after 1 January 2009. The amounts of the goodwill corresponding to acquisitions before 1 January 2009 were kept at the net amounts presented on that date and, since this date, have been subject to impairment tests on an annual basis.

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

Impairment losses are not reversible.

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

2.10 Concentration of corporate activities

Subsidiary and Associated companies

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

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

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

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

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

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

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

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

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

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

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

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

2.11 Financial assets

2.11.1 Classification

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

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

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

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

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

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

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

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

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

2.11.2 Recognition and measurement

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

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

2.12 Equity

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

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

2.13 Financial liabilities

Debt

Loans are recorded as liabilities at the carrying value received, net of issuance expenses, corresponding to the respective fair value on that date. They are subsequently measured at amortised cost, with the corresponding financial costs calculated based on the effective interest rate and stated through the income statement according to the accrual basis assumption, with the due and unpaid amounts as at the reporting date being classified under the item of Accounts payable (Note 34).

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

Accounts payable

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

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

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

2.14 Offsetting financial instruments

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

2.15 Impairment of financial assets

Assets carried at amortised cost

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

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

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

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

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

2.16 Inventories

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

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

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

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

2.17 Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

2.18 Distribution of dividends

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

2.19 Employee benefits

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

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

Post-employment benefits – healthcare

- IOS Plan

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

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

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

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

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

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

- Insurance policy

Following the Human Resources Optimization Programme, initiated in 2016, the Company assured the workers, as part of the incentive package, the maintenance of a Healthcare Plan through a health insurance with identical coverage and co-payments, as laid down in the Regulation of the Social Works (ROS), in accordance with the following criteria:

- Workers aged 50 and over: maintenance of healthcare benefits for themselves and their family members enrolled according to ROS, through a health insurance policy, with payment of quotas in the same amount as they were paying (2.25% of their income), or higher if the future payments (if they will exist) will be higher, with mandatory delivery of income proof;
- Workers under the age of 50: maintenance of healthcare benefits according to ROS, through a health insurance policy, for a period of two years, exempt from the payment of the quota, after which they will not benefit from any healthcare solution supported by the Company.

At present, the management of this plan is carried out by Médis - Companhia Portuguesa de Seguros de Saúde, S.A..

Post-employment benefits – Pension Plan

The company Transporta - Transportes Porta a Porta, S.A. pays to a closed group of employees in retirement situation, a supplementary retirement pension over the amounts paid by the Social Security.

At each reporting date, the Company maintains a liability based on an actuarial study prepared by a specialised and independent entity that quantifies the liabilities for the payment of supplementary pensions to employees of the company at the time it was acquired from the Portuguese State.

The present value of the defined benefit obligation and the cost of current services and past services are measured using the projected unit credit method.

As at 31 December 2017, there were 20 beneficiaries receiving this type of Complementary Pension Benefit.

Other long-term benefits

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

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

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

- **Telephone subscription fee**

CTT has assumed the obligation of the life-long payment, to a closed group of retired workers and surviving spouses (4,482 beneficiaries as at 31 December 2017 and 4,724 beneficiaries as at 31 December 2016), of the telephone rental charges, to a monthly amount of 15.30 Euros. During the year ended 31 December 2013, the Board of Directors of CTT, decided to modify the economic benefit. Thus, from 1 January, 2014, the cash payment was replaced by a benefit in kind.

- **Pensions for work accidents**

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

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

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

As at 31 December 2017 and 31 December 2016 there were 67 and 67 beneficiaries, respectively, receiving this type of pension.

- **Monthly life annuity**

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

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

As at 31 December 2017 there were 46 beneficiaries under these conditions (44 beneficiaries as at 31 December 2016), receiving a monthly amount of 176.76 Euros, 12 months a year. This amount is updated by an Implementing Order of the Ministry of Finance and the Ministry of Labour and Social Security.

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

Following the remuneration model of the Statutory Bodies defined by the Remuneration Committee, a fixed monthly amount was determined to be allocated to an Open Pension Fund or Retirement Savings Plan to be attributed to the executive members of the Board of Directors.

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

2.20 Share-based payments

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

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

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

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

When settlement is made in cash, the value of these liabilities is determined at the time of assignment and subsequently updated, at the end of each reporting period, depending on the number of shares or stock options assigned and their fair value at the date of reporting. The liability is recorded in "Staff costs" and "Other liabilities", in a linear manner between the date of attribution and the maturity date, in proportion to the time elapsed between those dates.

2.21 Provisions and contingent liabilities

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

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

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

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

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

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

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

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

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

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

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

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

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

of resources which incorporates economic benefits will be necessary to settle the obligation, or the value of the obligation cannot be measured with sufficient reliability. Contingent liabilities are disclosed unless the possibility of an outflow of resources is remote.

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

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

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

The Company does not recognise contingent assets and liabilities.

2.22 Revenue

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

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

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

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

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

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

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

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

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

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

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

2.23 Subsidies obtained

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

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

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

2.24 Leases

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

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

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

2.25 Borrowing costs

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

2.26 Taxes

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

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

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

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

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

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

Value Added Tax ("VAT")
For purposes of VAT, the Company follows the normal monthly regime, in accordance with the provisions of paragraph a) of no. 1 of article 41 of the Portuguese VAT Code, having various exempted operations in its activity that fall under the provisions of article 9 of the Portuguese VAT Code, as well as to other non-exempted operations which are subject to VAT, and for this reason, using the effective allocation method and the pro rata method. In a similar situation is also Banco CTT, which due to the nature of its operations practiced, essentially financial operations, also uses the pro rata method for VAT purposes. The other Group companies, with fiscal residence in Portugal, also follow the normal monthly regime, in accordance with the provisions of paragraph a) of no. 1 of article 41 of the Portuguese VAT Code, performing mostly non-exempted operations, thus being subject to VAT.

2.27 Accrual basis

Revenues and costs are recorded according to the accrual basis, and therefore, are recognised as they are generated, regardless of the time they are received or paid. Differences between the revenues and costs generated and the corresponding amounts invoiced are recorded in "Other current assets" or in "Other current liabilities". Deferred revenues and costs paid in advance are recorded under the heading Deferrals, under liabilities and assets, respectively.

2.28 Judgements and estimates

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

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

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

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

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

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

(v) Employee benefits
The determination of the liabilities related to the payment of post-employment benefits, namely with healthcare plans, requires the use of assumptions and estimates, including the use of actuarial projections, discount rates and other factors that could have an impact on the costs and liabilities associated to these benefits. Any changes in the assumptions used, which are described in Note 32, will have an impact in the carrying amount of the employees' benefits. CTT has a policy of periodically reviewing the major actuarial assumptions.

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

2.29 Cash Flow Statement

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

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

2.30 Subsequent events

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

3. CHANGES TO ACCOUNTING POLICIES, ERRORS AND ESTIMATES

In the year ended 31 December 2017 there were no accounting policy changes and no material errors were recognised related to estimates made in preparing the financial statements of prior years.

The underlying estimates and assumptions were determined based on the best knowledge of the on-going events and transactions, at the time the financial statements were approved, as well as on the experience of past and/or current events. However, situations might occur in subsequent periods which, due to not having been predictable on the date of approval of the financial statements, were not considered in these estimates. Changes to estimates which occur after the date of the financial statements will be corrected prospectively. For this reason and in view of the associated degree of uncertainty, the real outcome of the transactions in question might differ from their corresponding estimates.

4. SEGMENT REPORTING

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

The Board of Directors regularly reviews segmental reports, using 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 the retail network, the sales department, the corporate and support areas, CTT Contacto, Mailtec Comunicação and Escrita Inteligente;
- Express & Parcels – includes CTT Expresso, Tourline, CORRE and Transporta;
- 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 the 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 2017 and 2016 financial years are as follows:

2017

Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	527,494,738	134,596,177	61,799,767	7,614,948	108,968,040	(126,195,864)	-	714,277,808
Sales and services rendered	485,704,806	132,573,459	60,698,101	-	-	(2,968,844)	-	676,007,522
Sales	18,526,222	862,783	-	-	-	(3,141)	-	19,385,864
Services rendered	467,178,584	131,710,676	60,698,101	-	-	(2,965,703)	-	656,621,658
Financial Margin	-	-	-	3,389,566	-	-	-	3,389,566
Operating revenues external customers	26,124,670	2,022,718	1,018,498	4,225,383	30,798,378	(29,308,927)	-	34,880,720
Internal services rendered	15,665,262	-	83,168	-	40,171,746	(55,920,176)	-	-
Allocation to CTT central structure	-	-	-	-	37,997,916	(37,997,916)	-	-
Operating costs	452,094,069	135,098,517	31,381,857	31,792,822	108,968,040	(126,195,864)	-	633,139,442
External supplies and services	102,627,079	109,613,731	9,134,789	18,423,382	43,866,077	(32,183,365)	-	251,481,693
Staff costs	256,616,143	23,128,602	3,991,741	12,194,947	58,900,759	(92,373)	-	354,739,819
Other costs	16,433,849	2,356,184	1,708,837	1,174,493	5,246,600	(2,033)	-	26,917,930
Internal services rendered	38,634,272	-	16,331,300	-	954,604	(55,920,176)	-	-
Allocation to CTT central structure	37,782,727	-	215,189	-	-	(37,997,916)	-	-
EBITDA [1]	**75,400,669**	**(502,340)**	**30,417,910**	**(24,177,873)**	**-**	**-**	**-**	**81,138,366**
Depreciation/amortisation and impairment of investments, net	(15,600,860)	(4,025,992)	(883,255)	(2,701,505)	(7,539,378)	-	80,539	(30,670,452)
Impairment of accounts receivable, net								(1,098,235)
Impairment of non-depreciable assets	(1,133,312)							(1,133,312)
Impairment of other financial banking assets								(117,234)
Provisions net	(1,729,651)						703,771	(1,025,880)
Interest expenses								(5,381,464)
Interest income								380,925
Gains/losses in associated companies								-
Earnings before taxes								**42,092,714**
Income tax for the period								(14,977,391)
Net profit for the period								**27,115,323**
Non-controlling interests								(147,921)
Equity holders of parent company								**27,263,244**

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

2016

Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	533,586,673	120,809,947	70,760,726	961,734	108,910,984	(138,208,500)	-	696,821,564
Sales and services rendered	490,837,845	115,956,403	65,944,099	-	11,030	(3,080,807)	-	669,668,571
Sales	19,247,627	837,524	-	-	-	(2,893)	-	20,082,259
Services rendered	471,590,218	115,118,878	65,944,099	-	11,030	(3,077,914)	-	649,586,312
Financial Margin	-	-	-	26,051	-	-	-	26,051
Operating revenues external customers	26,390,268	4,853,544	4,733,667	935,682	17,651,463	(27,437,682)	-	27,126,942
Internal services rendered	16,358,560	-	82,960	-	40,060,406	(56,501,927)	-	-
Allocation to CTT central structure	-	-	-	-	51,188,085	(51,188,085)	-	-
Operating costs	448,411,842	116,302,249	32,948,637	26,403,442	108,910,984	(138,208,500)	-	594,768,654
External supplies and services	100,938,902	92,749,459	9,830,286	16,439,019	42,561,221	(30,481,823)	-	232,037,064
Staff costs	242,375,793	21,363,008	4,601,590	9,626,317	60,420,774	-	-	338,387,481
Other costs	15,673,374	2,189,782	1,365,657	338,106	4,813,856	(36,666)	-	24,344,109
Internal services rendered	38,588,353	-	16,798,440	-	1,115,133	(56,501,927)	-	-
Allocation to CTT central structure	50,835,421	-	352,664	-	-	(51,188,085)	-	-
EBITDA [1]	**85,174,831**	**4,507,698**	**37,812,090**	**(25,441,708)**	**-**	**-**	**-**	**102,052,910**
Depreciation/amortisation and impairment of investments, net	(15,698,721)	(2,736,099)	(354,204)	(1,541,550)	(6,683,109)	-	(454,412)	(27,468,094)
Impairment of accounts receivable, net								(45,623)
Impairment of non-depreciable assets								-
Provisions net								16,343,680
Interest expenses								(6,540,106)
Interest income								671,599
Gains/losses in associated companies								230,340
Earnings before taxes								**85,244,706**
Income tax for the period								(23,347,639)
Net profit for the period								**61,897,067**
Non-controlling interests								(263,328)
Equity holders of parent company								**62,160,395**

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

The revenues are detailed as follows:

Thousand Euros	2017	2016
Mail	527,495	533,587
Transactional mail	401,867	403,684
Editorial mail	15,514	15,952
Parcels (USO)	7,693	6,608
Advertising mail	28,365	29,596
Retail	12,079	17,758
Philately	8,350	7,480
Business Solutions	8,811	9,960
Other	44,816	42,549
Express & Parcels	134,596	120,810
Financial Services	61,800	70,761
Banco CTT	7,615	962
CTT Central Structure	109,968	108,911
Intragroup eliminations	(127,196)	(138,208)
	714,278	**696,822**

The assets by segment are detailed as follows:

	31.12.2017						
Assets (Euros)	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
Intagible assets	3,104,896	5,005,423	630,934	20,999,811	7,631,667	10,128,953	47,501,684
Tangible fixed assets	165,561,819	14,477,996	2,624,504	193,349	15,141,231	1,857,009	199,855,908
Investment properties						6,164,849	6,164,849
Goodwill	6,161,326	2,955,753	406,101				9,523,180
Deferred tax assets						87,155,739	87,155,739
Accounts receivable						132,480,130	132,480,130
Credit to bank clients				79,347,390			79,347,390
Investments held to maturity				261,549,132			261,549,132
Financial assets available for sale				5,751,374			5,751,374
Other banking financial assets				103,248,206			103,248,206
Other assets						49,362,404	49,362,404
Cash and cash equivalents						626,825,397	626,825,397
Non-current assets held for sale						-	-
	174,828,041	**22,439,172**	**3,661,539**	**471,089,262**	**22,772,898**	**913,974,481**	**1,608,765,392**

Assets (Euros)	31.12.2016 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	Total
Intagible 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)	31.12.2017 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	Total
Medium and long-term debt	**-**	**73,689**	**-**	**-**	**-**	**73,689**
Bank loans	-	49,596	-	-	-	49,596
Leasings	-	24,093	-	-	-	24,093
Short-term debt	**-**	**10,304,390**	**-**	**-**	**-**	**10,304,390**
Bank loans	-	10,272,258	-	-	-	10,272,258
Leasings	-	32,132	-	-	-	32,132
	-	**10,378,079**	**-**	**-**	**-**	**10,378,079**

Other information (Euros)	31.12.2016 Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	Total
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	2017	2016
Revenue - Portugal	586,669	594,380
Revenue - other countries	89,339	75,289
	676,008	669,669

5. TANGIBLE FIXED ASSETS

During the years ended 31 December 2017 and 31 December 2016, the movements occurred in Tangible fixed assets, as well as the respective accumulated depreciation, regarding the **Group** were as follows:

Group	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	Total
Tangible fixed assets									
Opening balance	36,903,717	334,909,767	140,435,199	3,269,073	59,021,936	25,037,425	5,016,467	3,351,405	607,944,990
Acquisitions	-	300,889	5,013,385	81,568	2,087,373	741,212	2,277,480	475,458	10,977,364
Disposals	-	(8,315)	(1,125,067)	-	(40,687)	(137)	-	-	(1,174,206)
Transfers and write-offs	1,396	6,396,121	1,673,849	-	750,365	(867,944)	(5,793,379)	(3,425,208)	(1,264,800)
Adjustments	-	(44,923)	(61,259)	(247)	(61,727)	(21,887)	-	(10,547)	(200,588)
Changes in the consolidation perimeter	197,025	1,102,206	731,285	30,889	417,295	1,151,444	-	-	3,630,144
Closing balance	37,102,139	342,655,745	146,667,392	3,381,283	62,174,555	26,040,114	1,500,567	391,109	619,912,904
Accumulated depreciation									
Opening balance	3,851,494	197,359,750	121,934,623	3,208,997	52,255,805	20,239,484	-	-	398,850,154
Depreciation for the period	-	9,924,796	7,139,729	34,044	3,426,663	1,113,660	-	-	21,638,891
Disposals	-	(7,026)	(1,096,952)	-	(40,236)	(137)	-	-	(1,144,351)
Transfers and write-offs	-	(39,113)	(158,051)	-	(145,697)	(712,315)	-	-	(1,055,176)
Adjustments	-	274	15,044	(404)	1,082	(6)	-	-	15,989
Changes in the consolidation perimeter	-	422,804	459,736	28,437	218,784	572,388	-	-	1,702,149
Closing balance	3,851,494	207,661,484	128,294,129	3,271,073	55,716,402	21,213,074	-	-	420,007,656
Accumulated impairment									
Opening balance	-	-	-	-	-	173,055	-	-	173,055
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	49,340	-	-	49,340
Net Tangible fixed assets	33,250,644	134,994,262	18,373,263	110,210	6,458,153	4,777,700	1,500,567	391,109	199,855,908

Group	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	1,971,616	1,398,408	598,148,034
Acquisitions	-	313,458	6,625,240	9,719	4,156,018	1,937,614	8,381,884	2,888,955	24,312,888
Disposals	(526,637)	(3,885,980)	(1,503,859)	-	(52,919)	-	-	-	(5,969,395)
Transfers and write-offs	123,778	675,516	(2,289,200)	(8,174)	51,751	(115,897)	(5,337,034)	(812,692)	(7,711,951)
Adjustments	-	(175,240)	(399,323)	(5,800)	(94,314)	(36,644)	-	(123,265)	(834,586)
Closing balance	36,903,717	334,909,766	140,435,200	3,269,073	59,021,936	25,037,425	5,016,467	3,351,405	607,944,989
Accumulated depreciation									
Opening balance	3,888,322	192,743,987	118,629,681	3,154,422	50,187,217	19,306,751	-	-	387,910,380
Depreciation for the period	-	9,180,124	7,410,835	66,457	2,621,487	1,111,546	-	-	20,390,450
Disposals	(36,827)	(2,390,937)	(1,481,994)	-	(52,919)	-	-	-	(3,962,677)
Transfers and write-offs	-	(2,172,820)	(2,533,931)	(8,174)	(487,515)	(173,533)	-	-	(5,375,973)
Adjustments	-	(604)	(89,968)	(3,709)	(12,465)	(5,280)	-	-	(112,027)
Closing balance	3,851,494	197,359,750	121,934,624	3,208,997	52,255,806	20,239,485	-	-	398,850,154
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	173,055	-	-	173,055
Net Tangible fixed assets	33,052,223	137,550,016	18,500,576	60,077	6,766,130	4,624,886	5,016,467	3,351,405	208,921,781

The depreciation recorded in the **Group** amounting to 21,638,891 Euros (20,390,450 Euros on 31 December 2016), is booked under the heading Depreciation/amortisation and impairment of investments, net (Note 47).

In the year ended 31 December 2017, the caption Changes in the consolidation perimeter in the **Group**, relates to the balances of the company Transporta – Transportes Porta a Porta, S.A. acquired in May 2017.

During the years ended 31 December 2017 and 31 December 2016, the movements occurred in Tangible fixed assets, as well as the respective accumulated depreciation, regarding the **Company** were as follows:

Company	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	Total
Tangible fixed assets									
Opening balance	35,086,846	319,344,985	109,195,010	2,479,246	51,783,751	23,411,104	5,016,467	2,494,530	548,811,940
Acquisitions	-	-	3,581,466	-	1,495,182	683,237	2,125,790	311,022	8,239,849
Disposals	-	-	(1,036,167)	-	(33,169)	-	-	-	(1,069,336)
Transfers and write-offs	1,396	6,358,159	(66,657)	-	1,039,168	365,278	(5,650,311)	(2,404,833)	(400,952)
Adjustments	-	(45,589)	(84,268)	-	(63,633)	(23,117)	-	(10,570)	(227,177)
Closing balance	35,088,242	325,657,556	111,589,384	2,479,246	54,221,300	24,436,503	1,491,945	390,149	555,354,325
Accumulated depreciation									
Opening balance	3,851,494	188,661,587	96,165,800	2,431,726	45,977,885	18,683,626	-	-	355,772,119
Depreciation for the period	-	9,407,384	4,347,471	27,397	2,714,981	1,059,192	-	-	17,556,425
Disposals	-	-	(1,030,230)	-	(32,717)	-	-	-	(1,062,947)
Transfers and write-offs	-	-	(357,986)	-	-	-	-	-	(357,986)
Closing balance	3,851,494	198,068,971	99,125,056	2,459,124	48,660,149	19,742,818	-	-	371,907,612
Accumulated impairment									
Opening balance	-	-	-	-	-	173,055	-	-	173,055
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	49,340	-	-	49,340
Net Tangible fixed assets	31,236,748	127,588,585	12,464,328	20,123	5,561,151	4,644,344	1,491,945	390,149	183,397,373

Company	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	35,489,705	322,733,582	107,351,937	2,479,246	48,312,318	21,472,842	1,971,617	1,398,407	541,209,656
Acquisitions	-	-	5,552,134	-	3,444,701	1,918,240	8,376,038	2,032,080	21,323,193
Disposals	(526,637)	(3,885,980)	(1,492,276)	-	-	-	-	-	(5,904,894)
Transfers and write-offs	123,778	669,671	(2,070,172)	-	94,512	40,006	(5,331,188)	(812,692)	(7,286,085)
Adjustments	-	(172,289)	(146,612)	-	(67,780)	(19,984)	-	(123,265)	(529,930)
Closing balance	35,086,846	319,344,985	109,195,010	2,479,246	51,783,751	23,411,104	5,016,467	2,494,530	548,811,940
Accumulated depreciation									
Opening balance	3,888,321	184,477,527	94,533,371	2,369,138	44,176,849	17,624,015	-	-	347,069,221
Depreciation for the period	-	8,747,815	5,417,745	62,589	2,246,253	1,076,778	-	-	17,551,180
Disposals	(36,827)	(2,390,937)	(1,470,411)	-	-	-	-	-	(3,898,175)
Transfers and write-offs	-	(2,172,819)	(2,314,904)	-	(445,217)	(17,167)	-	-	(4,950,106)
Closing balance	3,851,494	188,661,587	96,165,800	2,431,726	45,977,885	18,683,626	-	-	355,772,119
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(123,714)	-	-	(123,714)
Closing balance	-	-	-	-	-	173,055	-	-	173,055
Net Tangible fixed assets	31,235,351	130,683,399	13,029,209	47,520	5,805,866	4,554,423	5,016,467	2,494,530	192,866,766

The depreciation recorded in the **Company** amounting to 17,556,425 Euros (17,551,180 Euros on 31 December 2016), is booked under the heading Depreciation/amortisation and impairment of investments, net (Note 47).

In the **Group** and the **Company**, as at 31 December 2017, Land and natural resources and Buildings and other constructions include 625,996 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 land and property in co-ownership with MEO – Serviços de Comunicações e Multimédia, S.A. was performed and were accounted gains in the amount of 485,134 Euros.

According to the concession contract in force, after the latest amendments of 31 December 2013 (Note 1) at the end of the concession, the assets included in the public and private domain of the State revert automatically, at no cost, to the conceding entity. As the postal network belongs exclusively to CTT, not being a public domain asset, only the assets that belong to the State revert to it, and as such, at the end of the concession CTT will continue to own its assets. The Board of Directors, supported on CTT's accounting records and the statement of Directorate General of Treasury and Finance ("Direção Geral do Tesouro e Finanças"), the entity responsible for the Information System of Public Buildings ("Sistema de Informação de Imóveis do Estado" – SIIE) believes that CTT's assets do not include any public or private domain assets of the Portuguese State.

During the year ended 31 December 2017, the most significant movements in Tangible Fixed Assets were the following:

Buildings and other constructions:

The movements associated to additions and transfers relate to the capitalisation of repairs in own and third-party buildings of CTT, CTT Expresso and Tourline.

Basic equipment:

The amount of acquisitions mainly relates to the purchase of motorcycles, tricycles and quadricycles in the amount of 647 thousand Euros, vans and trucks worth approximately 1,242 thousand Euros, tractors and trailers in the amount of 116 thousand Euros, pallet trucks for 26 thousand Euros, ATMs amounting to 184 thousand Euros, IT equipment worth 942 thousand Euros, pallets for Rest Mail in the amount of 97 thousand Euros and upgrades to mail sorting machines in the amount of 131 thousand Euros by CTT. CTT Expresso recognised the upgrade of parcel sorting machines worth about 634 thousand Euros, vans and trucks worth approximately 213 thousand Euros and the purchase of pallet trucks for 47 thousand Euro. Payshop acquired 605 payment terminals in the amount of 162 thousand Euros. Tourline acquired pallets in the amount of 34 thousand Euros, IT equipment worth approximately 59 thousand Euros and PDAs amounting to 355 thousand Euros.

Office equipment:
The amount of acquisitions relates essentially to the purchase of safes and security doors totalling 80 thousand Euros, various office equipment worth about 71 thousand Euros, medium and large size equipment for about 460 thousand Euros and the acquisition of several micro-computing equipment for approximately 721 thousand Euros by CTT. Banco CTT acquired several office and IT equipment in the amount of 299 thousand Euros. CTT Expresso acquired medium and large size equipment for about 99 thousand Euros and several micro-computing equipment for approximately 76 thousand Euros. In addition, Tourline acquired office furniture worth 23 thousand Euros and several micro-computing equipment for approximately 21 thousand Euros.

Other tangible fixed assets:
The amount of acquisitions relates essentially to the acquisition by the **Company** of prevention and safety equipment in the amount of 342 thousand Euros.

Tangible fixed assets in progress:
The amounts under this heading are related to costs of improvements in own and third-party property.

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

In the **Group** and in the **Company**, as at 31 December 2016, the amount recorded under transfers of Land and natural resources and Buildings and other constructions include the total amount, net of depreciations, of 2,344,233 Euros regarding the transfer of real estate to non-current assets held for sale (Note 22).

The **Group** and the **Company** contractual commitments, related to Tangible fixed assets, are as follows:

	Group	Company
Hardware communications and SD-WAN	1,013,300	1,013,300
Hardware firewall networks	280,353	280,353
Safes and security doors	83,318	83,318
CCTV	57,152	57,152
Postal furniture	41,326	5,041
Solar panels	15,461	15,461
Upgrades to mail sorting machines	8,540	8,540
	1,499,450	1,463,165

6. INTANGIBLE ASSETS

During the years ended 31 December 2017 and 31 December 2016, the movements which occurred in the main categories of the **Group** Intangible assets, as well as the respective accumulated amortisation, were as follows:

Group	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	-	2,776,195	1,569,908	-	13,167,265	17,513,369
Transfers and write-offs	-	7,727,299	(16,833)	-	(8,802,367)	(1,091,901)
Adjustments	-	-	21,516	-	-	21,516
Changes in the consolidation perimeter	7,629	-	-	-	19,281	26,910
Closing balance	4,380,552	80,235,963	13,297,151	444,739	13,254,456	111,612,861
Accumulated amortisation						
Opening balance	4,360,060	43,021,166	8,400,280	444,739	-	56,226,245
Amortisation for the period	10,495	8,740,207	361,397	-	-	9,112,100
Transfers and write-offs	-	(1,218,272)	(16,834)	-	-	(1,235,106)
Adjustments	-	(454)	7,713	-	-	7,259
Changes in the consolidation perimeter	679	-	-	-	-	679
Closing balance	4,371,234	50,542,647	8,752,556	444,739	-	64,111,177
Net intangible assets	9,318	29,693,316	4,544,595	-	13,254,456	47,501,684

Group	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	4,372,923	69,732,469	11,722,559	444,739	8,870,277	95,142,968
Accumulated amortisation						
Opening balance	4,350,412	36,912,898	8,120,329	444,739	-	49,828,379
Amortisation for the period	9,647	6,277,006	336,578	-	-	6,623,231
Disposals	-	(15,490)	-	-	-	(15,490)
Transfers and write-offs	-	(150,959)	(454)	-	-	(151,413)
Adjustments	-	(2,289)	(56,173)	-	-	(58,463)
Closing balance	4,360,060	43,021,166	8,400,280	444,739	-	56,226,245
Net intangible assets	12,863	26,711,303	3,322,280	-	8,870,277	38,916,723

The amortisation in the **Group** for the year ended 31 December 2017, amounting to 9,112,100 Euros (6,623,231 Euros as at 31 December 2016) was recorded under Depreciation / amortisation and impairment of investments, net (Note 47).

In the year ended 31 December 2017, the caption Changes in the consolidation perimeter in the **Group**, relates to the balances of the company Transporta as at the acquisition date.

During the years ended 31 December 2017 and 31 December 2016, the movements which occurred in the main categories of the **Company** Intangible assets, as well as the respective accumulated amortisation, were as follows:

Company	2017 Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	3,717,326	41,477,392	3,585,840	-	5,546,126	54,326,686
Acquisitions	-	37,315	1,557,100	-	9,051,417	10,645,832
Transfers and write-offs	-	2,797,117	(16,833)	-	(4,468,590)	(1,688,305)
Closing balance	3,717,326	44,311,825	5,126,108	-	10,128,953	63,284,212
Accumulated amortisation						
Opening balance	3,704,463	32,768,108	3,050,370	-	-	39,522,942
Amortisation for the period	9,647	5,583,543	66,867	-	-	5,660,057
Transfers and write-offs	-	(1,671,286)	(16,833)	-	-	(1,688,119)
Closing balance	3,714,111	36,680,365	3,100,404	-	-	43,494,880
Net intangible assets	3,216	7,631,460	2,025,704	-	10,128,953	19,789,332

Company	2016 Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	3,717,326	38,719,172	3,566,374	-	2,009,357	48,012,229
Acquisitions	-	679,023	17,573	-	5,664,626	6,361,222
Transfers and write-offs	-	2,094,837	1,893	-	(2,127,856)	(31,126)
Adjustments	-	(15,640)	-	-	-	(15,640)
Closing balance	3,717,326	41,477,392	3,585,840	-	5,546,126	54,326,686
Accumulated amortisation						
Opening balance	3,694,816	28,347,075	3,009,661	-	-	35,051,552
Amortisation for the period	9,647	4,423,323	40,604	-	-	4,473,575
Adjustments	-	(2,289)	105	-	-	(2,184)
Closing balance	3,704,463	32,768,108	3,050,370	-	-	39,522,942
Net intangible assets	12,863	8,709,284	535,470	-	5,546,126	14,803,744

The amortisation in the **Company**, for the year ended 31 December 2017, amounting to 5,660,057 Euros (4,473,575 Euros as at 31 December 2016) was recorded under Depreciation / amortisation and impairment of investments, net (Note 47).

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

The transfers occurred in the year ended 31 December 2017 from Intangible assets in progress to Computer software refer to IT projects, which were completed during the year.

The amounts of 797,116 Euros and 798,888 Euros were capitalised in computer software or in intangible assets in progress as at 31 December 2017 and 31 December 2016, respectively, related to **Company** staff costs incurred in the development of these projects.

During the year ended 31 December 2017, the most significant movements of the **Group** companies in Intangible assets were the following:

Computer software:
The amount of acquisitions relate essentially to the purchase of software "OPCIS" in the amount of 96 thousand Euros, the acquisition of "SAP Licenças Crystal" for 135 thousand Euros and upgrades to "CBS – Core Banking System" in the amount of 2,007 thousand Euros by Banco CTT.

Industrial property:
The acquisitions under this heading relate essentially to the purchase of licenses "Service Desk Management" licenses in the amount of 453 thousand Euros, the acquisition of "Oracle CMR" licenses for 302 thousand Euros, "SingDoc" licences in the amount of 246 thousand Euros, "HP Data Protector" licences in the amount of 63 thousand Euros and "BigData" licenses in the amount of 263 thousand Euros by the **Company**.

As at 31 December 2017 the **Group** and the **Company** Intangible assets in progress, relate to IT projects which are under development, of which the most relevant are:

	Group	Company
SAP Hana & Hybris Billing	2,846,202	2,846,202
Management information - Software	901,204	901,204
NAVE evolution	736,189	736,189
BD SQL Server consolidation	622,975	622,975
Aplica Legacy adaptations	617,767	617,767
Mail products evolution	586,899	586,899
Mortgage loans - software	491,317	-
RAID - Software	453,856	453,856
X86 - Servers, storage e backup	342,239	342,239
Business Excellence - Software	292,317	292,317
CRM - Software	287,602	287,602
Security Identity Governance and Intelligence	230,791	-
FATCA/CRS	170,291	-
SAP developments	144,997	144,997
SADIP - Dynamics Change Plans	141,983	141,983
APARTADOS - Software	136,220	136,220
DOL - Treatment and generation of schedules	98,836	98,836
	9,101,687	8,209,288

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

Contractual commitments relative to the **Group** and the **Company** Intangible assets are as follows:

	Group	Company
CBS - Core Banking System	3,073,959	-
SAP S/4 Hana e SAP Hybris	1,519,633	1,519,633
SIG Postal	436,709	436,709
UAT Projects	161,760	-
Software servers	143,910	143,910
APP Mobile CTT 2.0	61,500	61,500
Worflow Solution	25,943	-
App Receipts Online	22,140	22,140
APP Mobility Android	20,295	20,295
Intranet Banco CTT	16,758	-
CRM - Microsoft Dynamics	12,413	-
Hybrid Mail	3,690	3,690
	5,498,710	2,207,877

7. INVESTMENT PROPERTIES

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** have the following assets classified as investment properties:

	2017							
	Group				Company			
	Land and natural resources	Buildings and other constructions	Investment properties in progress	Total	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	3,921,049	18,372,780	-	22,293,828
Additions	-	-	43,152	43,152	-	-	43,152	43,152
Disposals	(1,038,572)	(6,591,606)	-	(7,630,178)	(1,038,572)	(6,591,606)	-	(7,630,178)
Transfers and write-offs	-	43,152	(43,152)	-	-	43,152	(43,152)	-
Closing balance	2,882,477	11,824,326	-	14,706,803	2,882,477	11,824,326	-	14,706,803
Accumulated depreciation								
Opening balance	210,097	11,500,249	-	11,710,347	210,097	11,500,249	-	11,710,347
Depreciation for the period	-	242,117	-	242,117	-	242,117	-	242,117
Disposals	(43,557)	(4,459,510)	-	(4,503,066)	(43,557)	(4,459,510)	-	(4,503,066)
Closing balance	166,541	7,282,857	-	7,449,397	166,541	7,282,857	-	7,449,397
Accumulated impairment								
Opening balance	-	1,291,498	-	1,291,498	-	1,291,498	-	1,291,498
Transfers/Adjustments	-	(198,942)	-	(198,942)	-	(198,942)	-	(198,942)
Closing balance	-	1,092,556	-	1,092,556	-	1,092,556	-	1,092,556
Net Investment properties	2,715,936	3,448,913	-	6,164,849	2,715,936	3,448,913	-	6,164,849

	2016					
	Group			Company		
	Land and natural resources	Buildings and other constructions	Total	Land and natural resources	Buildings and other constructions	Total
Investment properties						
Opening balance	7,079,433	40,895,219	47,974,653	7,079,433	40,895,219	47,974,653
Disposals	(890,140)	(8,088,615)	(8,978,754)	(890,140)	(8,088,615)	(8,978,754)
Transfers and write-offs	(2,268,245)	(14,433,825)	(16,702,070)	(2,268,245)	(14,433,825)	(16,702,070)
Closing balance	3,921,049	18,372,780	22,293,828	3,921,049	18,372,780	22,293,828
Accumulated depreciation						
Opening balance	239,427	26,669,509	26,908,936	239,427	26,669,509	26,908,936
Depreciation for the period	-	569,250	569,250	-	569,250	569,250
Disposals	(25,824)	(5,432,025)	(5,457,848)	(25,824)	(5,432,025)	(5,457,848)
Transfers and write-offs	(3,506)	(10,306,485)	(10,309,991)	(3,506)	(10,306,485)	(10,309,991)
Closing balance	210,097	11,500,249	11,710,347	210,097	11,500,249	11,710,347
Accumulated impairment						
Opening balance	-	1,282,622	1,282,622	-	1,282,622	1,282,622
Transfers/Adjustments	-	8,876	8,876	-	8,876	8,876
Closing balance	-	1,291,498	1,291,498	-	1,291,498	1,291,498
Net Investment properties	3,710,951	5,581,032	9,291,983	3,710,951	5,581,032	9,291,983

These assets are not allocated to the **Group** and the **Company** operating activities, nor have a specific future use.

The market value of these assets, which are classified as investment property, in accordance with the valuations obtained at the end of the fiscal year 2017 which were conducted by independent entities, amounts to 10,643,200 Euros (13,190,970 Euros as at 31 December 2016).

In the year ended 31 December 2017, the amount of disposals relates to the sale of ten properties having the corresponding accounting gains, of 1.1 million Euros, been recorded in the caption Other operating income.

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

In the **Group** and in the **Company**, as at 31 December 2016, the amount recorded under transfers of Land and natural resources and Buildings and other constructions includes the total amount, net of depreciations, of 6,412,766 Euros regarding the transfer of real estate to non-current assets held for sale (Note 22).

Depreciation for the year ended on 31 December 2017, of 242,117 Euros (569,250 Euros on 31 December 2016) was recorded in the caption Depreciation/amortisation and impairment of investments, net (Note 47).

Impairment losses of the Company for the period amounting to (198,942) Euros (8,876 Euros on 31 December 2016) were recorded in the caption Depreciation/amortisation and impairment of investments, net (Note 47) and are explained by the market value reduction observed in some buildings.

8. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 December 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	2017 Percentage of ownership Direct	2017 Indirect	2017 Total	2016 Percentage of ownership Direct	2016 Indirect	2016 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. ("CTT Con")	Portugal	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Mailtec Comunicação , S.A. ("Mailtec TI")	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 Hospitalet de Llobregat (08908)- Barcelona - Spain	100	-	100	100	-	100
Correio Expresso de Moçambique, S.A. ("CORRE")	Mozambique	Av. Zedequias Manganhela, 309 Maputo - Mozambique	50	-	50	50	-	50
Escrita Inteligente , S.A. ("RONL")	Portugal	Av. D. João II N.º 13 1999-001 Lisboa	100	-	100	100	-	100
Banco CTT, S.A. ("Banco CTT")	Portugal	Av. D. João II N.º 11 1999-001 Lisboa	100	-	100	100	-	100
Transporta - Transportes Porta a Porta, S.A. ("Transporta")	Portugal	Estrada de São Marcos N.º 15 2735-521 Cacém	100	-	100	-	-	-

In relation to the company CORRE, as the Group has the right to variable returns arising from its involvement and the ability to affect those returns, it is included in the consolidation.

On 27 April 2017 the share capital of Banco CTT, S.A. was increased by 40,000,000 Euros, currently totalling 125,000,000 Euros.

On 4 May 2017, CTT – Correios de Portugal, S.A., acquired 100% of the share capital of the company Transporta – Transportes Porta a Porta, S.A. for the amount of 1,728,091 Euros.

In June 2017, Tourline Express Mensajería, SLU was subject to an operation of reduction and increase of share capital as part of the recapitalization plan for this company. Following this operation, Tourline's share capital amounts to 500,000 Euros.

In August 2017 the subsidiary Corre - Correio Expresso de Moçambique, SA was subject to a capital increase by incorporation of credits of both shareholders in the total amount of 371,634 Euros.

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

Tourline Express Mensajería, SLU, was, on 5 May 2015, subject to a share capital increase of 1,000,000 Euros.

On 16 May 2016 and 24 October 2016, the share capital of Banco CTT, S.A. was increased by 26,000,000 Euros and 25,000,000 Euros, respectively, totalling 85,000,000 Euros in 2016.

Joint ventures

As at 31 December 2017 and 31 December 2016, the Group held the following interests in joint ventures, registered through the equity method:

Company name	Place of business	Head office	2017 Percentage of ownership Direct	2017 Indirect	2017 Total	2016 Percentage of ownership Direct	2016 Indirect	2016 Total
NewPost, ACE	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

Associated companies

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

			2017			2016		
			Percentage of ownership			Percentage of ownership		
Company name	Place of business	Head office	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
Mafelosa, SL [b]	Spain	Castellon - Spain	-	25	25	-	25	25
Urpacksur, SL [b]	Spain	Málaga - Spain	-	30	30	-	30	30

[a] Company held by Payshop Portugal, S.A., which was liquidated during 2017.

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

Changes in the consolidation perimeter

During the year ended 31 December 2017, the consolidation perimeter was changed following the acquisition of the company Transporta – Transportes Porta a Porta, S.A. on 4 May 2017.

In accordance with IFRS 3 - Business Combinations, during the year ended on 31 December 2017, the **Group** carried out a new assessment of the fair value of the assets and the liabilities acquired, and the amount of future contingent payments corresponding to the earn-outs payable due to the generation of synergies and future revenues. Therefore, the initial Goodwill assessed on the date of the acquisition of Transporta was adjusted as shown below:

	Initial recognition	Adjustments	Final recognition
Assts acquired	5,501,653	79,148	5,580,801
Liabilities acquired	3,908,463	-	3,908,463
Net assets acquired	**1,593,190**	**79,148**	**1,672,338**
Goodwill (Note 9)	**134,901**	**2,820,852**	**2,955,753**
Acquisition value	**1,728,091**	**2,900,000**	**4,628,091**

The main impacts on results as at 31 December 2017 are as follows and refer to the months from May to December:

Income Statement - 31.12.2017

Caption	Amount
Revenues	8,916,524
Operating costs	(11,579,690)
Earnings before financial income and taxes	**(2,663,166)**
Other captions	470,752
Net profit for the period	**(2,192,414)**

9. GOODWILL

As at 31 December 2017 and 31 December 2016, the **Group** Goodwill was made up as follows:

		Group	
	Year of acquisition	2017	2016
Mailtec Comunicação, S.A.	2004	6,161,326	7,294,638
Payshop Portugal, S.A.	2004	406,101	406,101
Transporta, S.A.	2017	2,955,753	-
		9,523,180	7,700,739

During the years ended 31 December 2017 and 31 December 2016, the movements in Goodwill were as follows:

	Group	
	2017	2016
Opening balance	7,700,739	8,058,656
Acquisitions	2,955,753	-
Impairment	(1,133,312)	-
Final measurement of goodwill	-	(357,917)
Closing balance	9,523,180	7,700,739

The acquisitions in the period ended 31 December 2017 relate to the acquisition of the company Transporta and a Goodwill amounting to 2,955,753 Euros was recorded as a result of the initial recognition as well as the new valuation of the fair value of the assets acquired as determined in IFRS 3 – Business Combinations.

During the year ended 31 December 2017, as a result of the reduction in the business of Mailtec Comunicações, S.A., the Group reviewed the business evolution estimates, which were incorporated into the future cash flows used in the impairment test carried out in 2017, and an impairment loss amounting to 1,133,312 Euros relating to the Goodwill of the referred company was recorded.

During the year ended 31 December 2016 in accordance with IFRS 3 – Business Combinations, the initial Goodwill recognition of the purchase of Escrita Inteligente, S.A. was revised based on information that allowed that amount to be fully assigned to the fair value of the "Recibos Online" computer platform. As a result, the amount of 357,917 Euros was reclassified to Intangible Assets – Computer Programmes.

Goodwill impairment assessment

The recoverable amount of Goodwill is assessed annually or whenever there is indication of a possible loss of value. The recoverable amount is determined based on the value in use of the assets, computed using calculation methodologies supported by discounted cash flow techniques, considering the market conditions, the time value and business risks.

During the year ended 31 December 2017, in order to determine the recoverable amount of its investments, the **Group** performed impairment tests as at 31 December 2017 and 31 December 2016 based on the following assumptions:

		2017			
Company name	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetutiy rate growth
Mailtec Comunicação, SA	Documental services	Equity Value/DCF	5 years	9.82%	1.00%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	9.61%	1.00%
Transporta - Transportes Porta a Porta, SA	Cargo and Logistics	Equity Value/DCF	5 years	9.50%	1.00%

		2016			
Company	Activity	Base for determining the recoverable amount	Explicit period for cash flows	Discount rate (WACC)	Perpetutiy rate growth
Mailtec Comunicação, SA	Documental services	Equity Value/DCF	5 years	10.00%	0.50%
Payshop Portugal, SA	Management of payment points network	Equity Value/DCF	5 years	10.82%	0.50%

The decrease in the discount rate (WACC) for the year ended 31 December 2017 was a result of the decrease in the country's risk premium, measured by the yields' spreads of the Portuguese government bonds in relation to the risk-free bonds of the Eurozone.

The increase in the perpetuity growth rate "g" is related to the upward revision of the Portuguese GDP growth rate.

The cash flow projections were based on the historical performance and the medium and long-term business plans, approved by the Board of Directors. As a consequence of this impairment analysis, the **Group** concluded that as at 31 December 2017 there were impairment losses related to Goodwill of Mailtec Comunicação, S.A..

As at 31 December 2017 and 31 December 2016, the impairment losses registered in the **Group** are as follows:

	2017					
	Year of acquisition	Initial value of Goodwill	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	-	20,671,985	-	-
Mailtec Comunicação, S.A.	2004	7,294,638	1,133,312	-	-	6,161,326
		27,966,623	1,133,312	20,671,985	-	6,161,326

	2016					
	Year of acquisition	Initial value of Goodwill	Impairment losses for the period	Accumulated impairment losses	Disposals	Carrying value
Tourline Express Mensajería, SLU	2005	20,671,985	-	20,671,985	-	-
Payshop Moçambique, S.A. (a)	2008	235,946	-	235,946	-	-
		20,907,931	-	20,907,931	-	-

(a) Held by Payshop Portugal, S.A., a subsidiary of CTT Group

Sensitivity analyses were performed on the results of the impairment tests, namely regarding the following key assumptions: (i) perpetuity growth rate and (ii) discount rates.

The results of the sensitivity analyses for Payshop do not entail the existence of impairment indicators. Regarding Transporta, there is a greater sensitivity to the decrease in the perpetuity growth rate. As regards Mailtec Comunicação, there are signs of impairment, as follows, already reflected in the recognition of an impairment of 1,133,312 Euros:

Maitec Comunicação (thousand euros)

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		7.8%	8.8%	**9.8%**	10.8%	11.8%
g	0.25%	483	-622	-1,497	-2,208	-2,797
	0.50%	689	-470	-1,382	-2,119	-2,727
	100%	1,148	-137	**-1,133**	-1,928	-2,578
	2.00%	2,302	674	-540	-1,481	-2,233
	2.25%	2,655	916	-367	-1,353	-2,136

* impairment if negative

Payshop (thousand euros)

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		7.6%	8.6%	**9.6%**	10.6%	11.6%
g	0.00%	57,510	50,686	45,282	40,897	37,267
	0.50%	60,378	52,808	46,899	42,158	38,270
	1.00%	63,680	55,210	**48,705**	43,551	39,368
	1.50%	67,523	57,949	50,732	45,097	40,575
	2.00%	72,052	61,103	53,027	46,823	41,907

* impairment if negative

Transporta (thousand euros)

Variation of sovereign risk and variation of perpetuity growth (g)

Impairment *		WACC				
		7.5%	8.5%	**9.5%**	10.5%	11.5%
g	0.00%	3,331	2,076	1,087	289	-368
	0.50%	3,858	2,463	1,380	517	-188
	1.00%	4,466	2,902	**1,708**	768	9
	1.50%	5,175	3,403	2,077	1,048	226
	2.00%	6,013	3,982	2,495	1,360	466

* impairment if negative

10. INVESTMENTS IN SUBSIDIARY COMPANIES

During the years ended 31 December 2017 and 31 December 2016, the movements occurred in the **Company** in Investments in subsidiary companies were as follows:

	Company					
	2017			2016		
	Investments in subsidiary companies	Provisions for investments in subsidiary companies	Total	Investments in subsidiary companies	Provisions for investments in subsidiary companies	Total
Opening balance	102,976,700	(6,912,830)	96,063,870	65,166,836	-	65,166,836
Equity method	(15,497,216)	(6,910,256)	(22,407,472)	(4,683,536)	(6,236,643)	(10,920,179)
Distribution of dividends	(7,143,238)	-	(7,143,238)	(8,580,799)	-	(8,580,799)
Share capital increase	40,286,513	9,585,544	49,872,058	51,000,000	1,000,000	52,000,000
Acquisitions	4,628,091	-	4,628,091	2,402,186	-	2,402,186
Other	(1,069,792)	-	(1,069,792)	(2,327,987)	(1,676,186)	(4,004,173)
Closing balance	124,181,057	(4,237,541)	119,943,515	102,976,700	(6,912,830)	96,063,871

The caption Share capital increase includes the Banco CTT's share capital increases, occurred on 27 April 2017, in the amount of 40,000,000 Euros, and in 2016 in the total amount of 51,000,000 Euros.

As at 31 December 2017 and 31 December 2016, the detail by company of Investments in subsidiaries of the **Company** was as follows:

	2017								
Company	% held	Assets	Liabilities	Equity	Net profit	Goodwill	Investments	Provisions	Proportion of net profit
CTT Expresso,S.A.	100%	42,147,576	16,216,154	25,931,422	2,370,841	-	25,931,422	-	2,370,841
CTT Contacto, S.A.	100%	3,948,353	1,625,610	2,322,743	1,312,886	-	2,322,743	-	1,312,886
Payshop Portugal, S.A.	100%	10,354,680	4,413,468	5,941,212	4,124,840	406,101	5,941,212	-	4,124,840
Mailtec Comunicação S.A.	100%	5,660,047	1,947,563	3,712,484	33,106	6,161,326	3,712,484	-	33,106
CORRE - Correio Expresso Moçambique, S.A.	50%	1,449,800	1,326,799	123,001	(295,842)	-	146,738	-	(147,921)
Escrita Inteligente, S.A.	100%	173,802	131,759	42,043	(26,672)	-	213,843	-	(26,672)
Banco CTT, S.A.	100%	720,792,307	644,402,875	76,389,433	(21,301,635)	-	76,389,433	-	(21,301,635)
Tourline Express Mensajería, SLU	100%	21,435,314	23,559,031	(2,123,717)	(6,503,280)	-	-	3,830,565	(6,503,280)
Transporta - Transportes Porta à Porta, S.A.	100%	7,523,653	7,930,629	(406,976)	(2,636,795)	2,955,753	-	406,976	(2,018,689)
						9,523,180	114,657,877	4,237,541	(22,156,524)

Company	2016								
	% held	Assets	Liabilities	Equity	Net profit	Goodwill	Investments	Provisions	Proportion of net profit
CTT Expresso,S.A.	100%	42,644,543	19,083,962	23,560,581	9,821,754	-	23,560,581	-	9,821,754
CTT Contacto, S.A.	100%	4,536,738	2,081,835	2,454,903	1,445,047	-	2,454,903	-	1,445,047
Payshop Portugal, S.A.	100%	9,644,371	2,375,635	7,268,736	5,452,364	406,101	7,268,736	-	5,452,364
Mailtec Comunicação S.A.	100%	6,686,450	2,761,244	3,925,206	245,828	7,294,638	3,925,206	-	245,828
CORRE - Correio Expresso Moçambique, S.A.	50%	1,799,265	1,640,994	(158,271)	(526,656)	-	-	79,135	(263,328)
Escrita Inteligente, S.A.	100%	164,691	95,975	68,716	(11,448)	-	412,316	-	(11,448)
Banco CTT, S.A.	100%	318,633,790	260,979,572	57,654,218	(21,438,570)	-	57,654,218	-	(21,438,570)
Tourline Express Mensajería, SLU	100%	18,724,316	23,851,162	(5,126,846)	(7,833,694)	-	-	6,833,694	(6,157,508)
						7,700,739	95,275,961	6,912,830	(10,905,863)

As referred to Note 8, on 17 March 2016, CTT Expresso, S.A. sold CTT – Correios de Portugal, S.A., 100% of its shareholding in the subsidiary Tourline Express Mensajería, SLU.

For the years ended 31 December 2017 and 31 December 2016, the net income in subsidiary companies arising from the application of the equity method, and stated under Gains/losses from subsidiaries, associated companies and joint ventures in the Income statement were recognised against the following items on the balance sheet:

	Company	
	2017	2016
Investment in subsidiaries		
CTT Expresso,S.A.	2,370,841	9,821,754
CTT Contacto, S.A.	1,312,886	1,445,047
Payshop Portugal, S.A.	4,124,840	5,452,364
Mailtec Comunicação S.A.	33,106	245,828
CORRE - Correio Expresso Moçambique, S.A.	(147,921)	(184,193)
Escrita Inteligente, S.A.	(198,472)	(25,765)
Banco CTT, S.A.	(21,301,635)	(21,438,570)
Transporta - Transportes Porta à Porta, S.A.	(1,690,861)	-
	(15,497,216)	(4,683,536)
Provisions - Investment in subsidiaries		
CORRE - Correio Expresso Moçambique, S.A.	-	(79,135)
Tourline Express Mensajería, SLU	(6,503,280)	(6,157,508)
Transporta - Transporte Porta à Porta, S.A.	(406,976)	-
	(6,910,256)	(6,236,643)
	(22,407,472)	**(10,920,179)**

11. INVESTMENTS IN ASSOCIATED COMPANIES

For the years ended 31 December 2017 and 31 December 2016, the **Group** and the **Company** investments in associated companies had the following movements:

	Group		Company	
	2017	2016	2017	2016
Gross carrying value				
Opening balance	296,260	255,695	295,779	255,214
Equity method - proportion of net income	-	40,565	-	40,565
Closing balance	296,260	296,260	295,779	295,779

As at 31 December 2017 and 31 December 2016, the detail by company of the **Group** and the **Company** investments in associated companies were as follows:

	Group		Company	
	2017	2016	2017	2016
Multicert, S.A.	295,779	295,779	295,779	295,779
Urpacksur, S.L.	481	481	-	-
	296,260	296,260	295,779	295,779

Group	2017 % held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. [(a)]	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	n.a.
Mafelosa, SL [(b) (c)]	25%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
Urpacksur [(b) (c)]	30%	n.a.	n.a.	n.a.	n.a.	481	-	n.a.
						296,260	-	-

[(a)] Data reported as at December 2015
[(b)] Companies held by Tourline Express Mensajeria
[(c)] Companies without activity

Group	2016 % held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. [(a)]	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	40,565
Payshop Moçambique, S.A. [(b)]	35%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
Mafelosa, SL [(c) (d)]	25%	n.a.	n.a.	n.a.	n.a.	-	-	n.a.
Urpacksur [(c) (d)]	30%	n.a.	n.a.	n.a.	n.a.	481	-	n.a.
						296,260	-	40,565

[(a)] Data reported as at December 2015
[(b)] Company held by Payshop Portugal, which is in liquidation process
[(c)] Companies held by Tourline Express Mensajeria
[(d)] Companies without activity

Company	2017 % held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. [(a)]	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	n.a.
						295,779	-	-

[(a)] Data reported as at December 2015

Company	2016 % held	Assets	Liabilities	Equity	Net profit	Investments	Provisions	Proportion of net profit
Multicert - Serviços de Certificação Electrónica, S.A. [(a)]	20%	2,796,735	1,317,841	1,478,894	202,821	295,779	-	40,565
						295,779	-	40,565

[(a)] Data reported as at December 2015

During the year ended 31 December 2017, the company Payshop Mocambique, S.A. was liquidated.

The amount of 40,565 Euros, is related to the portion of 2015 income that had not been recognised in that year regarding Multicert, S.A.. No additional movements occurred in this participation since the company does not have updated financial information.

For the years ended 31 December 2017 and 31 December 2016, the net income in associated companies arising from the application of the equity method, and stated under Gains/losses from subsidiaries, associated companies and joint ventures in the Income statement were recognised against the following items on the balance sheet:

	Group 2017	Group 2016	Company 2017	Company 2016
Investment in associated companies				
Multicert, S.A.	-	40,565	-	40,565
Urpacksur, S.L.	-	-	-	-
	-	40,565	-	40,565

12. INVESTMENTS IN JOINT VENTURES

As at 31 December 2017 and 31 December 2016, the detail of the **Group** and the **Company** investments in joint ventures were as follows:

Group	% held	Assets	Liabilities	Equity	Net profit (2017)	Investments	Provisions	Proportion of net profit
PTP & F, ACE	51%	-	-	-	-	-	-	-
NewPost, ACE	49%	377,886	377,886	-	-	-	-	-
						-	-	-

Group	% held	Assets	Liabilities	Equity	Net profit (2016)	Investments	Provisions	Proportion of net profit
PTP & F, ACE	51%	1,230	1,230	-	-	-	-	-
Ti-Post Prestação Serviços Informáticos, ACE [a]	-	-	-	-	-	-	-	-
NewPost, ACE [b]	49%	343,360	343,360	-	-	-	-	-
						-	-	-

[a] The joint-venture has been dissolved during the year 2016
[b] Previously named Postal Network - Prestação de Serviços de Gestão de Infra-Estruturas de Comunicações, ACE

Company	% held	Assets	Liabilities	Equity	Net profit (2017)	Investments	Provisions	Proportion of net profit
NewPost, ACE	49%	377,886	377,886	-	-	-	-	-
						-	-	-

Company	% held	Assets	Liabilities	Equity	Net profit (2016)	Investments	Provisions	Proportion of net profit
Ti-Post Prestação Serviços Informáticos, ACE [a]	-	-	-	-	-	-	-	-
NewPost, ACE [b]	49%	343,360	343,360	-	-	-	-	-
						-	-	-

[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

13. OTHER INVESTMENTS

The other investments include non-listed capital instruments whose fair value cannot be reliably measured. The amounts of these instruments recognised at cost as at 31 December 2017 and 31 December 2016, in the **Group** and the **Company**, were as follows:

Company	Head office	Group and Company 2017	Group and Company 2016
IPC-International Post Corporation	Brussels - Belgium	6,157	6,157
Eurogiro Network	Copenhagen - Denmark	124,435	124,435
Tagus Park	Lisbon - Portugal	1,372,743	1,372,743
CEPT	Copenhagen - Denmark	237	237
		1,503,572	1,503,572

During the year, no impairment loss was recognised in these investments.

There are no market prices available for the mentioned investments and it is not possible to determine fair value in the period using comparable transactions. These instruments were not measured through discounted cash flows since these could not be reliably determined.

14. INVESTMENTS HELD TO MATURITY

As at 31 December 2017 and 31 December 2016, the **Group** Investments held to maturity included in current and non-current assets showed the following composition:

	2017	2016
Non-current		
Debt securities and other fixed-income securities		
Public issuers	228,806,240	78,863,164
Other issuers	17,021,519	15,122,951
	245,827,759	93,986,115
Current		
Debt securities and other fixed-income securities		
Public issuers	8,729,378	878,115
Other issuers	6,991,995	230,313
	15,721,373	1,108,428
	261,549,132	95,094,543

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

	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	
Debt securities and other fixed-income securities					
Public issuers	3,645,824	5,083,554	32,678,233	196,128,007	237,535,618
Other issuers	1,683,085	5,308,910	14,603,866	2,417,653	24,013,514
	5,328,909	10,392,464	47,282,099	198,545,660	261,549,132

	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	
Debt securities and other fixed-income securities					
Public issuers	878,115	-	12,256,862	66,606,302	79,741,279
Other issuers	22,818	207,495	-	15,122,951	15,353,264
	900,933	207,495	12,256,862	81,729,253	95,094,543

15. FINANCIAL ASSETS AVAILABLE FOR SALE

As at 31 December 2017 and 31 December 2016, the composition of the **Group** heading Financial assets available for sale is as follows:

	2017	2016
Non-current		
Debt securities and other fixed-income securities		
Public issuers	562,115	540,400
Other issuers	2,613,065	3,933,214
	3,175,180	4,473,614
Current		
Debt securities and other fixed-income securities		
Public issuers	13,765	139,180
Other issuers	2,562,429	1,834,531
	2,576,194	1,973,711
	5,751,374	6,447,325

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

	2017			
	Cost [1]	Fair value reserve	Impairment losses	Total
Debt securities and other fixed-income securities				
Public-debt securities				
National	545,545	30,335	-	575,880
Foreign	-	-	-	-
Other issuers				
National	250,002	-	-	250,002
Foreign	4,905,504	19,988	-	4,925,492
	5,701,051	50,323	-	5,751,374

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

	2017				
	Current		Non-current		
	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years	Total
Debt securities and other fixed-income securities					
Public-debt securities					
National	13,765	-	-	562,115	575,880
Foreign	-	-	-	-	-
Other issuers					
National	250,002	-	-	-	250,002
Foreign	239,942	2,072,485	2,500,506	112,559	4,925,492
	503,709	2,072,485	2,500,506	674,674	5,751,374

	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
	6,433,851	13,474	-	6,447,325

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

	2016				
	Current		Non-current		
	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years	Total
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

16. OTHER BANKING FINANCIAL ASSETS

As at 31 December 2017 and 31 December 2016, the **Group** headings Other banking financial assets and Other banking financial liabilities showed the following composition:

	2017	2016
Non-current assets		
Investments in credit institutions	-	-
Loans to credit institutions	11,831,122	-
	11,831,122	-
Current assets		
Investments in credit institutions	82,221,285	58,718,171
Loans to credit institutions	7,859,401	-
Other	1,336,398	336,132
	91,417,084	59,054,303
	103,248,206	**59,054,303**
Current liabilities		
Other	17,882,160	1,218,205
	17,882,160	**1,218,205**

Regarding the captions Investments in credit institutions and Loans to credit institutions, the scheduling by maturity is as follows:

	2017	2016
Up to 3 months	16,716,838	42,111,692
From 3 to 6 months	16,078,185	4,500,135
From 6 to 12 months	57,285,663	12,106,344
From 1 to 3 years	7,473,850	-
Over 3 years	4,357,272	-
	101,911,808	58,718,171

17. FINANCIAL RISK MANAGEMENT

The **Group** and the **Company** activities imply exposure to financial risks. Financial risk is defined as the probability of obtaining results that are different from those expected, whether positive or negative, thus changing the net worth of the Group in a material and unexpected way. Risk management focuses on the unpredictability of financial markets and seeks to mitigate the adverse effects arising from this unpredictability on the **Group** and the **Company**'s financial performance.

Under the non-banking activity, financial risk management integrates the Risk Management System of the **Group** and the **Company** reporting directly to the Executive Committee. The departments of Finance and Risk Management and Accounting and Treasury ensure the centralised management of financing operations, investment of surplus liquidity, exchange transactions as well as the counterparty risk management of the Group and the monitoring of the foreign currency exchange rate risk, according to the policies approved by the Executive Committee. Additionally, they are responsible for the identification, assessment, proposal and implementation of mitigating measures of financial risks that the **Group** and the **Company** are exposed to. The **Group** and the **Company** are developing an integrated risk management system.

Under the banking activity, Banco CTT has an independent risk management system, based on a set of concepts, principles, rules and on an organizational model applicable and adjusted to the specificities and to the regulatory framework of its activity.

Banco CTT's risk management and internal control policy aims to maintain an adequate relationship between its equity and the activity developed, as well as the corresponding risk profile assessment / return by line of business.

In this context, it is relevant to monitor and control the main types of financial risks - credit, market, liquidity and operational – to which the Bank's activity is subject to.

The financial risks of particular importance include credit risk, market risk, interest and exchange rate risk as well as liquidity risk.

Credit risk

Credit risk essentially refers to the risk that a third party fails on its contractual obligations, resulting in financial losses to the **Group** and the **Company.** Thus, credit risk basically resides in the accounts receivable from customers and other debtors, related to its operating and treasury activities.

The deterioration of economic conditions or adversities which affect economies may lead to difficulty or incapacity of customers to pay their liabilities, with consequent negative effects on the net income of the Group companies. For this purpose, an effort has been made to reduce the average receivable term and amount of credit granted to clients.

Under the non-banking activity, credit risk management is based on a set of standards and guidelines, part of the Granting of credit to customers Regulation ("Regulamento de Concessão de Crédito a Clientes" (RCCC)) and comprises the processes of credit granting, monitoring and debt recovery.

Considering the guiding principles of the **Group** and the **Company** Risk Management, a methodology of credit risk assessment is defined which allows, a priori, and based on the information available at the time, to evaluate the Customer's capacity to comply with all its obligations on time and within the conditions established. Based on this evaluation, a credit limit is defined for the customer, whose progress is regularly monitored.

The credit risk in the accounts receivable is monitored on a regular basis by each business of the Group companies and monthly monitored by the Credit Committee with the purpose of limiting the credit granted to Customers, considering the respective profile and the ageing of receivable of each customer, ensuring the follow-up of the evolution of credit that has been granted and analysing the recoverability of the receivables.

Regarding Banco CTT, an impairment model was defined and implemented based on IAS 39 and the respective reference criteria of the Bank of Portugal defined in Circular Letter no. 2/2014. In addition, the model takes into account definitions and criteria that have been published by EBA and future IFRS 9 standards.

The monitoring of Banco CTT's credit risk profile, in particular with regard to the evolution of credit exposures and the monitoring of losses, is carried out on a regular basis by the Risk Committee. Compliance with approved credit requirements and limits are also subject to review on a regular basis.

The impairment losses for accounts receivable are calculated considering essentially: (i) the ageing of the accounts receivable; (ii) the risk profile of each client; and (iii) the financial situation of the client. The movement of impairment losses of accounts receivable is disclosed in Notes 25 and 46.

As at 31 December 2017, the **Group** and the **Company** believe that impairment losses in accounts receivable are adequately estimated and recorded in the financial statements.

In addition, within the scope of treasury activities, the credit risk essentially results from the cash deposits investments made both by the **Group** and the **Company**. With the purpose of reducing that risk, the **Group** and the **Company** policy is to invest in short/medium-term periods negotiated with several financial institutions, all with a relatively high credit rating (considering the rating of the Portuguese Republic).

The **Group** and the **Company** credit risk quality, as at 31 December 2017, related to these types of assets (Cash and cash equivalents as stated in Note 23, excluding the cash value) whose counterparties are financial institutions are detailed as follows:

Rating (1)	2017 Group	2017 Company
Aa3	30,330,358	364
A1	4,596	4,596
A3	33,629	-
Baa1	12,069,413	278,907
Baa1 (2)	455,588	455,588
Baa2	44,070,594	-
Baa3	550,357	545,536
Ba1	145,049,835	23,237,668
Ba2	24,107,215	15,771,398
Ba3 (3)	1,720	1,720
B1	7,699,033	7,041,699
B3	127,948,793	124,298,116
Caa2	182,804,795	180,311,057
Others (4)	1,948,642	338,137
	546,744,210	352,284,422

(1) Rating assigned by Moody's.
(2) Conversion of BBB+ rating by Fitch.
(3) Conversion of BB- rating by Standard & Poor's.
(4) Others with no rating.

As at 31 December 2017, the **Group** and the **Company** caption Cash and cash equivalents included term deposits of 297,867,550 Euros and 294,082,565 Euros, respectively (385,211,431 Euros and 374,203,045 Euros as at 31 December 2016) (Note 23).

The following table includes the maximum exposure to credit risk associated with financial assets held by the **Group** and the **Company**. These amounts include only financial assets subject to credit risk and do not reconcile with the consolidated and individual balance sheet:

	Group		Company	
	2017	2016	2017	2016
Non-current				
Investments held to maturity	245,827,759	93,986,115	-	-
Other assets	1,375,223	1,306,148	1,092,403	1,110,991
Credit to bank clients	64,263,948	-	-	-
Financial assets available for sale	3,175,180	4,473,614	-	-
Financial assets available for sale	11,831,122	-	-	-
Current				
Accounts receivable	132,480,130	122,113,270	95,987,068	94,323,683
Credit to bank clients	15,083,442	7,103,905	-	-
Investments held to maturity	15,721,373	1,108,428	-	-
Other assets	14,811,314	19,660,308	11,840,911	18,226,686
Financial assets available for sale	2,576,194	1,973,711	-	-
Other banking financial assets	91,417,084	59,054,303	-	-
Cash and cash equivalents	577,074,567	563,004,956	352,284,786	433,648,736
	1,175,637,335	873,784,759	461,205,169	547,310,095

Interest rate risk

Interest rate risk is essentially related to the interest obtained from the application of surplus liquidity and to the determination, through the impact of the discount rate, of the estimate of employee benefit liabilities. Gains arising from financial operations are important, therefore changes in interest rates have a direct impact on the **Group** and the **Company** Financial results.

In order to leverage the period/rate relationship on one hand and the risk/yield relationship on the other hand, the **Group** and the **Company** monitor the market trends on a regular and systematic basis. Cash investments follow criteria of financial risk diversification, both at term and institution levels, which are regularly reviewed and updated.

In the **Group** the investment of surplus liquidity, on 31 December 2017 and 31 December 2016, generated interest income of 255,800 Euros and 671,599 Euros, respectively (Note 49). Additionally, interest income is recorded for financial services in the caption Other operating income, in the years of 2017 and 2016, amounting to 215,312 Euros and 334,714 Euros, respectively (Note 42).

In the **Company** the investment of surplus liquidity, on 31 December 2017 and 31 December 2016, generated interest income of 192,699 Euros and 588,919 Euros, respectively (Note 49). Additionally, interest income is recorded for financial services in the caption Other operating income, in the years of 2017 and 2016, amounting to 215,312 Euros and 334,714 Euros, respectively (Note 42).

The **Group** and the **Company** generally negotiate their deposits at fixed rates, while loans are negotiated at variable rates. Due to the reduced amount of its loans, the **Group** and the **Company** believe that the difference between the financial assets fixed rate and the floating rate of the financial liabilities does not represent a significant potential impact on the income statement.

If the interest rates had a variation of 0.25 b.p., during the year ended 31 December 2017, the effect in the interest would have been 353 thousand Euros in the **Group** and 522 thousand Euros in the **Company** (544 thousand Euros and 708 thousand Euros as at 31 December 2016, respectively).

Foreign currency exchange rate risk

Under the non-banking activity, exchange rate risk is related to the existence of balances in currencies other than the Euro, in particular balances arising from transactions with foreign Postal Operators recorded in Special Drawing Rights (SDR) and the related changes on the fair value of the financial assets and liabilities, as a result of changes in foreign currency exchange rates.

The management of foreign exchange risk relies on the periodic monitoring of the degree of exposure to the exchange rate risk of assets and liabilities, with the reference of previously defined objectives based on the evolution of the international business activities.

As at 31 December 2017 and 31 December 2016, the net exposure (assets minus liabilities) of the **Group** amounted to 4,230,477 SDR (5,023,565 Euros at the exchange rate €/SDR 1.18747), and 3,351,568 SDR (4,274,389 Euros at the exchange rate €/SDR 1.27534), respectively.

As far as the **Company** is concerned, as at 31 December 2017 and 31 December 2016, the net exposure (assets minus liabilities) amounted to 3,578,740 SDR (4,249,646 Euros at the exchange rate €/SDR 1.18747), and 1,902,678 SDR (2,426,561 Euros at the exchange rate €/SDR 1.27534), respectively.

In the sensitivity analysis performed for the balances of accounts receivable and payable to foreign Postal Operators, on 31 December 2017 and 31 December 2016, assuming an increase / decrease in the exchange rate € / SDR of 10%, the **Group**'s profit and losses would have been higher by 502,356 Euros and by 427,439 Euros, respectively. The impact on the **Company**'s profit and losses would have been higher by 424,965 Euros and by 242,656 Euros, respectively.

Liquidity risk

Liquidity risk may occur if the funding sources, such as cash balances, operating cash flows and cash flows from divestment operations, credit lines and cash flows obtained from financial operations, do not match the Group's financial needs, such as cash outflows for operating and financing activities and investments and shareholder remuneration. Based on the cash flow generated by operations and the available cash on hand, the **Group** and the **Company** believe that they have the capacity to meet their obligations.

Their main contractual obligations are related to the financing obtained (essentially financial leases) and respective interest, the operating leases and other non-contingent financial commitments.

The following tables detail the expected contractual obligations and financial commitments as at 31 December 2017 and 31 December 2016 for the **Group** and the **Company** and do not reconcile with the balance sheet:

	2017			
Group	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	10,314,256	80,412	-	10,394,668
Accounts payable	375,607,793	-	-	375,607,793
Banking client deposits and other loans	619,229,680	-	-	619,229,680
Other current liabilities	33,104,164	-	-	33,104,164
Non-financial liabilities				
Operating leases (Note 44)	7,741,799	5,508,903	-	13,250,702
Non-contingent financial commitments (1)	6,998,159	-	-	6,998,159
	1,052,995,851	5,589,315	-	1,058,585,166

	2016			
Group	Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	9,688,092	137,072	-	9,825,163
Accounts payable	434,568,171	-	-	434,568,171
Banking client deposits and other loans	253,944,840	-	-	253,944,840
Other current liabilities	24,036,928	-	-	24,036,928
Non-financial liabilities				
Operating leases (Note 44)	10,401,717	11,439,870	-	21,841,587
Non-contingent financial commitments (1)	7,375,965	-	-	7,375,965
	740,015,712	11,576,941	-	751,592,654

(1) The non-contingent financial commitments are essentially related to contracts signed with tangible fixed assets and intangible assets suppliers and a corresponding liability has not been recognised in the balance sheet (Notes 5 and 6).

	2017			
Company	Due within 1year	Over 1year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	-	-	-	-
Accounts payable	352,024,409	-	-	352,024,409
Other current liabilities	27,593,558	-	-	27,593,558
Non-financial liabilities				
Operating leases (Note 44)	6,695,559	4,624,406	-	11,319,965
Non-contingent financial commitments (1)	3,671,042	-	-	3,671,042
	389,984,567	4,624,406	-	394,608,973

Company	2016 Due within 1 year	Over 1 year and less than 5 years	Over 5 years	Total
Financial liabilities				
Debts	725,593	-	-	725,593
Accounts payable	416,423,188	-	-	416,423,188
Other current liabilities	18,631,427	-	-	18,631,427
Non-financial liabilities				
Operating leases (Note 44)	8,776,335	8,239,453	-	17,015,788
Non-contingent financial commitments (1)	251,559	-	-	251,559
	444,808,102	8,239,453	-	453,047,555

(1) The non-contingent financial commitments are essentially related to contracts signed with tangible fixed assets and intangible assets suppliers and a corresponding liability has not been recognised in the balance sheet (Notes 5 and 6).

Capital risk

The **Group** and the **Company** manage their capital to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the **Group** and the **Company** may adjust the amount of dividends paid to shareholders, issue new debt or sell assets to reduce debt.

The balance of capital structure is monitored on the basis of the adjusted solvency ratio, calculated as: Equity / Liabilities.

During the years ended 31 December 2017 and 2016, the **Group** and the **Company** maintained their high solvency ratio.

The solvency ratios at 31 December 2017 and 31 December 2016 were as follows:

	Group		Company	
	2017	2016	2017	2016
Equity	183,990,949	233,326,782	183,844,211	233,405,918
Liabilities	1,424,774,442	1,083,370,431	757,201,057	803,032,619
Amounts of third parties	265,895,845	323,505,539	265,895,845	323,505,539
Adjusted solvency ratio (1)	15.9%	30.7%	37.4%	48.7%

(1) Equity / (Liabilities - Amounts of third parties in Cash and cash quivalents)

The **Group**'s solvency ratio, during the year ended 31 December 2017, was significantly impacted by Banco CTT's liabilities, namely by the caption Credit to banking clients, which justifies the reduction observed in this ratio. Therefore, if the effect of Banco CTT had not been considered the solvency ratio would be 35.0% and 46.1% in the years ended 31 December 2017 and 2016, respectively.

Regarding Banco CTT, the definition of the strategy to be adopted in terms of capital management is the responsibility of the Board of Directors.

Banco CTT has developed and formalised its methodology for the Internal Capital Assessment Adequacy Process (ICAAP), in order to ensure that the risks to which it is exposed are adequately assessed and that the internal capital it has is adequate in view of its risk profile. The methods and procedures adopted are based on the assessment and quantification of internal capital and the risks through quantitative and qualitative methods.

Banco CTT seeks to achieve high financial solidity by maintaining a total own funds ratio - the ratio between own capital and risk-weighted assets - comfortably above 8.625% (which includes capital preservation buffer), corresponding to the legal minimum as set out in Directive no. 2013/36 / EU and EU Regulation no. 575 / 2013, adopted on 26 June 2013 by the European Parliament and the Council.

The referred EU Regulation no. 575 / 2013 comprises a set of transitional provisions allowing the phased application of the requirements, providing the possibility for credit institutions to gradually accommodate the new requirements both at the level of own funds and at the level of minimum capital ratios.

18. INVENTORIES

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** Inventories are detailed as follows:

	2017					
	Group			Company		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	4,784,093	1,719,745	3,064,348	4,374,052	1,680,355	2,693,696
Raw, subsidiary and consumable materials	3,233,843	658,137	2,575,706	2,865,245	593,428	2,271,817
Advances on purchases	56,942	-	56,942	56,942	-	56,942
	8,074,878	2,377,882	5,696,996	7,296,238	2,273,783	5,022,455

	2016					
	Group			Company		
	Gross amount	Impairment losses	Net amount	Gross amount	Impairment losses	Net amount
Merchandise	4,561,582	1,565,187	2,996,395	4,048,936	1,483,947	2,564,990
Raw, subsidiary and consumable materials	2,944,342	579,327	2,365,015	2,642,023	531,560	2,110,463
Advances on purchases	46,275	-	46,275	46,275	-	46,275
	7,552,199	2,144,514	5,407,685	6,737,234	2,015,507	4,721,728

Cost of sales

During the years ended 31 December 2017 and 31 December 2016, the details of Cost of sales related to the **Group** and the **Company**, were as follows:

	2017					
	Group			Company		
	Merchandise	Raw, subsidiary and consumable materials	Total	Merchandise	Raw, subsidiary and consumable materials	Total
Opening balance	4,561,582	2,944,342	7,505,924	4,048,936	2,642,023	6,690,959
Purchases	9,728,895	3,688,568	13,417,463	8,976,843	1,554,180	10,531,023
Offers	(30,436)	(29,002)	(59,438)	(30,436)	(29,002)	(59,438)
Adjustments	(141,743)	(253,489)	(395,232)	(141,743)	(253,489)	(395,232)
Impariment of inventories	235,799	78,809	314,608	196,409	61,867	258,276
Closing balance	(4,784,093)	(3,233,843)	(8,017,937)	(4,374,052)	(2,865,245)	(7,239,297)
Cost of sales	9,570,003	3,195,385	12,765,389	8,675,958	1,110,334	9,786,292

	2016					
	Group			Company		
	Merchandise	Raw, subsidiary and consumable materials	Total	Merchandise	Raw, subsidiary and consumable materials	Total
Opening balance	4,618,877	2,670,454	7,289,331	4,080,012	2,340,692	6,420,704
Purchases	10,736,297	3,492,295	14,228,592	9,970,637	1,453,672	11,424,309
Offers	(33,177)	(19,695)	(52,872)	(33,177)	(19,695)	(52,872)
Adjustments	(122,069)	(142,439)	(264,508)	(122,068)	(142,439)	(264,507)
Closing balance	(4,561,582)	(2,944,342)	(7,505,924)	(4,048,936)	(2,642,023)	(6,690,959)
Cost of sales	10,836,112	3,070,087	13,906,199	9,971,173	1,003,619	10,974,792

Impairment

During the years ended 31 December 2017 and 31 December 2016, the movements in the **Group** Accumulated impairment losses (Note 25) were as follows:

	2017				
Group	Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,565,187	236,253	(455)	(81,240)	1,719,745
Raw, subsidiary and consumable materials	579,327	78,810	-	-	658,137
	2,144,514	315,063	(455)	(81,240)	2,377,882

Group	2016 Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,397,098	198,203	(438)	(29,676)	1,565,187
Raw, subsidiary and consumable materials	565,513	21,592	(7,778)	-	579,327
	1,962,611	219,795	(8,216)	(29,676)	2,144,514

For the years ended 31 December 2017 and 31 December 2016, impairment losses of inventories were recorded in the **Group** net of reversals amounting to 314,609 Euros and 211,579 Euros, respectively, in the caption Cost of sales.

In relation to the **Company**, during the years ended 31 December 2017 and 31 December 2016, the movements in Accumulated impairment losses (Note 25) were as follows:

Company	2017 Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,483,947	196,408	-	-	1,680,355
Raw, subsidiary and consumable materials	531,560	61,868	-	-	593,428
	2,015,507	258,276	-	-	2,273,783

Company	2016 Opening balance	Increases	Reversals	Utilisations	Closing balance
Merchandise	1,367,422	116,525	-	-	1,483,947
Raw, subsidiary and consumable materials	509,968	21,592	-	-	531,560
	1,877,390	138,117	-	-	2,015,507

For the years ended 31 December 2017 and 31 December 2016, impairment losses of inventories were recorded in the **Company** net of reversals amounting to 258,276 Euros and 138,117 Euros, respectively, in the caption Cost of sales.

19. ACCOUNTS RECEIVABLE

As at 31 December 2017 and 31 December 2016 the **Group** and the **Company** heading Accounts receivable showed the following composition:

	Group		Company	
	2017	2016	2017	2016
Third parties	90,967,275	78,612,864	51,608,449	48,007,420
Postal operators	41,246,582	43,391,679	39,545,944	40,070,049
Group companies [1]	266,273	108,726	4,832,675	6,246,214
	132,480,130	122,113,270	95,987,068	94,323,683

[1] Includes subsidiary, associated and joint-ventures companies.

As at 31 December 2017 and 31 December 2016, the ageing of accounts receivable is detailed as follows:

2017	Group			Company		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Accounts receivable						
Non-overdue	67,663,959	-	67,663,959	45,602,738	-	45,602,738
Overdue [1]:						
0-30 days	13,342,151	295,887	13,046,264	7,210,292	-	7,210,292
30-90 days	14,686,662	138,083	14,548,579	9,887,699	33,778	9,853,921
90-180 days	4,450,499	383,125	4,067,374	2,174,218	23,638	2,150,580
180-360 days	14,366,268	780,133	13,586,135	12,260,603	14,072	12,246,531
> 360 days	50,554,146	30,986,327	19,567,819	22,911,682	3,988,677	18,923,005
	165,063,685	32,583,555	132,480,130	100,047,233	4,060,165	95,987,068

	2016					
	Group			Company		
	Gross amount	Accumulated impairment losses	Net amount	Gross amount	Accumulated impairment losses	Net amount
Accounts receivable						
Non-overdue	62,406,680	111,575	62,295,105	45,285,440	111,575	45,173,865
Overdue [1]:						
0-30 days	11,116,694	90,023	11,026,671	7,144,634	90,023	7,054,611
30-90 days	10,764,588	193,049	10,571,539	6,883,729	192,643	6,691,086
90-180 days	2,268,369	476,384	1,791,984	985,243	468,907	516,335
180-360 days	17,090,040	693,249	16,396,791	16,822,857	495,752	16,327,105
> 360 days	48,776,423	28,745,244	20,031,180	21,618,284	3,057,603	18,560,681
	152,422,794	30,309,524	122,113,270	98,740,186	4,416,504	94,323,683

[1] The amounts regarding the foreign operators, although being overdue over 360 days, are within the normal period for the presentation and regularisation of the accounts.

The net amount of the accounts receivable balances overdue over 360 days is broken down as follows:

	Group		Company	
	2017	2016	2017	2016
Other accounts receivable	54,904	412,718	69,291	443,695
Foreign operators	19,512,914	18,350,981	18,853,715	16,849,505
Total	**19,567,819**	**18,763,699**	**18,923,005**	**17,293,200**
Foreign operators - payable (Note 34)	**(18,570,644)**	**(22,974,682)**	**(18,175,152)**	**(22,469,414)**

The caption Foreign Operators relates to receivables associated with the distribution of postal items in Portugal with origin in other countries.

These operations fall within the scope of the regulations of the Universal Postal Union (UPU) that establishes the closing of the accounts on an annual basis which therefore is only made after the year end and originates the significant overdue balance with more than 360 days with these customers. It should also be mentioned that the referred regulation establishes a period of up to 22 months for the presentation of the accounts and, therefore, the foreign operators' balances reflect the expected trend of this specific business.

Regarding UPU regulations, the accounts between Foreign Operators are cleared by netting accounts. The credit risk is mitigated by the accounts payable balances related to these entities and by the advance payments on the net receivables of the year (Note 34).

The balance of national customers includes receivables of public entities and other clients that are also suppliers which will be netted with accounts payable balances and customers with debt payment plans.

For the national customers, the bank guarantees and advance deposits coverage over the customers receivables changed from 2.3% at the end of 2016 to 2.0% on 31 December 2017, in the **Group** and from 2.9% on 31 December 2016 to 2.6% at the end of 2017 in the **Company**.

	Group		Company	
	2017	2016	2017	2016
Advance deposits	1,432,003	1,483,105	1,417,512	1,466,813
Bank guarantees	361,239	314,478	54,753	81,253
Total	1,793,242	1,797,583	1,472,265	1,548,066

Impairment losses

During the years ended 31 December 2017 and 31 December 2016, the movement in the **Group** Accumulated impairment losses caption (Note 25) was as follows:

	2017					
Group	Opening balance	Increases	Reversals	Utilisations	Changes in the consolidation perimeter	Closing balance
Accounts receivable	30,309,524	2,358,555	(1,302,268)	(1,060,347)	2,278,091	32,583,555
	30,309,524	2,358,555	(1,302,268)	(1,060,347)	2,278,091	32,583,555

	2016					
Group	Opening balance	Increases	Reversals	Utilisations	Changes in the consolidation perimeter	Closing balance
Accounts receivable	31,737,169	2,875,921	(2,267,005)	(2,036,561)	-	30,309,524
	31,737,169	2,875,921	(2,267,005)	(2,036,561)	-	30,309,524

For the years ended 31 December 2017 and 31 December 2016, impairment losses of accounts receivable were recorded in the **Group** (net of reversals) amounting to 1,056,287 Euros and 608,918 Euros, respectively, in the caption Impairment of accounts receivable, net (Note 46).

During the years ended 31 December 2017 and 31 December 2016, the movement in Accumulated impairment losses caption (Note 25) of the **Company** was as follows:

	2017				
Company	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	4,416,504	516,833	(496,575)	(376,597)	4,060,165
	4,416,504	516,833	(496,575)	(376,597)	4,060,165

	2016				
Company	Opening balance	Increases	Reversals	Utilisations	Closing balance
Accounts receivable	4,621,988	352,246	(310,637)	(247,093)	4,416,504
	4,621,988	352,246	(310,637)	(247,093)	4,416,504

For the years ended 31 December 2017 and 31 December 2016, impairment losses of accounts receivable were recorded in the **Company** (net of reversals) amounting to 20,258 Euros and 41,609 Euros, respectively, in the caption Impairment of accounts receivable, net (Note 46).

20. CREDIT TO BANKING CLIENTS

As at 31 December 2017 and 31 December 2016, the **Group** caption Credit to banking clients was detailed as follows:

	Group	
	2017	2016
Performing loans	**79,393,333**	**7,104,322**
Mortgage Loans	66,145,178	-
Overdrafts	299,170	69,498
Other credits	12,948,985	7,034,824
Overdue loans	**71,708**	**-**
Credit risk impairment	**(117,651)**	**(417)**
	79,347,390	7,103,905

The maturity analysis of the Credit to bank clients as at 31 December 2017 and 31 December 2016 is detailed as follows:

	2017							
	Current				Non-current			Total
	In cash	Due within 3 months	Over 3 months and less than 1	Total	Over 1 year and less than 3 years	Over 3 years	Total	
Mortgage loans	-	465,166	1,355,830	1,820,996	3,677,318	60,586,630	64,263,948	66,084,944
Overdrafts	313,460	-	-	313,460	-	-	-	313,460
Other credits	-	12,948,986	-	12,948,986	-	-	-	12,948,986
	313,460	13,414,152	1,355,830	15,083,442	3,677,318	60,586,630	64,263,948	79,347,390

	2016							
	Current				Non-current			Total
	In cash	Due within 3 months	Over 3 months and less than 1	Total	Over 1 year and less than 3 years	Over 3 years	Total	
Mortgage loans	-	-	-	-	-	-	-	-
Overdrafts	69,498	-	-	69,498	-	-	-	69,498
Other credits	-	7,034,407	-	7,034,407	-	-	-	7,034,407
	69,498	7,034,407	-	7,103,905	-	-	-	7,103,905

The breakdown of this heading by type of rate is as follows:

	2017	2016
Fixed rate	370,878	69,498
Floating rate	79,094,163	7,034,824
	79,465,041	**7,104,322**
Credit risk impairment	(117,651)	(417)
	79,347,390	**7,103,905**

Impairment losses

During the year ended 31 December 2017 and 31 December 2016, the movement in the **Group** under the Accumulated impairment losses caption (Note 25) was as follows:

Group	2017				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Non-current assets					
Credit to bank clients	-	62,628	(3,550)	-	59,078
	-	62,628	(3,550)	-	59,078
Current assets					
Credit to bank clients	417	70,950	(12,794)	-	58,573
	417	70,950	(12,794)	-	58,573
	417	**133,578**	**(16,344)**	**-**	**117,651**

Group	2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Current assets					
Credit to bank clients	-	417	-	-	417
	-	**417**	**-**	**-**	**417**

For the years ended 31 December 2017 and 31 December 2016, impairment losses of Credit to banking clients were recorded in the **Group** (net of reversals) amounting to 117,234 Euros and to 417 Euros, respectively in the caption Impairment of accounts receivable, net (Note 46).

21. DEFERRALS

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

	Group		Company	
	2017	2016	2017	2016
Assets deferrals				
Current				
Rents payable	1,375,076	1,293,963	1,069,573	1,101,070
Meal allowances	1,615,852	1,668,745	1,615,852	1,668,745
Other	3,609,187	3,166,223	2,426,479	2,168,180
	6,600,115	6,128,931	5,111,904	4,937,995
Liabilities deferrals				
Non-current				
Investment subsidy	316,892	334,191	316,892	328,093
	316,892	334,191	316,892	328,093
Current				
Deferred capital gains	-	2,143,378	-	2,143,378
Phone-ix top ups	143,203	158,698	143,203	158,698
Deferred comissions	-	799,062	-	799,062
Investment subsidy	17,299	17,299	11,201	11,201
Other	1,272,194	1,059,172	1,271,130	1,057,509
	1,432,696	4,177,609	1,425,534	4,169,848
	1,749,588	4,511,800	1,742,426	4,497,941

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

During the years ended 31 December 2017 and 31 December 2016, the amounts of 2,143,378 Euros and 3,394,833 Euros, respectively, were recognised under Other operating income in the income statement, in each year, related to the above-mentioned gains.

The amount recognised in the year ended 31 December 2016 includes 1,725,642 Euros regarding Conde Redondo building as a result of the lease contract termination.

In 2014 CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euros on the signing date of which an amount of 1 million Euros relates to an entry fee which was recognised at the beginning of the contract, the remaining 2 million Euros, for the non-refundable fees were recognised over the period of the contract. As at 31 December 2017 no amount related to this contract was deferred.

22. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As at 31 December 2016, the amount of 8,756,999 Euros accounted in the caption Non-current assets held for sale related to real estate located in Rua de S. José, subject to a promissory purchase agreement in December 2016 which set the operation's completion within 12 months. According to IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, this amount was reclassified into this caption.

As described in the referred standard, the associated depreciations of the real estate have ceased.

As at 31 December 2017, following the conclusion of the above mentioned sale, there are no amounts recognised under this heading. The sale of these properties resulted in a capital gain of 16.2 million Euros.

As at 31 December 2017 and 31 December 2016, there were no operations classified as discontinued operations.

23. CASH AND CASH EQUIVALENTS

As at 31 December 2017 and 31 December 2016, Cash and cash equivalents correspond to the value of cash, sight deposits, term deposits and cash investments on the monetary market, net of bank overdrafts and equivalent short-term bank financing, and is detailed as follows:

	Group		Company	
	2017	2016	2017	2016
Cash	49,750,830	55,806,142	24,305,947	41,419,386
Slight deposits	69,475,587	67,627,214	58,202,221	59,445,691
Deposits in other credit institutions	176,975,449	106,373,978	-	-
Slight deposits in Banco of Portugal	32,755,981	3,792,334	-	-
Term deposits	297,867,550	385,211,431	294,082,565	374,203,045
Cash and cash equivalents (Balance sheet)	626,825,397	618,811,099	376,590,733	475,068,122
Bank overdrafts	-	-	-	-
Sight deposits at Bank of Portugal	(32,755,981)	(3,792,334)	-	-
Outstanding checks / Checks clearing	(1,392,000)	(1,173,518)	-	-
Cash and cash equivalents (Cash flow statement)	592,677,416	613,845,248	376,590,733	475,068,122

The heading Sight deposits at Bank of Portugal includes mandatory deposits in order to meet the legal requirements to maintain a minimum cash reserve in accordance with the provisions of Regulation (EU) No. 1358/2011 of European Central Bank of 14 December 2011, which states that the minimum cash requirements kept as demand deposits at Bank of Portugal amounts to 1% of deposits and other liabilities.

24. OTHER NON-CURRENT AND CURRENT ASSETS

As at 31 December 2017 and 31 December 2016, the headings Other non-current assets and Other current assets of the **Group** and the **Company** had the following composition:

	Group		Company	
	2017	2016	2017	2016
Non-current				
Advances to staff	364,521	420,140	364,521	420,140
Other receivables from staff	2,320,930	2,136,596	2,320,930	2,136,596
Labour compensation fund	306,025	157,157	193,682	107,674
Other non-current assets	170,477	340,541	-	-
Impairment	(1,786,730)	(1,748,286)	(1,786,730)	(1,553,419)
	1,375,223	1,306,148	1,092,403	1,110,991
Current				
Advances to suppliers	775,903	426,429	436,268	413,045
Advances to staff	3,850,644	4,000,289	3,849,401	4,004,036
Postal financial services	4,449,539	8,611,516	4,449,539	8,611,516
State and other public entities	663,633	308,834	376,902	124
Debtors by accrued revenues	5,892,380	8,143,083	5,062,009	7,232,076
Amounts collected on CTT behalf	1,333,035	1,258,411	1,272,666	1,381,321
Guaranteed	232,678	223,370	-	-
Advances to lawyers	167,295	150,041	-	-
Debtors by asset disposals	152,157	111,294	152,157	111,294
Payshop agents	375,677	447,961	-	-
Mobility allowances for Autonomous Regions	9,119,889	3,559,130	9,119,889	3,559,130
Office for media	378,139	1,602,406	378,139	1,602,406
Compensations	39,959	84,588	-	-
Sundry debtors	235,145	227,969	234,240	227,969
Other current assets	12,007,258	9,051,927	9,118,565	7,418,691
Impairment	(7,335,097)	(8,173,677)	(6,526,865)	(6,776,775)
	32,338,234	30,033,571	27,922,910	27,784,833

The amounts recorded in the caption Postal financial services refer to receivables from the redemption of savings products and the sale of insurance.

Debtors by accrued revenues

As at 31 December 2017 and 31 December 2016, the debtors by accrued revenues refer to accrued interest, amounts not invoiced namely regarding postal financial services, philatelic products, philatelic agents and other amounts.

Impairment

For the years ended 31 December 2017 and 31 December 2016, the movement in the **Group** Accumulated impairment losses (Note 25) was as follows:

Group	2017						
	Opening balance	Increases	Reversals	Utilisations	Transfers	Changes in the consolidation perimeter	Closing balance
Other current and non-current assets	9,921,963	487,781	(445,833)	(1,168,880)	-	326,796	9,121,827
	9,921,963	487,781	(445,833)	(1,168,880)	-	326,796	9,121,827

Group	2016						
	Opening balance	Increases	Reversals	Utilisations	Transfers	Changes in the consolidation perimeter	Closing balance
Other current and non-current assets	10,095,004	524,261	(691,210)	(6,092)	-	-	9,921,963
INESC loan	396,761	-	(396,761)	-	-	-	-
	10,491,765	524,261	(1,087,971)	(6,092)	-	-	9,921,963

For the years ended 31 December 2017 and 31 December 2016, impairment losses (increases net of reversals) of Other current and non-current assets amounted to 41,948 Euros and (563,710) Euros, respectively, were booked under the heading Impairment of accounts receivable, net (Note 46).

Regarding the **Company**, during the years ended 31 December 2017 and 31 December 2016, the movement in the Accumulated impairment losses caption (Note 25) was as follows:

Company	2017					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	8,330,194	446,102	(418,336)	(44,365)	-	8,313,595
	8,330,194	446,102	(418,336)	(44,365)	-	8,313,595

Company	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Other current and non-current assets	8,522,736	459,471	(652,013)	-	-	8,330,194
INESC loan	396,761	-	(396,761)	-	-	-
	8,919,497	459,471	(1,048,774)	-	-	8,330,194

For the years ended 31 December 2017 and 31 December 2016, impairment losses of Other current and non-current assets were recorded in the **Company** (net of reversals) amounting to 27,766 Euros and (589,303) Euros, respectively in the caption Impairment of accounts receivable, net (Note 46).

25. ACCUMULATED IMPAIRMENT LOSSES

During the years ended 31 December 2017 and 31 December 2016, the following movements occurred in the **Group**'s impairment losses:

Group	2017 Opening balance	Increases	Reversals	Utilisations	Transfers	Changes in the consolidation perimeter	Closing balance
Non-current assets							
Tangible fixed assets	173,055	-	(123,714)	-	-	-	49,341
Investment properties	1,291,498	49,208	(248,150)	-	-	-	1,092,556
	1,464,553	49,208	(371,864)	-	-	-	1,141,897
Credit to bank clients	-	62,628	(3,550)	-	-	-	59,078
Other non-current assets	1,748,286	233,311	-	(194,868)	-	-	1,786,729
	1,748,286	295,939	(3,550)	(194,868)	-	-	1,845,807
	3,212,839	**345,147**	**(375,414)**	**(194,868)**	**-**	**-**	**2,987,704**
Current assets							
Accounts receivable	30,309,524	2,358,555	(1,302,268)	(1,060,347)	-	2,278,091	32,583,555
Credit to bank clients	417	70,950	(12,794)	-	-	-	58,573
Other current assets	8,173,677	254,470	(445,833)	(974,012)	-	326,796	7,335,098
	38,483,618	2,683,975	(1,760,895)	(2,034,359)	-	2,604,887	39,977,226
Merchandise	1,565,187	236,253	(455)	(81,240)	-	-	1,719,745
Raw, subsidiary and consumable	579,327	78,810	-	-	-	-	658,137
	2,144,514	315,063	(455)	(81,240)	-	-	2,377,882
	40,628,132	**2,999,038**	**(1,761,350)**	**(2,115,599)**	**-**	**2,604,887**	**42,355,108**
	43,840,971	**3,344,185**	**(2,136,764)**	**(2,310,467)**	**-**	**2,604,887**	**45,342,812**

Group	2016 Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	296,769	-	(123,714)	-	-	173,055
Investment properties	1,282,622	12,491	(3,615)	-	-	1,291,498
	1,579,391	12,491	(127,329)	-	-	1,464,553
Other non-current assets	1,472,836	83,597	-	-	191,853	1,748,286
INESC loan	347,021	-	(347,021)	-	-	-
	1,819,857	83,597	(347,021)	-	191,853	1,748,286
	3,399,248	**96,088**	**(474,350)**	**-**	**191,853**	**3,212,839**
Current assets						
Accounts receivable	31,737,169	2,875,921	(2,267,005)	(2,036,561)	-	30,309,524
Credit to bank clients	-	417	-	-	-	417
Other current assets	8,622,168	440,664	(691,210)	(6,092)	(191,853)	8,173,677
INESC loan	49,740	-	(49,740)	-	-	-
	40,409,077	3,317,002	(3,007,955)	(2,042,653)	(191,853)	38,483,618
Merchandise	1,397,098	198,203	(438)	(29,676)	-	1,565,187
Raw, subsidiary and consumable	565,513	21,592	(7,778)	-	-	579,327
	1,962,611	219,795	(8,216)	(29,676)	-	2,144,514
	42,371,688	**3,536,797**	**(3,016,171)**	**(2,072,329)**	**(191,853)**	**40,628,132**
	45,770,936	**3,632,885**	**(3,490,521)**	**(2,072,329)**	**-**	**43,840,971**

Regarding the **Company**, during the years ended 31 December 2017 and 31 December 2016, the movement in the Accumulated impairment losses was as follows:

Company	2017 Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	173,055	-	(123,714)	-	-	49,341
Investment properties	1,291,498	49,208	(248,150)	-	-	1,092,556
	1,464,553	49,208	(371,864)	-	-	1,141,897
Credit to bank clients	-	-	-	-	-	-
Other non-current assets	1,553,419	233,311	-	-	-	1,786,730
	3,017,972	**282,519**	**(371,864)**	**-**	**-**	**2,928,627**
Current assets						
Accounts receivable	4,416,504	516,833	(496,575)	(376,597)	-	4,060,165
Other current assets	6,776,775	212,791	(418,336)	(44,365)	-	6,526,865
	11,193,279	729,624	(914,911)	(420,962)	-	10,587,030
Merchandise	1,483,947	196,408	-	-	-	1,680,355
Raw, subsidiary and consumable	531,560	61,868	-	-	-	593,428
	2,015,507	258,276	-	-	-	2,273,783
	13,208,786	**987,900**	**(914,911)**	**(420,962)**	**-**	**12,860,813**
	16,226,758	**1,270,419**	**(1,286,775)**	**(420,962)**	**-**	**15,789,440**

Company	2016 Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current assets						
Tangible fixed assets	296,769	-	(123,714)	-	-	173,055
Investment properties	1,282,622	119,559	(110,683)	-	-	1,291,498
	1,579,391	119,559	(234,397)	-	-	1,464,553
Other non-current assets	1,472,836	80,582	-	-	-	1,553,418
INESC loan	347,021	-	(347,021)	-	-	-
	1,819,857	80,582	(347,021)	-	-	1,553,418
	3,399,248	**200,141**	**(581,418)**	**-**	**-**	**3,017,971**
Current assets						
Accounts receivable	4,621,988	352,246	(310,637)	(247,093)	-	4,416,504
Other current assets	7,049,900	378,889	(652,013)	-	-	6,776,776
INESC loan	49,740	-	(49,740)	-	-	-
	11,721,628	731,135	(1,012,390)	(247,093)	-	11,193,280
Merchandise	1,367,422	116,525	-	-	-	1,483,947
Raw, subsidiary and consumable	509,968	21,592	-	-	-	531,560
	1,877,390	138,117	-	-	-	2,015,507
	13,599,018	**869,252**	**(1,012,390)**	**(247,093)**	**-**	**13,208,787**
	16,998,266	**1,069,393**	**(1,593,808)**	**(247,093)**	**-**	**16,226,758**

26. EQUITY

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

As at 31 December 2017 and 31 December 2016 the Company's shareholders with greater than or equal to 2% shareholdings were as follows:

Shareholder		2017 No. of shares	%	Nominal value
Gestmin SGPS, S.A. (1)		16,733,301	11.156%	8,366,651
Manuel Carlos de Melo Champalimaud		284,885	0.190%	142,443
Manuel Carlos de Melo Champalimaud (2)	**Total**	**17,018,186**	**11.345%**	**8,509,093**
Global Portfolio Investments, S.L. (3)		8,492,745	5.662%	4,246,373
Indumenta Pueri, S.L. (3)	**Total**	**8,492,745**	**5.662%**	**4,246,373**
Credit Suisse Group AG (4)	**Total**	**4,965,530**	**3.310%**	**2,482,765**
Norges Bank	**Total**	**4,726,966**	**3.151%**	**2,363,483**
BNP Paribas Asset Management, S.A. (5)	**Total**	**4,646,344**	**3.098%**	**2,323,172**
Wellington Management Group LLP (6)	**Total**	**3,105,222**	**2.070%**	**1,552,611**
Kairos Partners SGR SpA (7)	**Total**	**3,075,000**	**2.050%**	**1,537,500**
CTT, S.A. (own shares) (8)	**Total**	**1**	**0.000%**	**0.50**
Other shareholders	**Total**	**103,970,006**	**69.313%**	**51,985,003**
Total		**150,000,000**	**100.000%**	**75,000,000**

(1) Includes 16,642,862 shares directly held by Gestmin SGPS, S.A. and 90,439 shares held by members of its Board of Directors (for this purpose, CTT assumes that the shareholdings of the members of the Board of Directors of Gestmin communicated in the notification to the Company on 4 January 2018 correspond to their shareholdings as at 31 December 2018) . Qualified shareholding directly and indirectly attributable to Manuel Carlos de Melo Champalimaud who holds the controlling interest in Gestmin.

(2) Qualified shareholding directly and indirectly attributable to Manuel Carlos de Melo Champalimaud.

(3) As per section 10 of the press release of 4 January 2018 available on CTT website (http://www.ctt.pt/contentAsset/raw-data/321d6a50-14fa-47e9-9d42-94d17701a9f8/ficheiroPdf/Global%20Portfolio%2004Jan2018_EN.pdf?byInode=true) Wilmington Capital, S.L., a subsidiary of Indumenta Pueri, S.L. which held the qualifying holding in CTT, transferred all its CTT titles to a sister company controlled by Indumenta Pueri, S.L. – Global Portfolio Investments, S.L.

(4) The full chain of the Credit Suisse Group AG controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted at attachments of the qualifying holding press release of 21 November 2017, available at CTT website (http://www.ctt.pt/contentAsset/raw-data/68124fa8-3e13-4051-a36c-4cabc2009f96/ficheiroPdf/Credit%20Suisse%2021Nov2017_EN.pdf?byInode=true).

(5) The full chain of the BNP Paribas Asset Management, S.A. controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted at section 10 of the qualifying holding press release of 30 October 2017, available at CTT website (http://www.ctt.pt/contentAsset/raw-data/f68bfc42-2801-406c-996b-510b31319bcd/ficheiroPdf/BNP%20Paribas%20Qualif%20Hold%2030Oct2017_EN.pdf?byInode=true).

(6) The full chain of the Wellington Management Group LLP controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted in section 8 of the qualifying holding press release of 5 September 2017, available at CTT website (http://www.ctt.pt/contentAsset/raw-data/19f0d587-5a8b-4e33-8afd-ba914e4d88cd/ficheiroPdf/Wellington%20Managt%20Gr%20Qualif%20Hold%205Sep2017_EN.pdf?byInode=true).

(7) The full chain of the Kairos Partners SGR SpA controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted in section 8 of the qualifying holding press release of 10 November 2017, available at CTT website (http://www.ctt.pt/contentAsset/raw-data/f1388005-a56a-46ff-9527-07b2277d8e7c/ficheiroPdf/Kairos%2010Nov2017_EN.pdf?byInode=true).

(8) 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 and with the nominal value of €0.50; the rights inherent to this share remain suspended pursuant to article 324 of the Portuguese Companies Code.

Shareholder		2016 No. of shares	2016 %	2016 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.

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

Own shares

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

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 regarding that term of office.

As at 31 December 2017, CTT held 1 own share, 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.

In the years ended 31 December 2017 and 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 December 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 December 2017 and 31 December 2016, the **Group**'s and **Company**'s heading Reserves showed the following composition:

2017	Group					Company				
	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total
Opening balance	18,072,559	5,097,536	13,474	11,708,102	34,891,671	18,072,559	5,097,536	-	11,708,102	34,878,197
Share capital decrease	-	-	-	49,500,000	49,500,000	-	-	-	49,500,000	49,500,000
Transfers	(3,072,559)	-	-	3,072,559	-	(3,072,559)	-	-	3,072,559	-
Own shares attribution	-	(5,097,527)	-	5,097,527	-	-	(5,097,527)	-	5,097,527	-
Assets fair value	-	-	36,849	-	36,849	-	-	-	-	-
Share Plan (attribution)	-	-	-	(4,480,638)	(4,480,638)	-	-	-	(4,480,638)	(4,480,638)
Closing balance	15,000,000	8	50,323	64,897,551	79,947,883	15,000,000	8	-	64,897,551	79,897,560

2016	Group					Company				
	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total	Legal reserves	Own shares reserves	Fair Value reserves	Other reserves	Total
Opening balance	18,072,559	1,873,125	(540)	13,438,968	33,384,112	18,072,559	1,873,125	-	13,438,968	33,384,652
Own shares acquisitions	-	3,224,411	-	(3,224,411)	-	-	3,224,411	-	(3,224,411)	-
Assets fair value	-	-	14,014	-	14,014	-	-	-	-	-
Share Plan	-	-	-	1,493,546	1,493,546	-	-	-	1,493,546	1,493,546
Closing balance	18,072,559	5,097,536	13,474	11,708,102	34,891,671	18,072,559	5,097,536	-	11,708,102	34,878,197

As approved at the General Meeting of Shareholders, which was held on 20 April 2017, an operation of reduction and increase of CTT's share capital was performed according to the following terms:

(i) 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 considering that article 4 (1) and (2) of the Articles of Association of CTT remains 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.

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.)
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, in January 2017, the corresponding reserve was reduced in the amount of 5,097,527 Euros.

As at 31 December 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.

As at 31 December 2016, this heading recorded the amount recognised in the year related to the Share Plan that constitutes the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee, for a total amount of 4,480,638 Euros.

Retained earnings
During the years ended 31 December 2017 and 31 December 2016, the following movements were made in the **Group** and the **Company** heading Retained earnings:

	Group		Company	
	2017	2016	2017	2016
Opening balance	93,589,211	91,727,994	93,602,685	91,727,994
Application of the net profit of the prior year	62,160,395	72,065,283	62,160,395	72,065,283
Distribution of dividends (Note 28)	(72,000,000)	(70,264,792)	(72,000,000)	(70,264,792)
Share capital increase	(49,500,000)	-	(49,500,000)	-
Adjustments from the application of the equity method	18,482	19,820	73,855	19,820
Other movements	-	40,906	-	54,380
Closing balance	34,268,089	93,589,211	34,336,935	93,602,685

Other changes in equity
The actuarial gains/losses associated to post-employment benefits, as well as the corresponding deferred taxes, are recognised in this heading (Note 32).

Thus, for the years ended 31 December 2017 and 31 December 2016, the movements occurred in this heading in the **Group** and in the **Company** were as follows:

	Group 2017	Group 2016	Company 2017	Company 2016
Opening balance	(27,137,824)	(18,644,832)	(27,137,824)	(18,644,832)
Actuarial gains/losses (Note 32)	(7,579,217)	(11,827,990)	(7,603,118)	(11,827,990)
Tax effect (Note 50)	2,082,045	3,334,998	2,087,423	3,334,998
Closing balance	(32,634,996)	(27,137,824)	(32,653,520)	(27,137,824)

28. DIVIDENDS

At the General Meeting of Shareholders, which was held on 20 April 2017, a dividend distribution of 72,000,000 Euros was approved, corresponding to a dividend per share of 0.48 Euros, regarding the financial year ended 31 December 2016. The dividend was paid on 19 May 2017. The dividend amount assigned to own shares was transferred to Retained earnings, totalling 0.48 Euros.

Assigned dividends	72,000,000
Dividends assigned to own shares	(0.48)
Dividends paid	72,000,000

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

29. EARNINGS PER SHARE

During the years ended 31 December 2017 and 31 December 2016, the earnings per share were calculated as follows:

	2017	2016
Net income for the period	27,263,244	62,160,395
Average number of ordinary shares	149,950,640	149,527,101
Earnings per share		
Basic	0.18	0.42
Diluted	0.18	0.42

The average number of shares is detailed as follows:

	2017	2016
Shares issued at begining of the period	150,000,000	150,000,000
Own shares effect	49,360	472,899
Average number of shares during the period	149,950,640	149,527,101

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares, excluding the average number of own shares held by the Group.

As at 31 December 2017, the number of own shares held is 1 and its average number for the year ended 31 December 2017 is 49,360, reflecting the fact that the acquisition of own shares occurred in previous years and their attribution occurred on 31 January 2017.

There are no dilutive factors of earnings per share.

30. NON-CONTROLLING INTERESTS

During the years ended 31 December 2017 and 31 December 2016, the following movements occurred in non-controlling interests:

	2017	2016
Opening balance	(79,135)	175,322
Net profit for the year attributable to non-controlling interest	(147,921)	(263,328)
Other movements	373,795	8,871
Closing balance	146,738	(79,135)

As at 31 December 2017 and 31 December 2016, non-controlling interests related to the following companies:

	2017	2016
Correio Expresso de Moçambique, S.A.	146,738	(79,135)
	146,738	(79,135)

31. DEBT

As at 31 December 2017 and 31 December 2016, Debt of the **Group** and the **Company** showed the following composition:

	Group		Company	
	2017	2016	2017	2016
Non-current liabilities				
Bank loans	49,596	87,202	-	-
Leasing	24,093	39,943	-	-
	73,689	127,145	-	-
Current liabilities				
Bank loans	10,272,258	8,726,161	-	-
Leasing	32,132	953,668	-	724,749
	10,304,390	9,679,829	-	724,749
	10,378,079	9,806,974	-	724,749

As at 31 December 2017, the interest rates applied to finance leases were between 0.625% and 4.50% (31 December 2016: between 0.23% and 0.51%) and the interest rates applied to other loans were between 1.49% and 2.25% (31 December 2016: 1.09% and 2.25%).

Bank loans and other loans

As at 31 December 2017 and 31 December 2016, the details of the **Group** bank loans were as follows:

Group	2017			2016		
Financing entity	Limit	Amount used		Limit	Amount used	
		Current	Non-current		Current	Non-current
Bank loans						
Banco Sabadell (Spain)	400,000	-	-	400,000	-	-
BBVA (Spain)	500,000	-	-	500,000	-	-
Millennium BCP	10,750,000	10,272,258	-	9,750,000	8,726,161	-
BBVA / Bankinter	90,000,000	-	-	-	-	-
BIM - (Mozambique)	-	-	-	218,270	-	-
BIM - (Mozambique)	92,107	-	49,596	131,873	-	87,202
Other loans						
BIM - (Mozambique)	42,511	-	-	77,861	-	-
Moza Banco (Mozambique)	-	-	-	25,954	-	-
	101,784,618	10,272,258	49,596	11,103,958	8,726,161	87,202

On 27 September 2017, a financing contract between CTT and BBVA and Bankinter was signed, for an initial period of 5 years and for a total amount of 90 million Euros, with the possibility of using the funds until September 2018. As at 31 December 2017, no amount has been used, even though the Group maintains its intention to use the referred financing in 2018.

The financing negotiated with Spanish banks is intended to finance the operating activity of the subsidiary Tourline, subject to Eonia interest rate.

Leasings

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** have the following assets under finance leases:

	2017					
	Group			Company		
	Gross amount	Depreciation/accumulated impairment losses	Carrying amount	Gross amount	Depreciation/accumulated impairment losses	Carrying amount
Transport equipment	316,422	173,916	142,506	-	-	-
	316,422	173,916	142,506	-	-	-

	2016					
	Group			Company		
	Gross amount	Depreciation/accumulated impairment losses	Carrying amount	Gross amount	Depreciation/accumulated impairment losses	Carrying amount
Land	9,425,895	815,990	8,609,905	7,798,567	815,990	6,982,577
Buildings and other constructions	4,963,685	1,498,212	3,465,473	81,701	33,616	48,085
Transport equipment	19,371	18,854	517	-	-	-
	14,408,951	2,333,056	12,075,895	7,880,268	849,606	7,030,662

During the year ended 31 December 2017, the leasing contracts existing in CTT and CTT Expresso terminated, and both companies exercised the purchase option as provided in those contracts.

The leasing contracts existing in the **Group** relate to the leasing of vehicles used in the operational activity of the subsidiary Corre.

The monthly rents are calculated based on the initial contract value, and it is possible to exercise the call option by paying a residual value.

There are no other restrictions in the contracts that have been signed.

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** liabilities with financial lease contracts presented the following plan of due dates:

	2017					
	Group			Company		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	32,132	9,866	41,998	-	-	-
Due between 1 to 5 years	24,093	6,723	30,816	-	-	-
Over 5 years	-	-	-	-	-	-
Total	56,224	16,589	72,813	-	-	-

	2016					
	Group			Company		
	Capital	Interest	Total	Capital	Interest	Total
Due within 1 year	953,668	8,263	961,931	724,749	844	725,593
Due between 1 to 5 years	39,943	9,927	49,870	-	-	-
Over 5 years	-	-	-	-	-	-
Total	993,611	18,190	1,011,801	724,749	844	725,593

For the years ended 31 December 2017 and 31 December 2016, the values paid by the **Group** in relation to leasing interest amounted to 1,776 Euros and 7,014 Euros, respectively. In the **Company**, for the same periods, the amounts paid were 802 Euros and 2,958 Euros, respectively.

32. EMPLOYEE BENEFITS

Liabilities related to employee benefits refer to (i) post-employment benefits – healthcare and pension plan (ii) other long-term benefits and (iii) other long-term benefits for the Statutory Bodies.

During the years ended 31 December 2017 and 31 December 2016, the **Group** and the **Company** liabilities presented the following movement:

2017

	Group							Company					
	Liabilities					Equity		Liabilities				Equity	
	Healthcare	Pension Plan	Other long-term employee benefits	Other long-term benefits statutory bodies	Total	Other long-term benefits statutory bodies	Total	Healthcare	Other long-term employee benefits	Other long-term benefits statutory bodies	Total	Other long-term benefits statutory bodies	Total
Opening balance	249,110,199	-	18,725,982	-	267,836,181	4,480,638	272,316,819	249,110,199	18,725,982	-	267,836,181	4,480,638	272,316,819
Movement of the period	4,862,187	355,750	(3,073,917)	40,140	2,184,160	(4,480,638)	(2,296,478)	4,862,187	(3,073,917)	40,140	1,828,410	(4,480,638)	(2,652,228)
Closing balance	253,972,386	355,750	15,652,065	40,140	270,020,341	-	270,020,341	253,972,386	15,652,065	40,140	269,664,591	-	269,664,591

2016

	Group							Company					
	Liabilities					Equity		Liabilities				Equity	
	Healthcare	Pension Plan	Other long-term employee benefits	Other long-term benefits statutory bodies	Total	Other long-term benefits statutory bodies	Total	Healthcare	Other long-term employee benefits	Other long-term benefits statutory bodies	Total	Other long-term benefits statutory bodies	Total
Opening balance	236,806,000	-	23,039,344	-	259,845,344	2,987,092	262,832,436	236,806,000	23,000,540	-	259,806,540	2,987,092	262,793,632
Movement of the period	12,304,199	-	(4,313,362)	-	7,990,837	1,493,546	9,484,383	12,304,199	(4,274,558)	-	8,029,641	1,493,546	9,523,187
Closing balance	249,110,199	-	18,725,982	-	267,836,181	4,480,638	272,316,819	249,110,199	18,725,982	-	267,836,181	4,480,638	272,316,819

The heading Other long-term benefits essentially refers to the on-going staff reduction programme and to the benefit Pensions for work accidents.

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

The details of the **Group** and the **Company** liabilities related to employee benefits, considering their classification, are as follows:

	Group		Company	
	2017	2016	2017	2016
Equity (Other reserves)	-	4,480,638	-	4,480,638
Non-current liabilities	252,919,533	250,445,608	252,595,578	250,445,608
Current liabilities	17,100,808	17,390,573	17,069,013	17,390,573
	270,020,341	272,316,819	269,664,591	272,316,819

As at 31 December 2017 and 31 December 2016, the costs related to employee benefits recognised in the consolidated and individual income statement and the amount recognised directly in Other changes in equity were as follows:

	Group		Company	
	2017	2016	2017	2016
Costs for the period				
Healthcare	7,458,167	10,439,535	7,458,167	10,439,535
Pension plan	3,748	-	-	-
Other long-term employee benefits	86,118	(873,135)	86,118	(878,989)
Other long-term benefits statutory bodies	657,030	1,493,546	657,030	1,493,546
	8,205,063	11,059,946	8,201,315	11,054,092
Other changes in equity				
Healthcare	(7,603,118)	(11,827,990)	(7,603,118)	(11,827,990)
Pension Plan	23,901	-	-	-
	(7,579,217)	(11,827,990)	(7,603,118)	(11,827,990)

Healthcare

As mentioned in Note 2.19, CTT is responsible for financing both healthcare plans applicable to certain employees – IOS Plan and Insurance policy.

In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is performed by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, an actuarial study has been performed as at 31 December 2017.

The main assumptions followed in the **Group** and the **Company** actuarial study of both plans were:

	2017	2016
Financial assumptions		
Discount rate	2.00%	2.00%
Salaries expected growth rate	2.25%	2.25%
Pensions growth rate	Law no. 53-B/2006 (with Δ GDP < 2%)	Law no. 53-B/2006 (with Δ GDP < 2%)
Inflation rate	1.50%	1.50%
Health costs growth rate		
- Infation rate	1.50%	1.50%
- Growth due to ageing	2.00%	2.00%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability table	Swiss RE	Swiss RE

The discount rate is estimated based on interest rates of private debt bonds with high credit rating ("AA" or equivalent) at the date of the balance sheet and with a duration equivalent to that of the liabilities with healthcare.

The discount rate is determined by the **Group** and the **Company** analysis of the evolution of the macroeconomic context and the constant need to match the actuarial and financial assumptions to that reality. Therefore since no significant changes have been observed, in comparison to the previous year, the discount rate was maintained in 2.00%.

The salaries expected growth rate is determined according to the salary policy defined by the **Group** and the **Company**.

The pensions expected growth rate is determined considering the estimated evolution of inflation and GDP growth rate.

The healthcare costs growth rate reflects the best estimate for the future evolution of these costs, considering the history of the plan's data.

The demographic assumptions are based on the mortality and disability tables considered appropriate for the actuarial assessment of this plan.

The evolution of the present value of the **Group** and the **Company** liabilities related to the healthcare plans has been as follows:

	2017	2016	2015	2014	2013
Liabilities at the end of the period					
IOS plan	250,622,728	246,367,140	236,806,000	241,166,000	263,371,000
Insurance policy	3,349,658	2,743,059	-	-	-
	253,972,386	249,110,199	236,806,000	241,166,000	263,371,000

For the years ended 31 December 2017 and 31 December 2016, the movement which occurred in the present value of the defined benefits liability regarding the healthcare plans was as follows:

	IOS Plan		Insurance policy	
	Group and Company		Group and Company	
	2017	2016	2017	2016
Opening balance	246,367,140	236,806,000	2,743,059	-
Service cost of the year	4,533,000	3,977,000	-	-
Interest cost of the year	4,829,000	5,793,000	53,000	-
Plan amendment	(2,628,511)	(1,373,524)	671,678	2,743,059
Pensioners contributions	4,840,725	4,985,801	17,481	-
(Payment of benefits)	(14,342,805)	(14,980,969)	(97,728)	-
(Other costs)	(602,923)	(668,158)	(13,849)	-
Actuarial (gains)/losses	7,627,101	11,827,990	(23,983)	-
Closing balance	250,622,728	246,367,140	3,349,658	2,743,059

Under the human resources optimisation process, started in 2016 and reinforced in 2017, some employees are no longer considered in the IOS healthcare plan ("*Instituto das Obras Sociais*") being from that date onwards covered by an insurance policy with similar coverages of the IOS healthcare plan and the same monthly contributions and co-payments in the existing terms, as referred to in note 2.19. This revised plan has been considered as an amendment to the plan and therefore recognised in profit and loss under the caption Staff costs.

The total costs for the period were recognised as follows:

	IOS Plan		Insurance policy	
	Group and Company		Group and Company	
	2017	2016	2017	2016
Staff costs/employee benefits (Note 45)	1,301,566	1,935,318	657,829	2,043,059
Other costs	602,923	668,158	13,849	-
Interest expenses (Note 49)	4,829,000	5,793,000	53,000	-
	6,733,489	8,396,476	724,678	2,043,059

As at 31 December 2017, regarding the IOS Plan, the actuarial (gains)/losses in the amount of 7,627,101 Euros (11,827,990 Euros as at 31 December 2016) were recognised in equity under Other changes in equity, net of deferred taxes of 2,093,639 Euros (3,334,998 Euros as at 31 December 2016).

In this respect, the amount of the actuarial (gains)/losses accounted in 31 December 2017 regarding the IOS Plan mainly refers to the projection of quotas below the expected and to the fact that the growth in healthcare costs per capita was higher than the expected growth rate.

In what refers to Insurance Policy, as at 31 December 2017, the amount of (23,983) Euros related to the actuarial (gains)/losses was recognised in equity under Other changes in equity, net of deferred taxes of 6,583 Euros.

The best estimate the **Group** and the **Company** have at this date for costs related to the healthcare plan, which they expect to recognise in the next annual period is 9,575 thousand Euros.

The sensitivity analysis performed for the healthcare plan leads to the following conclusions:

(i) If there was an increase of 1 b.p. in the growth rate of medical costs and keeping all other variables constant, the liabilities of the healthcare plan would be 314,985 thousand Euros, increasing by approximately 24%.

(ii) If the discount rate was reduced 25 b.p. and keeping all the remaining variables constant, the liabilities would increase by approximately 4%, amounting to 264,131 thousand Euros.

(iii) The use of adjusted mortality tables, differentiated between men and women (Men TV 73/77 (-2) and Women TV 88/90 (-3)), holding everything else constant, could translate into an increase of the health care plan liability for past services of about 5% amounting to a total of 266,783 thousand Euros.

Pension Plan

As mentioned in Note 2.19, the **Group** is responsible for the payment of cash benefits in the form of supplementary retirement pension contributions over the amounts paid by Social Security to a closed group of employees.

In order to obtain the estimate of the liabilities and costs to be recognised for each period, an actuarial study is performed by an independent entity every year, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable, an actuarial study has been performed as at 31 December 2017.

The main assumptions followed in the **Group** actuarial study were:

	2017
Financial assumptions	
Discount rate	2.00%
Salaries growth rate (Suspension of contracts)	2.25%
Inflation rate	1.50%
Demographic assumptions	
Mortality table	TV 88/90
Disability rate	Swiss RE

For the year ended 31 December 2017, the movement of **Group** liabilities with the Pension Plan was as follows:

	Group
	2017
Opening balance	-
Changes in the consolidation perimeter	398,472
Service cost of the year	612
Interest cost of the year	3,136
(Payment of benefits)	(22,569)
Actuarial (gains)/losses	(23,901)
Closing balance	355,750

The total costs for the period were recognised as follows:

	Group
	2017
Staff costs/employee benefits (Note 45)	612
Other costs	-
Interest expenses (Note 49)	3,136
	3,748

The best estimate the **Group** has at this date for costs related to the pension plan, which it expects to recognise in the next annual period, is 7,100 Euros.

The sensitivity analysis performed in the year ended 31 December 2017 for the Pension Plan leads to the conclusion that if the discount rate were reduced by 25 b.p. and keeping all the remaining variables constant, the liabilities for past services would increase by approximately by 2%, amounting to 362,865 Euros.

Other long-term employee benefits

As mentioned in Note 2.19, in certain situations, the **Group** and the **Company** has liabilities related to the payment of salaries in situations of Suspension of contracts, redeployment and release of employment, the allocation of subsidies of Support for termination of professional activity (which was eliminated as of 1 April 2013), the payment of the Telephone subscription fee, Pensions for work accidents, and Monthly life annuity. In order to obtain the estimate of the value of these liabilities and the costs to be recognised for each period, every year, an actuarial study is made by an independent entity, based on the Projected Unit Credit method, and according to assumptions that are considered adequate and reasonable. As at 31 December 2017, an actuarial study was requested to an independent entity to assess the liabilities at the reporting date.

The main assumptions followed in the assessment of the **Group** and the **Company** liabilities were:

	2017	2016
Financial assumptions		
Discount rate	2.00%	2.00%
Salaries growth rate (Suspension of contracts)	2.25%	2.25%
Pensions growth rate (Pension for work accidents, Monthly life annuity)	1.50%	1.50%
Inflation rate	1.50%	1.50%
Demographic assumptions		
Mortality table	TV 88/90	TV 88/90
Disability rate	Swiss RE	Swiss RE

For the years ended 31 December 2017 and 31 December 2016, the movement of **Group** and the **Company** liabilities with other long-term employee benefits was as follows:

	Group		Company	
	2017	2016	2017	2016
Suspension of contracts, redeployment and release of employment				
Opening balance	5,494,833	8,234,231	5,494,833	8,195,426
Interest cost of the period	88,229	171,857	88,229	171,614
Liabilities relative to new beneficiaries	194,189	774,529	194,189	774,529
Curtailment	(110,686)	(616,318)	(110,686)	(616,318)
(Payment of benefits)	(2,517,021)	(3,505,008)	(2,517,021)	(3,460,349)
Actuarial (gains)/losses	162,327	435,541	162,327	429,930
Closing balance	3,311,871	5,494,833	3,311,871	5,494,833
Telephone subscription fee				
Opening balance	2,105,828	4,518,270	2,105,828	4,518,270
Interest cost of the period	40,003	107,145	40,003	107,145
Curtailment	-	(1,513,395)	-	(1,513,395)
(Payment of benefits)	(150,161)	(173,293)	(150,161)	(173,293)
Actuarial (gains)/losses	(492,331)	(832,898)	(492,331)	(832,898)
Closing balance	1,503,339	2,105,828	1,503,339	2,105,828
Pension for work accidents				
Opening balance	7,349,306	6,863,591	7,349,306	6,863,591
Interest cost of the period	142,677	166,338	142,677	166,338
(Payment of benefits)	(393,246)	(436,651)	(393,246)	(436,651)
Actuarial (gains)/losses	(155,729)	756,028	(155,729)	756,028
Closing balance	6,943,008	7,349,306	6,943,008	7,349,306
Monthly life annuity				
Opening balance	3,776,015	3,423,253	3,776,015	3,423,253
Interest cost of the period	74,573	84,398	74,573	84,398
(Payment of benefits)	(99,608)	(97,352)	(99,608)	(97,352)
Actuarial (gains)/losses	142,867	365,716	142,867	365,716
Closing balance	3,893,847	3,776,015	3,893,847	3,776,015
Total	15,652,065	18,725,982	15,652,065	18,725,982

During the years ended 31 December 2017 and 31 December 2016, the total costs for the year were recognised as follows:

	Group		Company	
	2017	2016	2017	2016
Staff costs/employee benefits (Note 45)				
Suspension of contracts, redeployment and release of employment	245,830	(178,324)	245,830	(183,935)
Telephone subscription fee	(492,331)	(2,346,293)	(492,331)	(2,346,293)
Pension for work accidents	(155,729)	756,028	(155,729)	756,028
Monthly life annuity	142,867	365,716	142,867	365,716
	(259,363)	(1,402,873)	(259,363)	(1,408,484)
Interest expenses (Note 49)	345,482	529,738	345,482	529,495
	86,118	(873,135)	86,118	(878,989)

In the years ended 31 December 2017 and 31 December 2016, following the analysis of the historical data of the monthly medical costs per beneficiary and the number of beneficiaries of the Telephone subscription fee performed by the independent expert, a liability reduction was recorded in the amount of 492,331 Euros and 2,346,293 Euros, respectively, in the heading Staff costs since it related to long-term employee benefits.

The liabilities related to new beneficiaries as well as the cut observed in the Suspension of contracts, redeployment and release of employment benefit occur under the referred human resources optimisation process, following agreements of suspension of employment contracts entered into or terminated in the meantime.

The actuarial (gains)/losses regarding long-term employee benefits recognised as at 31 December 2017 mainly relates to the movements in the beneficiary population which, according to IAS 19 – Employee benefits, were recognised in the caption Staff costs in the income statement.

The best estimate that the **Company** has at this date for costs with other long-term benefits, which it expects to recognise in the next year is 287,666 Euros.

The sensitivity analysis performed on 31 December 2017 for the Other long-term benefits leads to the conclusion that, if the discount rate was reduced by 25 b.p., keeping everything else constant, this would give rise to an increase in liabilities for past services of approximately 2.8%, increasing to 16,090 thousand Euros.

Other long-term benefits for the Statutory Bodies

CTT approved, with effects as from 31 December 2017, the Remuneration Regulation for Members of the Statutory Bodies for the period 2017-2019, which defines the allocation of a long-term variable remuneration, to be paid in cash (note 2.19). The plan is now considered as "cash settlement" which, according to IFRS2, implies that the liability should be annually updated and any changes resulting therefrom should be recorded in the income statement.

The amount to be attributed to the members of the CTT Executive Committee is based on the results of the performance evaluation during the term of office (1 January 2017 to 31 December 2019), which consists of a comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

As a result, as at 31 December 2017, CTT recorded a cost of 40,140 Euros corresponding to the period from 1 January 2017 to 31 December 2017, booked against Other liabilities.

33. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the years ended 31 December 2017 and 31 December 2016, in order to face legal proceedings and other liabilities arising from past events, the **Group** and the **Company** recognised provisions, which showed the following movement:

	2017						
Group	Opening balance	Increases	Reversals	Utilisations	Transfers	Changes in the consolidation perimeter	Closing balance
Non-current provisions							
Litigations	4,838,552	2,316,092	(2,805,272)	(1,140,292)	151,399	30,000	3,390,479
Restructuring	-	1,729,651	-	-	-	-	1,729,651
Other provisions	9,288,931	118,462	(333,053)	(584,340)	(151,399)	-	8,338,601
Sub-total - caption "Provisions (increases)/reversals"	**14,127,483**	**4,164,205**	**(3,138,325)**	**(1,724,632)**	**-**	**30,000**	**13,458,730**
Investments in subsidiary and associated companies	-	-	-	-	-	-	-
Restructuring	-	13,101,590	(146,221)	(1,052,197)	-	-	11,903,172
Other provisions	-	666,430	-	-	-	-	666,430
	14,127,483	**17,932,225**	**(3,284,546)**	**(2,776,829)**	**-**	**30,000**	**26,028,332**

	2016						
Group	Opening balance	Increases	Reversals	Utilisations	Transfers	Changes in the consolidation perimeter	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
Sub-total - caption "Provisions (increases)/reversals"	**40,496,035**	**2,249,078**	**(18,592,759)**	**(10,024,871)**	**-**	**-**	**14,127,483**
Investments in subsidiary and associated companies	189,775	-	(189,775)	-	-	-	-
Restructuring	46,522	-	-	(46,522)	-	-	-
	40,732,332	**2,249,078**	**(18,782,534)**	**(10,071,393)**	**-**	**-**	**14,127,483**

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to (1,025,880) Euros and 16,343,680 Euros as at 31 December 2017 and 2016, respectively.

	2017					
Company	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	4,486,591	1,995,738	(2,609,440)	(1,081,475)	151,399	2,942,813
Restructuring	-	1,729,651	-	-	-	1,729,651
Other provisions	8,927,881	37,772	(156,270)	(409,637)	(151,399)	8,248,347
Sub-total - caption "Provisions (increases)/reversals"	**13,414,472**	**3,763,160**	**(2,765,710)**	**(1,491,112)**	**-**	**12,920,810**
Investments in subsidiary and associated companies	6,912,830	6,910,256	-	(9,585,544)	-	4,237,541
Restructuring	-	11,841,708	-	-	-	11,841,708
Other provisions	-	550,000	-	-	-	550,000
	20,327,302	**23,065,124**	**(2,765,710)**	**(11,076,656)**	**-**	**29,550,059**

Company	2016					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	8,312,828	1,661,889	(4,346,619)	(2,057,169)	915,662	4,486,591
Onerous contracts	13,899,390	139,058	(6,607,600)	(7,430,848)	-	-
Other provisions	14,513,084	-	(4,652,716)	(16,825)	(915,662)	8,927,881
Sub-total - caption "Provisions (increases)/reversals"	**36,725,302**	**1,800,947**	**(15,606,935)**	**(9,504,842)**	**-**	**13,414,472**
Investments in subsidiary and associated companies	-	6,912,830	-	-	-	6,912,830
	36,725,302	**8,713,777**	**(15,606,935)**	**(9,504,842)**	**-**	**20,327,302**

The net amount between increases and reversals of provisions was recorded in the individual income statement under the caption Provisions, net and amounted to (997,450) Euros and 13,805,988 Euros as at 31 December 2017 and 2016, respectively.

Litigations
The provisions for litigations were set up to face the liabilities resulting from lawsuits brought against the **Group** and the **Company** and are estimated based on information from their lawyers as well as on the termination of the mentioned lawsuits.

Restructuring
On 19 December 2017, CTT approved an Operational Transformation Plan, which emphasises the purposes of optimising the retail network and reinforcing the HR optimisation programme. As a result of this Transformation Plan, a provision for restructuring in the total amount of 13,571,359 Euros was recorded in the **Company** having 11,841,708 Euros been recorded against the caption Staff costs and the amount of 1,729,651 Euros was recognised under the heading Provisions, net in the income statement.

In addition, during the year ended 31 December 2017, a provision for restructuring was recognised in the accounts of the subsidiary Transporta – Transportes Porta a Porta, S.A., for 1,198,418 Euros, following the human resources optimisation and restructuring process. This provision was recorded under the heading Staff costs in the consolidated income statement.

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

The utilisations relate to the payment of rents due during the period as well as part of the outstanding rents of the Conde Redondo building.

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

Consequently, as at 31 December 2016 there are no amounts, at **Group** or **Company** level, recognised as onerous contracts.

Other provisions
As at 31 December 2017 the provision, in the **Group** and the **Company**, to cover any contingencies relating to labour litigation proceedings not included in the current court proceedings related to remuneration differences and attendance bonuses that can be claimed by workers, amounts to 7,882,083 Euros (8,130,479 as at 31 de December de 2016).

The reversals recognised in CTT, S.A., during the year ended 31 December 2016, 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, which was maintained in 2017.

At CTT Expresso, S.A., as a result of the favourable outcome of the court actions, in 2016, the probability of the provision was revised and the total amount of the provision, amounting to 2.1 million Euros, was reversed. Therefore, in 2016, these proceedings become to be considered as contingent liabilities, as in 2017.

As at 31 December 2017, in addition to the previously mentioned situations, this heading also includes in the **Group** and the **Company**:

- the amount of 90,000 Euros in the **Company** to cover costs of dismantlement of tangible fixed assets and/or removal of facilities and restoration of the site;
- the amount of 670,757 Euros in the **Group** and 550,000 Euros in the **Company**, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in subsidiary and associated companies

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

The provision for investments in subsidiary companies corresponds to the assumption by the **Company** of legal or constructive obligations regarding the subsidiaries Transporta – Transportes Porta a Porta, S.A. and Tourline Express Mensajería, SLU in the year ended 31 December 2017 and the subsidiaries CORRE - Correio Expresso Moçambique, S.A. and Tourline Express Mensajería, SLU in the year ended 31 December 2016.

Guarantees provided

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

Description	Group 2017	Group 2016	Company 2017	Company 2016
Autoridade Tributária e Aduaneira	4,844,868	590,000	4,721,328	590,000
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174	3,030,174	3,030,174
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	2,033,582	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886	1,792,886	1,792,886
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	1,523,201	1,523,201	1,523,201
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	1,274,355	1,274,355	1,274,355
Municipal Autarchies	188,491	183,677	186,487	183,677
TIP - Transportes Intermodais do Porto, ACE	150,000	50,000	-	-
Courts	126,204	167,107	104,984	145,887
Solred	80,000	80,000	-	-
ANA - Aeroportos de Portugal	68,000	34,000	68,000	34,000
INCM - Imprensa Nacional da Casa da Moeda	46,167	46,167	-	-
Fonavi, Nave Hospitalet	40,477	40,477	-	-
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180	30,180	30,180
EMEL, S.A.	26,984	19,384	7,600	-
Águas do Porto, E.M	10,720	10,720	-	-
SMAS de Sintra	15,889	-	-	-
Águas do Norte	23,804	-	23,804	-
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433	-	-
Serviços Intermunicipazilados Loures e Odivelas	17,000	-	-	-
Direção Geral do Tesouro e Finanças	16,867	16,867	16,867	16,867
Portugal Telecom, S.A.	16,658	16,658	16,658	16,658
Refer	16,460	-	-	-
Instituto de Gestão Financeira Segurança Social	16,406	16,406	16,406	16,406
Repsol	15,000	-	-	-
Other entities	14,103	29,992	-	-
Administração Regional de Saúse - Lisboa e Vale do Tejo	13,086	-	13,086	-
ACT Autoridade Condições Trabalho	12,460	58,201	12,460	58,201
SMAS Torres Vedras	9,909	9,909	7,101	7,101
Instituto de Segurança Social	8,190	-	8,190	-
Promodois	6,273	6,273	6,273	6,273
TNT Express Worldwide	6,010	6,010	-	-
Consejeria Salud	4,116	4,116	-	-
Instituto do emprego e formação profissional	3,718	3,718	-	-
Casa Pia de Lisboa, I.P.	1,863	-	1,863	-
IFADAP	1,746	1,746	1,746	1,746
Águas de Coimbra	870	870	870	870
Lisboagás, S.A.	-	190,000	-	-
Record Rent a Car (Cataluña, Levante)	-	40,000	-	-
SetGás, S.A.	-	30,000	-	-
Inmobiliaria Ederkin	-	7,998	-	-
Estradas de Portugal, EP	-	5,000	-	5,000
	15,508,150	11,371,107	14,898,100	10,767,064

Guarantees for lease Contracts

According to the terms of some lease contracts of the buildings occupied by the **Company**'s services, at the moment that the Portuguese State ceased to hold the majority of the share capital of CTT, bank guarantees on first demand had to be provided.

These guarantees amount to 9,654,198 Euros as at 31 December 2017 and 31 December 2016 in the **Group** and the **Company**.

The amounts relating to the Portuguese Tax and Customs Authority ("Autoridade Tributária e Aduaneira") arise essentially from tax enforcement proceedings arising from the inspection process regarding VAT of fiscal year 2013.

Following the risk assessment carried out by its legal advisors, the **Company** provided bank guarantees under the opposition presented in the arbitral tribunal, considering these proceedings as contingent liabilities.

Commitments

As at 31 December 2017 and 31 December 2016, the **Group** subscribed promissory notes amounting to approximately 42.5 thousand Euros and 40.2 thousand Euros, respectively, for various credit institutions intended to secure complete and timely compliance with the corresponding financing contracts.

The **Group** and the **Company** also assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros regarding the subsidiary Tourline and regarding the subsidiary Corre in the amount of 92,107 Euros, which are still active as at 31 December 2017.

As at 31 December 2017, the **Group** and the **Company** assumed commitments regarding the sponsoring of "Taça da Liga" (League Football Cup) in the amount of 0.5 million Euros.

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

The **Group** and the **Company** contractual commitments related to Tangible fixed assets and Intangible assets are detailed respectively in Notes 5 and 6.

34. ACCOUNTS PAYABLE

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

	Group		Company	
	2017	2016	2017	2016
Non-current				
Other accounts payable	-	375,379	-	375,379
	-	375,379	-	375,379
Current				
Advances from customers	2,989,508	3,039,657	2,968,359	3,025,041
CNP money orders	192,760,943	200,238,100	192,760,943	200,238,100
Suppliers	67,167,246	65,044,068	52,568,608	56,763,575
Invoices pending confirmation	10,783,684	8,559,890	6,827,573	5,188,920
Fixed assets suppliers	8,069,559	13,684,684	5,937,841	9,853,992
Invoices pending confirmation (fixed assets)	8,934,307	6,206,806	8,658,715	5,975,153
Values collected on behalf of third parties	10,307,613	8,955,667	7,686,289	6,524,493
Postal financial services	77,584,441	131,878,955	77,584,441	131,878,955
Advances regarding disposals	9,947	2,516,337	9,947	2,516,337
Other accounts payable	5,926,046	4,739,536	5,998,369	4,595,411
	384,533,294	444,863,700	361,001,085	426,559,977
	384,533,294	445,239,079	361,001,085	426,935,356

CNP money orders

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

Postal financial services

This heading records mainly the amounts collected related to taxes, insurance, savings certificates and other money orders. The decrease in caption as at 31 December 2017 is largely due to the fact that in December 2017 there was a decrease in the subscription of savings/treasury certificates compared to the same month of the previous year.

Advances regarding disposals

As at 31 December 2016 this heading mainly regards the deposit reinforcement provided in the agreement for the sale of real estate properties located at Rua de S. José.

Suppliers and fixed assets suppliers

As at 31 December 2017 and 31 December 2016 the **Group** and the **Company** heading Suppliers showed the following composition:

	Group		Company	
	2017	2016	2017	2016
Other suppliers	30,726,477	24,775,505	16,050,954	15,350,811
Postal operators	36,431,299	40,255,896	35,546,803	39,112,081
Group companies (1)	9,470	12,667	970,851	2,300,683
	67,167,246	65,044,068	52,568,608	56,763,575

(1) Includes subsidiary, associated and joint-ventures companies.

As at 31 December 2017 and 31 December 2016, the ageing of the **Group** and the **Company** balance of the headings Suppliers and Fixed assets suppliers is detailed as follows:

	Group		Company	
	2017	2016	2017	2016
Suppliers				
Non-overdue	26,555,426	21,756,069	17,379,843	16,568,629
Overdue (1):				
0-30 days	6,556,830	4,836,160	2,532,767	3,069,261
30-90 days	3,894,829	3,238,063	3,292,291	3,010,650
90-180 days	276,540	1,266,746	56,812	930,853
180-360 days	11,284,286	10,097,799	11,099,156	9,941,867
> 360 days	18,599,336	23,849,230	18,207,739	23,242,315
	67,167,246	65,044,068	52,568,608	56,763,575

(1) The amounts regarding the foreign operators, although being overdue over 360 days, are within the normal period for the presentation and regularisation of the accounts.

	Group		Company	
	2017	2016	2017	2016
Fixed assets suppliers				
Non-overdue	6,839,708	11,894,436	4,905,073	8,431,578
Overdue:				
0-30 days	698,145	1,295,524	585,706	1,212,583
30-90 days	36,623	311,145	-	86,847
90-180 days	305,644	54,198	305,644	54,198
180-360 days	24,169	70,948	20,233	30,167
> 360 days	165,270	58,432	121,186	38,619
	8,069,559	13,684,684	5,937,841	9,853,992

The current amount of accounts payable overdue over 360 days is as follows:

	Group		Company	
	2017	2016	2017	2016
Other suppliers	28,692	874,548	32,587	772,902
Foreign operators	18,570,644	22,974,682	18,175,152	22,469,414
Total	**18,599,336**	**23,849,230**	**18,207,739**	**23,242,315**
Foreign operators - receivable (Note 19)	**(19,512,914)**	**(18,350,981)**	**(18,853,715)**	**(16,849,505)**

The balances between Foreign Operators are cleared by netting accounts. These amounts refer to the accounts receivable balances related to these entities (Note 19).

35. BANKING CLIENTS' DEPOSITS AND OTHER LOANS

As at 31 December 2017 and 31 December 2016, the composition of the heading Banking clients' deposits and other loans in the **Group** is as follows:

	Group 2017	Group 2016
Sight deposits	408,639,274	114,041,001
Term deposits	129,945,220	131,417,483
Savings deposits	80,645,186	8,486,356
	619,229,680	253,944,840

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

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	Total
Sight deposits	408,639,274	-	-	-	-	408,639,274
Term deposits	-	63,510,961	66,434,259	-	-	129,945,220
Savings deposits	80,645,186	-	-	-	-	80,645,186
	489,284,460	63,510,961	66,434,259	-	-	619,229,680

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	Total
Sight deposits	114,041,001	-	-	-	-	114,041,001
Term deposits	-	73,693,366	57,724,117	-	-	131,417,483
Savings deposits	8,486,356	-	-	-	-	8,486,356
	122,527,357	73,693,366	57,724,117	-	-	253,944,840

36. OTHER CURRENT LIABILITIES

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** heading Other current liabilities showed the following composition:

	Group 2017	Group 2016	Company 2017	Company 2016
Current				
Estimated holiday pay, holiday subsidy and other remunerations	45,127,383	43,661,282	39,755,716	39,083,054
Estimated supplies and external services	33,104,164	24,036,928	27,593,558	18,631,427
Staff	68,841	58,708	62,349	16,690
State and other public entities				
Value Added Tax	3,204,066	2,460,642	2,539,807	1,806,370
Personal income tax withholdings	3,285,921	3,251,340	2,941,443	2,929,183
Social Security contributions	3,795,300	3,553,129	3,280,987	3,088,969
Caixa Geral de Aposentações	2,409,807	2,389,827	2,381,486	2,353,961
Local Authority taxes	491,565	554,515	483,485	554,515
Other taxes	46,338	8,534	330	143
Other	20,463	2,587,820	14,173	2,818,889
	91,553,848	82,562,725	79,053,334	71,283,201

37. INCOME TAXES RECEIVABLE / PAYABLE

As at 31 December 2017 and 31 December 2016 the **Group** and the **Company** heading Income taxes receivable and Income taxes payable showed the following composition:

	Group 2017	Group 2016	Company 2,017	Company 2016
Current assets				
Corporate income tax	1,552,005	3,587,614	1,564,777	3,569,641
	1,552,005	3,587,614	1,564,777	3,569,641

The **Company**'s current assets and current liabilities relative to corporate income tax were calculated as follows:

	Company	
	2017	2016
Estimated income tax	(17,224,948)	(19,644,847)
Estimated Group companies' income tax	2,969,128	695,532
Payments on account	14,981,579	21,720,696
Withholding taxes	839,018	798,260
	1,564,777	3,569,641

38. FINANCIAL ASSETS AND LIABILITIES

As at 31 December 20176 and 31 December 2016, the categories of financial assets and liabilities regarding the **Group** were broken down as follows:

Group	2017					
	Loans and receivables	Available-for-sale financial assets	Investments held to maturity	Other financial liabilities	Non-financial assets/liabilities	Total
Assets						
Other investments (Note 13)	-	1,503,572	-	-	-	1,503,572
Non-current investments held to maturity (Note 14)	-	-	245,827,759	-	-	245,827,759
Other non-current assets (note 24)	1,375,223	-	-	-	-	1,375,223
Non-current financial assets available for sale (Note 15)	-	3,175,180	-	-	-	3,175,180
Non-current credit to bank clients (Note 20)	64,263,948	-	-	-	-	64,263,948
Other non-current banking financial assets (Note 16)	11,831,122	-	-	-	-	11,831,122
Accounts receivable (Note 19)	132,480,130	-	-	-	-	132,480,130
Current credit to bank clients (Note 20)	15,083,442	-	-	-	-	15,083,442
Current investments held to maturity (Note 14)	-	-	15,721,373	-	-	15,721,373
Other current assets (Note 24)	12,672,525	-	-	-	19,665,709	32,338,234
Current financial assets available for sale (Note 15)	-	2,576,194	-	-	-	2,576,194
Other current banking financial assets (Note 16)	90,080,686	-	-	-	1,336,398	91,417,084
Cash and cash equivalents (Note 23)	626,825,397	-	-	-	-	626,825,397
Total Financial assets	**954,612,473**	**7,254,946**	**261,549,132**	**-**	**21,002,107**	**1,244,418,658**
Liabilities						
Medium and long term debt (Note 31)	-	-	-	73,689	-	73,689
Current accounts payable (Note 34)	-	-	-	375,607,793	8,925,501	384,533,294
Banking client deposits and other loans (Note 35)	-	-	-	619,229,680	-	619,229,680
Short term debt (Note 31)	-	-	-	10,304,390	-	10,304,390
Other current liabilities (Note 36)	-	-	-	33,193,469	58,360,379	91,553,848
Total Financial liabilities	**-**	**-**	**-**	**1,038,409,021**	**67,285,880**	**1,105,694,901**

Group	2016					
	Loans and receivables	Available-for-sale financial assets	Investments held to maturity	Other financial liabilities	Non-financial assets/liabilities	Total
Assets						
Other investments (Note 13)	-	1,503,572	-	-	-	1,503,572
Non-current investments held to maturity (Note 14)	-	-	93,986,115	-	-	93,986,115
Other non-current assets (note 24)	1,306,148	-	-	-	-	1,306,148
Non-current financial assets available for sale (Note 15)	-	4,473,614	-	-	-	4,473,614
Accounts receivable (Note 19)	122,113,270	-	-	-	-	122,113,270
Credit to bank clients (Note 20)	7,103,905	-	-	-	-	7,103,905
Current investments held to maturity (Note 14)	-	-	1,108,428	-	-	1,108,428
Other current assets (Note 24)	19,133,946	-	-	-	10,899,625	30,033,571
Current financial assets available for sale (Note 15)	-	1,973,711	-	-	-	1,973,711
Other banking financial assets (Note 16)	58,718,171	-	-	-	336,132	59,054,303
Cash and cash equivalents (Note 23)	618,811,099	-	-	-	-	618,811,099
Total Financial assets	**827,186,539**	**7,950,897**	**95,094,543**	**-**	**11,235,757**	**941,467,736**
Liabilities						
Non-current accounts payable (Note 34)	-	-	-	-	375,379	375,379
Medium and long term debt (Note 31)	-	-	-	127,145	-	127,145
Current accounts payable (Note 34)	-	-	-	434,568,170	10,295,530	444,863,700
Banking client deposits and other loans (Note 35)	-	-	-	253,944,840	-	253,944,840
Short term debt (Note 31)	-	-	-	9,679,829	-	9,679,829
Other current liabilities (Note 36)	-	-	-	26,683,455	55,879,270	82,562,725
Total Financial liabilities	**-**	**-**	**-**	**725,003,439**	**66,550,179**	**791,553,618**

The **Group** believes that the fair value of its financial assets and liabilities is similar to its book value, with the exception of the following caption:

	2017		2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments held to maturity	261,549,132	275,438,176	95,094,543	94,701,870

Regarding the **Company**, as at 31 December 2017 and 31 December 2016, the categories of financial assets and liabilities were broken down as follows:

Company	2017 Loans and receivables	Available-for-sale financial assets	Investments held to maturity	Other financial liabilities	Non-financial assets/liabilities	Total
Assets						
Other investments (Note 13)	-	1,503,572	-	-	-	1,503,572
Shareholders (Note 51)	6,368,047	-	-	-	45,464	6,413,511
Other non-current assets (Note 24)	1,092,403	-	-	-	-	1,092,403
Accounts receivable (Note 19)	95,987,068	-	-	-	-	95,987,068
Other current assets (Note 24)	11,840,911	-	-	-	16,081,999	27,922,910
Cash and cash equivalents (Note 23)	376,590,733	-	-	-	-	376,590,733
Total Financial assets	**491,879,162**	**1,503,572**	**-**	**-**	**16,127,463**	**509,510,197**
Liabilities						
Current accounts payable (Note 34)	-	-	-	352,024,409	8,976,676	361,001,085
Shareholders (Note 51)	-	-	-	-	12,821,447	12,821,447
Other current liabilities (Note 36)	-	-	-	27,670,080	51,383,254	79,053,334
Total Financial liabilities	**-**	**-**	**-**	**379,694,489**	**73,181,377**	**452,875,866**

Company	2016 Loans and receivables	Available-for-sale financial assets	Investments held to maturity	Other financial liabilities	Non-financial assets/liabilities	Total
Assets						
Other investments (Note 13)	-	1,503,572	-	-	-	1,503,572
Shareholders (Note 51)	8,025,158	-	-	-	822,241	8,847,398
Other non-current assets (Note 24)	1,110,991	-	-	-	-	1,110,991
Accounts receivable (Note 19)	94,323,683	-	-	-	-	94,323,683
Other current assets (Note 24)	18,226,686	-	-	-	9,558,147	27,784,833
Cash and cash equivalents (Note 23)	475,068,122	-	-	-	-	475,068,122
Total Financial assets	**596,754,640**	**1,503,572**	**-**	**-**	**10,380,388**	**608,638,599**
Liabilities						
Non-curent accounts payable (Note 34)	-	-	-	-	375,379	375,379
Current accounts payable (Note 34)	-	-	-	416,423,188	10,136,789	426,559,977
Shareholders (Note 51)	-	-	-	-	7,341,360	7,341,360
Short term debt (Note 31)	-	-	-	724,749	-	724,749
Other current liabilities (Note 36)	-	-	-	21,467,007	49,816,194	71,283,201
Total Financial liabilities	**-**	**-**	**-**	**438,614,944**	**67,669,722**	**506,284,666**

The **Company** believes that the fair value of its financial assets and liabilities is similar to its book value.

39. SUBSIDIES OBTAINED

As at 31 December 2017 and 31 December 2016, the information regarding European Union subsidies or grants (Note 2.23) to the **Group** and the **Company** was as follows:

	2017									
	Group					Company				
Subsidy	Attributed value	Value received	Value to be received	Accumulated income	Value to be used	Attributed value	Value received	Value not received	Accumulated revenues	Value to be used
Investment subsidy	9,886,315	9,732,999	153,316	9,552,124	334,191	9,868,022	9,714,706	153,316	9,539,928	328,094
Operating subsidy	200,667	200,667	-	200,667	-	177,045	177,045	-	177,045	-
	9,928,401	9,775,085	153,316	9,752,791	334,191	10,045,067	9,891,751	153,316	9,716,973	328,094

	2016									
	Group					Company				
Subsidy	Attributed value	Value received	Value to be received	Accumulated income	Value to be used	Attributed value	Value received	Value not received	Accumulated revenues	Value to be used
Investment subsidy	9,833,915	9,680,599	153,316	9,482,425	351,490	9,815,622	9,662,306	153,316	9,476,327	339,295
Operating subsidy	94,486	94,486	-	94,486	-	70,864	70,864	-	70,864	-
	9,928,401	9,775,085	153,316	9,576,911	351,490	9,886,486	9,733,170	153,316	9,547,192	339,295

The amounts received as investment subsidy – FEDER - are recognised in the income statement, under the heading Other operating income, as the corresponding assets are amortised.

The financial contribution of the Instituto do Emprego e da Formação Profissional, I.P. ("Institute of Employment and Professional Training") ("IEFP"), received under the Employment Internships Programme configures the typology of Grants related to income or operational expenses and is recognised as revenue in the same period of the related expense.

The amounts received were initially deferred (Note 21) and transferred to the income statement to the caption Other operating income, to the extent that the expenses were recognised.

40. SALES AND SERVICES RENDERED

For the years ended 31 December 2017 and 31 December 2016, the significant categories of the **Company** revenue were as follows:

	Company	
	2017	2016
Sales	18,526,222	19,247,627
Mail services rendered	443,070,503	447,593,802
Postal financial services	48,474,325	51,693,802
Electronic vehicle identification devices	5,969,234	6,111,035
Telecommunication services	723,239	926,045
Other services	6,383,406	5,485,005
	523,146,929	531,057,316

Other services fundamentally concern:

	2017	2016
Photocopies Certification	226,771	226,737
Reg. Aut. Madeira transport allowance	741,443	829,740
Others Philately	98,888	125,822
Costums presentation tax	2,190,832	1,276,941
Corfax	110,253	160,908
Non-adressed mail	252,284	244,037
Portugal Telecom services	164,544	113,925
Digital mailRoom	500,894	337,383
Other services	2,097,497	2,169,512
	6,383,406	5,485,005

41. FINANCIAL MARGIN

As at 31 December 2017 and 31 December 2016, the composition of the **Group** heading Financial margin was as follows:

	Group	
	2017	2016
Interest and similar income	**4,199,520**	**416,006**
Interest on held to maturity investments	3,383,428	306,145
Interest on deposits at credit institutions	197,587	64,721
Interest on credit to bank clients	588,817	29,329
Interest on available for sale financial assets	29,688	15,811
Interest and similar charges	**809,954**	**389,955**
Interest from banking client's deposits	748,742	386,168
Other interest	61,212	3,787
	3,389,566	26,051

42. OTHER OPERATING INCOME

For the years ended 31 December 2017 and 31 December 2016, the composition of the **Group** and the **Company** heading Other operating income was as follows:

	Group		Company	
	2017	2016	2017	2016
Supplementary revenues	4,804,120	4,253,302	35,559,551	33,085,834
Altice agreement	-	9,583,333	-	6,388,889
Early settlement discounts received	62,804	47,453	22,926	14,876
Gains inventories	8,734	24,671	8,734	12,373
Favourable exchange rate differences of assets and liabilities other than financing	2,515,850	654,644	2,366,716	529,898
Income from financial investments	643,765	462,169	329,833	211,994
Income from non-financial investments	19,563,152	5,289,677	19,523,067	5,283,045
Income from services and commissions	4,138,846	614,028	-	-
Interest income and expenses - financial services	215,312	334,714	215,312	334,714
VAT adjustments	2,188,084	3,981,197	2,188,084	3,981,197
Other	740,053	1,881,754	547,700	1,072,210
	34,880,720	27,126,942	60,761,923	50,915,030

Regarding the **Group** and the **Company**, the interest related to the Financial Services segment is recognised under this caption (Note 2.22).

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

In the year ended 31 December 2017 the caption Income from non-financial investments of the **Group** and the **Company** included the accounting gains obtained on the sale of ten properties classified as Investment properties in the amount of 1.1 million Euros, as well as the gain in the amount of 16.2 million Euros regarding the sale of real estate properties located at Rua de S. José.

In the year ended 31 December 2016 the caption Income from non-financial investments of the **Group** and the **Company** included the gains obtained on the sale of six properties classified as Investment properties in the amount of 1.2 million Euros, as well as the gain in the amount of 1.7 million Euros regarding Conde Redondo building as a result of the lease contract termination.

Following the Memorandum of understanding signed with Altice and being the acquisition of PT Portugal completed by Altice, CTT received from Altice the agreed initial payment, which was recognised in the income statement over the period for the negotiation of the partnerships, as provided in the Memorandum. This recognition ended in December 2016.

Regarding the **Company**, the caption Supplementary revenues fundamentally relates to:

	Company	
	2017	2016
Royalties	500,000	500,000
Services rendered to Group companies (1)	30,575,834	27,699,090
Rental of spaces in urban buildings	2,224,272	2,650,924
Other	2,259,445	2,235,819
	35,559,551	33,085,834

(1) Includes subsidiary, associated and joint-ventures companies.

43. EXTERNAL SUPPLIES AND SERVICES

For the years ended 31 December 2017 and 31 December 2016, the composition of the **Group** and the **Company** heading External supplies and services was as follows:

	Group		Company	
	2017	2016	2017	2016
Subcontracts	10,243,699	4,289,091	-	-
Specialised services	67,228,192	65,860,067	41,168,361	40,885,082
Services rendered by Group companies (1)	101,207	103,071	4,607,138	4,811,859
Materials	2,641,626	2,362,427	1,676,094	1,565,699
Energy and fuel	16,772,935	14,977,762	14,600,102	13,012,223
Staff transportation	209,840	214,836	203,908	208,150
Transportation of goods	63,853,736	58,016,465	11,468,044	11,790,403
Rents				
Vehicle operational lease	7,804,909	7,774,394	6,817,305	6,878,901
Other rental charge	30,181,897	27,031,283	24,752,781	22,811,547
Communication	2,310,829	2,399,224	855,246	1,275,034
Insurance	2,400,014	3,100,116	1,916,125	1,958,375
Royalties	-	294,643	-	-
Litigation and notary	241,937	321,881	182,674	220,920
Cleaning, hygiene and confort	4,008,772	3,967,060	3,630,280	3,633,811
Postal Agencies	4,979,992	4,514,987	4,998,387	4,532,203
Postal operators	20,332,867	18,271,388	19,179,315	17,326,163
Delivery subcontracting	6,091,867	5,786,536	6,091,867	5,786,536
Other services	12,077,180	12,751,658	5,746,928	7,628,235
Services rendered by Group companies (1)	194	175	3,354,349	3,252,241
	251,481,693	232,037,064	151,248,904	147,577,382

(1) Includes subsidiary, associated and joint-ventures companies.

(i) Specialised services refer to the outsourcing contracts for the provision of IT services, the maintenance of IT equipment and external consultants;
(ii) Energy and fuel refers mainly to diesel for vehicles used in the operating process;
(iii) Transportation of goods refers to costs with the transportation of mail in several ways (sea, air, surface);
(iv) Rents mainly refer to costs with leased facilities from third parties and the operating lease of vehicles;
(v) Remuneration to postal operators refers to costs with peer postal operators.

44. OPERATING LEASES

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** maintained medium and long-term liabilities in operating lease contracts of vehicles, with penalty clauses in the case of cancellation. The total amount of the future payments relative to operating leases is as follows:

	Group		Company	
	2017	2016	2017	2016
Due within 1 year	7,741,799	10,401,717	6,695,559	8,776,335
Due between 1 to 5 years	5,508,903	11,439,870	4,624,406	8,239,453
Due over 5 years	-	-	-	-
	13,250,702	21,841,587	11,319,965	17,015,788

During the years ended 31 December 2017 and 31 December 2016, the costs incurred with operating lease contracts amounted to 7,804,909 Euros and to 7,774,394 Euros, respectively, by the **Group**, and 6,817,305 Euros and to 6,878,901 Euros, respectively, by the **Company**. These costs are recognised under the caption Supplies and external services in the income statement.

The operating leases relate to leasing agreements of short duration, in which the lessor transfers the temporary use of the asset to a third party upon payment of an income or rental.

Lease payments are made monthly by equal amounts during the period of the lease agreement and the recognition of the rent is considered as an expense which will also be performed on a linear basis (straight-line basis).

There is no recognition of any leased asset, because the lease is a rental in substance and there is no evidence that the lessee will obtain future economic benefits from the asset beyond the contract period.

The transfer of the legal ownership of the assets to the lessee at the end of the contract is not expected.

45. STAFF COSTS

During the years ended 31 December 2017 and 31 December 2016, the composition of the **Group** and the **Company** heading Staff Costs was as follows:

	Group		Company	
	2017	2016	2017	2016
Statutory bodies remuneration	4,601,890	4,571,640	2,922,350	3,237,036
Staff remuneration	261,564,961	255,727,613	231,604,647	227,873,402
Employee benefits	2,607,370	4,292,549	2,571,758	4,251,938
Indemnities	16,506,980	6,634,938	14,824,913	6,390,333
Social Security charges	58,844,758	56,892,888	51,640,644	50,328,638
Occupational accident and health insurance	3,519,027	3,486,570	3,295,885	3,253,848
Social welfare costs	6,941,329	6,728,690	6,610,470	6,439,521
Other staff costs	153,504	52,593	-	-
	354,739,819	338,387,481	313,470,667	301,774,716

Remuneration of the statutory bodies

As at 31 December 2017 and 31 December 2016, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group, including CTT, were as follows:

	2017				
Group	Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	4,147,305	399,843	50,241	4,500	4,601,890
Annual variable remuneration	-	-	-	-	-
	4,147,305	399,843	50,241	4,500	4,601,890
Long-term remuneration					
Defined contribution plan RSP	249,697	-	-	-	249,697
Long-term variable remuneration - Share Plan	657,030	-	-	-	657,030
	906,727	-	-	-	906,727
	5,054,032	399,843	50,241	4,500	5,508,617

	2016				
Group	Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	3,228,383	408,571	33,824	4,500	3,675,278
Annual variable remuneration	896,362	-	-	-	896,362
	4,124,745	408,571	33,824	4,500	4,571,640
Long-term remuneration					
Defined contribution plan RSP	223,500	-	-	-	223,500
Long-term variable remuneration - Share Plan	1,493,546	-	-	-	1,493,546
	1,717,046	-	-	-	1,717,046
	5,841,791	408,571	33,824	4,500	6,288,686

	2017				
Company	Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,657,766	209,843	50,241	4,500	2,922,350
Annual variable remuneration	-	-	-	-	-
	2,657,766	209,843	50,241	4,500	2,922,350
Long-term remuneration					
Defined contribution plan RSP	214,697	-	-	-	214,697
Long-term variable remuneration - Share Plan	657,030	-	-	-	657,030
	871,727	-	-	-	871,727
	3,529,493	209,843	50,241	4,500	3,794,077

Company	2016 Board of Directors	Audit Comittee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	2,083,779	218,571	33,824	4,500	2,340,674
Annual variable remuneration	896,362	-	-	-	896,362
	2,980,141	218,571	33,824	4,500	3,237,036
Long-term remuneration					
Defined contribution plan RSP	188,500	-	-	-	188,500
Long-term variable remuneration - Share Plan	1,493,546	-	-	-	1,493,546
	1,682,046	-	-	-	1,682,046
	4,662,187	218,571	33,824	4,500	4,919,082

Following the revision of the Remuneration Regulation for Members of the Statutory Bodies for the term of office 2017-2019, the terms of the Long-term Variable Remuneration were revised, with the payment being now made in cash, not in shares as in the previous plan. The plan is now considered as "cash settlement" which, according to IFRS2, implies that the liability should be annually updated and any changes resulting from the assessment should be recorded in the income statement.

The attribution and calculation of the Long-term Variable Remuneration are based on the results of the performance evaluation during the term of office (1 January 2017 to 31 December 2019), which consists of a comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT shares and the TSR of a weighted peer group, composed of national and international companies.

The long-term variable remuneration attributed to the executive members of the Board of Directors will be paid at the end of the 2017-2019 term of office, and the amount of 40,140 Euros corresponds to the cost to be assumed in the period between 1 January 2017 and 31 December 2017 and was set by an independent entity.

For the year ended 31 December 2017, and in accordance with the provisions of the Operational Transformation Plan, no estimate of Annual Variable Compensation was recorded for the members of the Statutory Bodies.

According to the remuneration model of the members of 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 de-recognition 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.

Staff remuneration

The change in this heading is mainly a result of the salary review agreed with the workers' representative organisations with effect from January 2017 onwards, the increase in expenses with fixed-term contracted staff due to increased operational activity and the increase in expenses with the staff of Banco CTT and Transporta.

Employee benefits

The amount registered in the caption Employee benefits in the year ended 31 December 2017 mainly reflects the liability reduction related to IOS Healthcare Plan as well as the decrease of the long-term variable remuneration of the members of the Statutory Bodies.

Indemnities

In the year ended 31 December 2017 this caption includes:

- the amounts of 2,848,093 Euros and 2,421,910 Euros regarding the **Group** and the **Company**, respectively, related to compensations paid to employees and directors for termination of employment contracts by mutual agreement;

- the amount of 11.9 million Euros related to a provision recorded by the **Group** within the scope of the human resources optimisation programme, included in the announced Operational Transformation Plan;

- the amount of 1,052,197 Euros related to the provision for restructuring recorded in Transporta, following the human resources optimisation process.

Social welfare cost

Social welfare costs relate almost entirely to health costs incurred by the **Group** and the **Company** with the active workers, as well as expenses related to Health and Safety at work. The increase in this caption results from changes that took place in CTT's Healthcare Plan following the revised Regulation of the Social Works (RSW) in 2015, according to which the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments.

As at 31 December 2017 and 31 December 2016, the **Group** and the **Company** heading Staff costs includes the amounts of 880,491 Euros and 800,611 Euros, respectively, related to expenses with workers' representative bodies.

For the year ended 31 December 2017, the average number of staff of the **Group** and the **Company** was 12,538 and 11,029 employees, respectively (12,401 employees and 10,984 employees in the year ended 31 December 2016).

46. IMPAIRMENT OF ACCOUNTS RECEIVABLE AND IMPAIRMENT OF OTHER FINANCIAL BANKING ASSETS

For the years ended 31 December 2017 and 31 December 2016, the detail of Impairment of accounts receivable, net and Impairment of other financial banking assets, net of the **Group** and the **Company** was as follows:

	Group		Company	
	2017	2016	2017	2016
Impairment of accounts receivable				
Impariment losses				
Accounts receivable (Note 19)	2,358,555	2,875,921	516,833	352,246
Credit to bank clients (Note 20)	-	417	-	-
Other current and non-current assets (Note 24)	487,781	524,261	446,102	459,471
	2,846,336	3,400,599	962,936	811,717
Reversals of impairment losses				
Accounts receivable (Note 19)	1,302,268	2,267,005	496,575	310,637
Other current and non-current assets (Note 24)	445,833	691,210	418,336	652,014
INESC loan (Note 24)	-	396,761	-	396,761
	1,748,101	3,354,976	914,911	1,359,412
	(1,098,235)	**(45,623)**	**(48,025)**	**547,695**
Impairment of other financial banking assets				
Impariment losses				
Credit to bank clients (Note 20)	133,578	-	-	-
	133,578	-	-	-
Reversals of impairment losses				
Credit to bank clients (Note 20)	16,344	-	-	-
	16,344	-	-	-
	(117,234)	**-**	**-**	**-**
Net movement of the period	(1,215,469)	(45,623)	(48,025)	547,695

47. DEPRECIATION/ AMORTISATION (LOSSES/REVERSALS)

For the years ended 31 December 2017 and 31 December 2016, the detail of Depreciation/ amortisation and impairment losses, net, regarding the **Group** and the **Company** was as follows:

	Group		Company	
	2017	2016	2017	2016
Tangible fixed assets				
Depreciation (Note 5)	21,638,891	20,390,450	17,556,425	17,551,180
Impairment losses (Note 5)	(123,714)	(123,714)	(123,714)	(123,714)
Intangible assets				
Amortisation (Note 6)	9,112,100	6,623,232	5,660,057	4,473,575
Impairment losses (Note 6)	-	-	-	-
Investment properties				
Depreciation (Note 7)	242,117	569,250	242,117	569,250
Impairment losses (Note 7)	(198,942)	8,876	(198,942)	8,876
	30,670,452	27,468,094	23,135,944	22,479,167

48. OTHER OPERATING COSTS

For the years ended 31 December 2017 and 31 December 2016, the breakdown of the **Group** and the **Company** heading Other operating costs was as follows:

	Group		Company	
	2017	2016	2017	2016
Taxes and other fees	2,277,710	2,365,876	2,020,176	2,196,431
Bad debts	466,592	319,779	437,709	111,525
Losses in inventories	407,846	312,732	407,846	310,233
Costs and losses from non-financial investments	30,410	31,190	6,309	31,190
Unfavourable exhange rate differences of assets	2,801,611	700,833	2,714,793	344,789
Donations	1,143,618	1,235,977	1,143,618	1,235,977
Bankingservices	2,742,873	2,241,982	2,578,610	2,132,215
Interest on arrears	15,909	42,534	14,193	42,221
Contractual penalties	109,699	-	109,699	-
Subscriptions	811,653	722,743	739,567	669,073
Expenses of services and commissions	1,092,236	192,611	-	-
Deposits Guarantee Fund/Resolution unified Fund	4,257	680	-	-
Indemnities	816,833	443,179	266,925	372,799
Other costs	1,431,294	1,827,794	916,975	1,158,487
	14,152,541	10,437,910	11,356,420	8,604,940

The caption "Taxes and other fees" in the **Group** includes the amounts of 1,199,218 Euros and 1,194,649 Euros, for the years ended 31 December 2017 and 31 December 2016, respectively, relating to ANACOM fees.

49. INTEREST EXPENSES AND INTEREST INCOME

For the years ended 31 December 2017 and 31 December 2016, the heading Interest Expenses of the **Group** and the **Company** had the following detail:

	Group		Company	
	2017	2016	2017	2016
Interest expenses				
Bank loans	80,807	68,775	419	3,994
Financial leases	1,776	7,014	802	2,958
Other interest	65,212	137,272	64,377	136,948
Interest costs from employee benefits (Note 32)	5,230,618	6,322,738	5,227,482	6,322,495
Other interest costs	3,051	4,307	810	203
	5,381,464	6,540,106	5,293,890	6,466,598

During the years ended 31 December 2017 and 31 December 2016, the **Group** and the **Company** heading Interest income was detailed as follows:

	Group		Company	
	2017	2016	2017	2016
Interest income				
Deposits in credit institutions	255,800	671,599	192,699	588,919
Loans to Group companies [1]	-	-	126,404	144,556
Other supplementary income	125,125	-	125,124	-
	380,925	671,599	444,227	733,475

[1] Includes subsidiary, associated and joint-ventures companies.

50. INCOME TAX FOR THE PERIOD

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

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

<u>Reconciliation of the income tax rate</u>

For the years ended 31 December 2017 and 31 December 2016, the reconciliation between the nominal rate and the effective income tax rate of the **Group** and the **Company** was as follows:

	Group		Company	
	2017	2016	2017	2016
Earnings before taxes	42,092,714	85,244,706	45,474,702	85,900,107
Nominal tax rate	21.0%	21.0%	21.0%	21.0%
	8,839,470	**17,901,388**	**9,549,687**	**18,039,022**
Tax Benefits	(480,197)	(354,479)	(384,609)	(352,413)
Accounting capital gains/(losses)	(3,654,534)	(543,069)	(3,647,877)	(390,889)
Tax capital gains/(losses)	1,359,977	(908,568)	1,356,652	(909,083)
Equity method	-	(8,518)	4,705,569	2,284,719
Provisions not considered in the calculation of deferred taxes	(24,714)	(148,483)	(12,447)	(148,483)
Impairment losses and reversals	281,457	321,703	243,826	380,705
Other situations, net	1,494,582	(405,990)	1,145,330	(345,075)
Adjustments related with - autonomous taxation	969,175	1,386,243	694,971	1,356,233
Adjustments related with - Municipal Surcharge	1,046,514	1,233,829	886,016	947,754
Adjustments related with - State Surcharge	3,423,767	4,018,747	3,239,740	3,527,850
Impact of the change in income tax rate (deferred tax)	345,685	118,403	345,685	118,403
Tax losses without deferred tax	1,335,973	1,770,819	-	-
Excess estimated income tax	40,236	(1,034,385)	88,915	(769,031)
Income taxes for the period	14,977,391	23,347,639	18,211,458	23,739,712
Effective tax rate	35.58%	27.39%	40.05%	27.64%
Income taxes for the period				
Current tax	14,279,018	20,179,216	17,182,476	20,869,417
Deferred tax	658,137	4,202,808	940,067	3,639,326
Excess estimated income tax	40,236	(1,034,385)	88,915	(769,031)
	14,977,391	23,347,639	18,211,458	23,739,712

In the year ended 31 December 2017, the heading Insufficiency/(Excess) estimated income tax mainly relates to the reimbursement of Autonomous Taxation of 2011 and 2012 in the amount of 347,036 Euros, the insufficiency of the income tax estimate of 2016 and 2015 amounting to 1,391,132 Euros and to the tax credit related to SIFIDE of 2015 in the amount of 1,079,208 Euros.

In the year ended 31 December 2016, the heading Excess estimated income tax and reimbursement of tax includes the amount of 268,898 Euros regarding the tax credit allocated under the SIFIDE programme of 2014 of CTT – Correios de Portugal, S.A., the amount of 371,959 Euros related to the amortisations of Track&Trace software of 2008 which were considered, by Arbitral decision, deductible for Corporate Income Tax purposes. This heading also includes the amounts of 117,771 Euros and 267,672 Euros regarding the excess income tax estimate of 2015 of the Companies CTT, S.A. and CTT Expresso, S.A., respectively.

Deferred taxes

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

	Group		Company	
	2017	2016	2017	2016
Deferred tax assets				
Employee benefits - healthcare	71,544,019	70,523,096	71,544,019	70,523,096
Employee benefits - pension plan	80,044	-	-	-
Employee benefits - other long-term benefits	4,409,187	5,301,326	4,409,187	5,301,326
Deferred accounting capital gains	-	606,790	-	606,790
Impairment losses and provisions	6,753,261	3,030,558	6,709,312	2,990,166
Tax losses carried forward	688,388	327,183	-	-
Impairment losses in tangible fixed assets	257,614	360,333	257,614	360,333
Long-term variable remuneration (EC)	11,308	-	11,308	-
Share Plan	-	1,268,470	-	1,268,470
Land and buildings	494,805	1,847,637	494,805	1,847,637
Tangible assets' tax revaluation regime	2,581,300	2,680,786	2,581,300	2,680,786
Other	335,813	274,583	-	-
	87,155,739	86,220,762	86,007,545	85,578,604
Deferred tax liabilities				
Revaluation of tangible fixed assets before IFRS	2,591,593	3,151,709	2,591,593	3,151,709
Suspended capital gains	776,522	934,821	776,522	934,821
Other	31,006	36,616	-	-
	3,399,121	4,123,146	3,368,115	4,086,530

Due to the access to the Tangible assets' tax revaluation regime, established in Decree Law no. 66/2016 of 3 November, the Company recognised a deferred tax asset in the amount of 2,680,786 Euros. Following the definitive assessments made during 2017, the initial amount was corrected and the amount of 2,581,300 Euros was recognised.

As at 31 December 2017, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 3.3 million Euros and 0.7 million Euros, respectively, regarding the **Group** and the **Company**.

During the years ended 31 December 2017 and 31 December 2016, the movements which occurred under the deferred tax headings of the **Group** and the **Company** were as follows:

	Group		Company	
	2017	2016	2017	2016
Deferred tax assets				
Opening balances	86,220,762	87,535,941	85,578,604	86,330,601
Effect on net profit				
Employee benefits - healthcare	(1,061,122)	29,917	(1,066,500)	29,917
Employee benefits - pension plan	80,044	-	-	-
Employee benefits - other long-term benefits	(892,139)	(1,230,552)	(892,139)	(1,221,627)
Deferred accounting gains	(606,790)	(1,116,452)	(606,790)	(1,116,452)
Impairment losses and provisions	3,722,704	(5,967,001)	3,719,146	(5,290,622)
Tax losses carried forward	361,204	2,857	-	-
Impairment losses in tangible fixed assets	(102,719)	(45,040)	(102,719)	(45,040)
Long-term variable remuneration (EC)	11,364	-	11,364	-
Share plan	(1,268,526)	421,330	(1,268,526)	421,330
Land and buildings	(1,365,661)	454,713	(1,352,832)	454,713
Tangible assets' tax revaluation regime	(86,657)	2,680,786	(99,486)	2,680,786
Other	61,230	119,265	-	-
Effect on equity				
Employee benefits	2,082,045	3,334,998	2,087,423	3,334,998
Closing balance	87,155,739	86,220,762	86,007,545	85,578,604

	Group		Company	
	2017	2016	2017	2016
Deferred tax liabilities				
Opening balances	4,123,146	4,576,598	4,086,530	4,534,199
Effect on net profit				
Revaluation of tangible fixed assets before IFRS adoption	(560,116)	(410,811)	(560,116)	(410,811)
Suspended capital gains	(158,299)	(36,858)	(158,299)	(36,858)
Other	(5,610)	(5,783)	-	-
Closing balance	3,399,121	4,123,146	3,368,115	4,086,530

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

Company	Tax losses	Deferred tax assets
Tourline	42,078,971	-
Escrita Inteligente	64,718	13,591
Transporta	3,213,321	674,797
Total	45,357,009	688,388

Regarding Tourline, the tax losses of the years 2008, 2009 and 2011 may be reported in the next 15 years, the tax losses related to 2012, 2013 and 2014 may be carried forward in the next 18 years and the tax losses of the years 2015, 2016 and 2017 have no time limit for deduction. As far as Escrita Inteligente is concerned, the tax losses related to the years 2015 and 2016 may be carried forward in the next 12 years and the tax losses of 2017 may be reported in the next 5 years. Regarding Transporta, the tax loss refers to the year 2017 and may be carried forward in the next 5 years.

The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 2.5 million Euros in the **Group** and in the **Company**.

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

Regarding the year ended 31 December 2015, for the expenses incurred with R&D of 3,358,151 Euros and e 1,437,765 Euros, the **Group** and the **Company** would have the possibility of benefiting from a tax deduction in corporate income tax estimated at 2,556,380 Euros and 996,844 Euros, respectively. According to the notification dated 9 February 2017 of the Certification Commission, a tax credit of 1,057,603 Euros was attributed to CTT.

For the year ended 31 December 2016, for the expenses incurred with R&D of 1,895,281 Euros and 1,677,058 Euros, the **Group** and the **Company** will have the possibility of benefiting from a tax deduction in corporate income tax estimated at 1,006,271 Euros and 826,237 Euros, respectively.

For the year ended 31 December 2017, the expenses incurred with R&D, of 1,432,825 Euros and 1,035,199 Euros, the **Group** and the **Company** will have the possibility of benefiting from a tax deduction in corporate income tax estimated at 590,740 Euros and 336,440 Euros, respectively.

Other information
Pursuant to the legislation in force in Portugal, income tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security), except

when there have been tax losses, tax benefits have been received, or when inspections, claims or challenges are in progress, in which cases, depending on the circumstances, these years are extended or suspended. Therefore, CTT's income tax returns from 2016 and onwards may still be reviewed and corrected, since the income tax returns prior to this date have already been inspected, even though the deadlines for the years 2014 and 2015 have not yet expired.

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

51. RELATED PARTIES

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

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

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

During the years ended 31 December 2017 and 31 December 2016, the following transactions took place and the following balances existed with related parties, regarding the **Group**:

	2017				
Group	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	72,000,000
Other shareholders of Group companies					
Associated companies	1,658	9,470	11,250	106,989	-
Jointly controlled	264,615	-	519,618	216	-
Members of the					
Board of Directors	-	-	-	4,147,305	-
Audit Committee	-	-	-	399,843	-
Remuneration Committee	-	-	-	50,241	-
General Meeting	-	-	-	4,500	-
	266,273	9,470	530,868	4,709,094	72,000,000

	2016				
Group	Accounts receivable	Accounts payable	Revenues	Costs	Dividends
Shareholders	-	-	-	-	70,264,792
Other shareholders of Group companies					
Associated companies	2,038	12,667	12,224	84,674	-
Jointly controlled	106,496	-	522,308	18,664	-
Members of the					
Board of Directors	-	-	-	4,124,745	-
Audit Committee	-	-	-	408,571	-
Remuneration Committee	-	-	-	33,824	-
General Meeting	-	-	-	4,500	-
	108,535	12,667	534,532	4,674,978	70,264,792

During the years ended 31 December 2017 and 31 December 2016, the following transactions took place and the following balances existed with related parties, regarding the **Company**:

Company	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
	2017							
Shareholders	-	-	-	-	-	-	-	72,000,000
Group companies								
Subsidiaries	5,833,733	6,413,511	2,601,776	12,821,447	32,806,937	8,901,683	126,404	-
Associated companies	1,658	-	9,470	-	11,250	105,230	-	-
Joint Ventures	264,615	-	-	-	519,618	-	-	-
Other related parties	-	-	-	-	-	-	-	-
Members of the								
Board of Directors	-	-	-	-	-	2,657,766	-	-
Audit Committee	-	-	-	-	-	209,843	-	-
Remuneration Committee	-	-	-	-	-	50,241	-	-
General Meeting	-	-	-	-	-	4,500	-	-
	6,100,006	6,413,511	2,611,246	12,821,447	33,337,805	11,929,263	126,404	72,000,000

DB - Debit balance; CB - Credit balance

Company	Accounts receivable	Shareholders and Group companies (DB)	Accounts payable	Shareholders and Group companies (CB)	Revenues	Costs	Interest income	Dividends
	2016							
Shareholders	-	-	-	-	-	-	-	70,264,792
Group companies								
Subsidiaries	6,178,794	8,847,399	3,930,691	7,341,360	30,989,108	9,200,339	144,556	-
Associated companies	2,038	-	9,223	-	12,224	84,262	-	-
Joint Ventures	106,496	-	-	-	522,308	-	-	-
Other related parties	192	-	-	-	-	-	-	-
Members of the								
Board of Directors	-	-	-	-	-	2,980,141	-	-
Audit Committee	-	-	-	-	-	218,571	-	-
Remuneration Board	-	-	-	-	-	33,824	-	-
General Meeting	-	-	-	-	-	4,500	-	-
	6,287,520	8,847,399	3,939,914	7,341,360	31,523,640	12,521,637	144,556	70,264,792

DB - Debit balance; CB - Credit balance

Regarding the **Company**, as at 31 December 2017 and 31 December 2016, the nature and detail, by company of the Group, of the main debit and credit balances was as follows:

Company	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
	2017					
Subsidiaries						
Banco CTT, S.A.	310,169	-	310,169	9,069	11,131,017	11,140,086
CTT Expresso,S.A.	2,616,197	1,125,000	3,741,197	1,663,559	1,425,115	3,088,673
Payshop Portugal, S.A.	121,469	-	121,469	413,354	238,187	651,541
CTT Contacto, S.A.	318,404	490,511	808,915	326,359	-	326,359
Mailtec Comunicação S.A.	150,301	-	150,301	184,432	27,128	211,560
Escrita Inteligente, S.A.	119,059	-	119,059	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	723,519	-	723,519	-	-	-
Tourline Express Mensajeria, S.A.	1,396,998	2,140,000	3,536,998	5,003	-	5,003
Transporta - Transportes Porta a Porta, S.A.	77,617	2,658,000	2,735,617	-	-	-
Associated companies						
Multicert - Serviços de Certificação Electrónica, S.A.	1,658	-	1,658	9,470	-	9,470
Joint Ventures						
NewPost, ACE	264,615	-	264,615	-	-	-
	6,100,006	6,413,511	12,513,517	2,611,246	12,821,447	15,432,693

DB - Debit balance; CB - Credit balance

Company	Accounts receivable	Shareholders and Group companies (DB)	Total accounts receivable	Accounts payable	Shareholders and Group companies (CB)	Total accounts payable
	2016					
Subsidiaries						
Banco CTT, S.A.	289,844	-	289,844	-	7,120,649	7,120,649
CTT Expresso,S.A.	3,081,067	4,190,294	7,271,361	2,504,508	-	2,504,508
Payshop Portugal, S.A.	81,704	6,947	88,651	448,163	-	448,163
CTT Contacto, S.A.	339,331	650,158	989,489	388,326	139,152	527,478
Mailtec Comunicação S.A.	62,837	-	62,837	581,137	81,559	662,697
Escrita Inteligente, S.A.	76,399	-	76,399	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	980,271	-	980,271	-	-	-
Tourline Express Mensajeria, S.A.	1,267,342	4,000,000	5,267,342	8,556	-	8,556
Associated companies						
Multicert - Serviços de Certificação Electrónica, S.A.	2,038	-	2,038	9,223	-	9,223
Joint Ventures						
Ti-Post Prestação Serviços Informáticos, ACE	1,778	-	1,778	-	-	-
NewPost, ACE	104,718	-	104,718	-	-	-
Other related parties						
Payshop Moçambique, S.A.R.L.	192	-	192	-	-	-
	6,287,520	8,847,399	15,134,919	3,939,914	7,341,360	11,281,274

DB - Debit balance; CB - Credit balance

As far as the **Company** is concerned, during the years ended 31 December 2017 and 31 December 2016, the nature and detail, by company of the Group, of the main transactions was as follows:

Company	2017							
	Assets acquired	Services to be reinvoiced	Assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries								
Banco CTT, S.A.	-	-	-	497,014	515,567	-	-	-
CTT Expresso,S.A.	-	17,865	234,106	287,017	24,140,279	1,837,933	-	24,870
Payshop Portugal, S.A.	-	-	20,916	65,800	863,055	4,343,145	-	-
CTT Contacto, S.A.	-	17,524	11,970	530,341	3,631,247	1,760,690	-	-
Mailtec Comunicação S.A.	-	1,056,895	-	245,183	621,262	952,969	-	-
Escrita Inteligente, S.A.	-	-	12,480	-	-	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	382,729	-	-	-
Tourline Express Mensajeria, S.A.	33,060	1,614	-	2,367	1,023,719	6,000	-	82,509
Transporta - Transportes Porta a Porta, S.A.	-	-	-	1,358	-	947	-	19,025
Associated companies								
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	11,250	-	105,230	-	-
Joint Ventures								
NewPost, ACE	-	-	-	-	519,618	-	-	-
	33,060	1,093,897	279,472	1,640,330	31,697,475	9,006,913	-	126,404

Company	2016							
	Assets acquired	Services to be reinvoiced	Assets sold	Sales and services rendered	Other operating revenues	Supplies and external services	Other operating costs	Interest Income
Subsidiaries								
Banco CTT, S.A.	-	-	86,384	119,157	347,902	-	-	-
CTT Expresso,S.A.	75,885	58,755	234,711	284,972	22,423,193	1,999,192	22,422	113,885
Payshop Portugal, S.A.	-	-	-	57,402	761,976	4,309,490	-	46
CTT Contacto, S.A.	-	88,502	-	1,360,816	3,129,281	1,864,502	-	-
Mailtec Comunicação S.A.	-	1,274,504	-	250,022	813,715	998,374	-	-
Escrita Inteligente, S.A.	-	-	-	-	-	-	-	-
CORRE - Correio Expresso Moçambique, S.A.	-	-	-	-	424,729	-	-	-
Tourline Express Mensajeria, S.A.	108,793	26,411	-	2,416	1,013,527	6,360	-	30,625
Associated companies								
Multicert - Serviços de Certificação Electrónica, S.A.	-	-	-	12,224	-	84,233	29	-
Joint Ventures								
Ti-Post Prestação Serviços Informáticos, ACE	-	-	-	-	-	-	-	-
NewPost, ACE	-	-	-	-	522,308	-	-	-
Other related parties								
Payshop Moçambique, S.A.R.L.	-	-	-	-	-	-	-	-
	184,678	1,448,171	321,095	2,087,009	29,436,631	9,262,150	22,451	144,556

52. FEES AND SERVICES OF THE EXTERNAL AUDITORS

The information concerning the fees and services provided by the external auditors is detailed in items 46 and 47 of the Corporate governance report.

53. INFORMATION ON ENVIRONMENTAL MATTERS

The environment is one of the relevant topics identified in the course of CTT stakeholders' materiality exercise and mapping and integrates the Sustainability strategy of the Group, from a perspective of risk and opportunity management. This approach and the related commitments assumed are expressed in statements and in CTT management standards, as shown in the Environment Policy, Policy of Energy, Carbon and Climate Change Management, Responsible Purchasing Policies and the Code of Conduct (internal) or Business & Biodiversity, Caring for Climate from United Nations and COP 21 Principles (external).

CTT actively participates in a wide range of environmental descriptors such as the energy efficiency, carbon and climate change management, certified environmental management systems, sustainable mobility and alternative fleets, biodiversity, waste management, responsible purchases or sustainable marketing, having been recognised with awards, both at national and international level. The campaigns carried out and the achievements are detailed in the "Sustainability Report of CTT".

In order to ensure the coverage of environmental liabilities arising from the Decree-Law no. 147/2008 of 29 July (Law of Environmental Responsibility), as amended by Decree-Law no. 245/2009 of 22 September, by Decree-Law no. 29A/2011 of 1 March and Decree-Law no. 60/2012 of 14 March, which establish the legal regime of liability for environmental damage, CTT took out an insurance to cover civil liability in the amount of 1,000,000 Euros per damage and insured period.

To the extent of our knowledge, there are no current environmental liabilities or obligations, whether legal or constructive, related to environmental matters that should lead to the constitution of provisions.

54. PROVISION OF INSURANCE MEDIATION SERVICE

In accordance with the Regulatory Standard of the Instituto de Seguros de Portugal (Portuguese Insurance Institute) no. 15/2009-R of 30 December 2009, the **Company** discloses the relevant information regarding the activity of insurance mediation according to article 4 of the above mentioned Regulatory Standard.

a) Description of the accounting policies adopted for the recognition of revenue

The insurance agent recognises revenue in accordance with the rules in force, i.e. when the mediator closes accounts with the Insurance companies. The issuance and repayment of insurance are recorded in each Post Office accounting document and allocated to the respective account, according to the respective nature.

b) Indication of total revenue received detailed by nature

By nature	2017	2016
Cash	1,800,530	2,452,267
In-kind		
	1,800,530	**2,452,267**

By type	2017	2016
Commissions	1,800,530	2,452,267
Fees		
Other remuneration		
	1,800,530	**2,452,267**

c) Indication of total revenues relating to insurance contracts intermediated by the Company detailed by Branch Life and Non-Life

	2017	
By entity	**Branch Life**	**Branch Non-Life**
Insurance Companies	1,687,736	112,794
Other mediators		
Customers (other)		
	1,687,736	**112,794**

d) Indication of the existence of concentration levels at the level of insurance companies, other mediators, which are equal or greater than 25% of the total remuneration earned by the portfolio

By entity	2017	2016
Insurance Companies		
FIDELIDADE	88.40%	90.10%
Other mediators		
Customers (other)		

e) Values of customers' accounts, at the beginning at the end of the year, as well as the volume handled over the year applicable to insurance intermediaries that handle funds related to insurance contracts

Accounts 'Customers'	2017	2016
Open Balance	-	-
Closing Balance	-	-
Volume handled		
Debt	39,720,945	178,312,367
Credit	2,535,619	24,986,644

f) Accounts receivable and payable broken down by source

	Accounts receivable		Accounts payable	
By entity	2017	2016	2017	2016
Policyholders, insureds or beneficiaries				
Insurance companies	406,681	2,806,435	37,907	31,594
Reinsurance undertakings				
Other mediators				
Customers (other)				
Total	**406,681**	**2,806,435**	**37,907**	**31,594**

g) Indication of the aggregate amounts included in accounts receivable and payable

	Accounts receivable		Accounts payable	
By entity	2017	2016	2017	2016
Funds received in order to be transferred to insurance companies for payment of insurance premiums	2,535,619	24,986,644	2,198,490	23,109,246
Collecting funds in order to be transferred to insurance companies for payment of insurance premiums				
Funds entrusted to it by insurance companies in order to be transferred to policyholders, insureds or beneficiaries (or insurance companies in case the activity of reinsurance mediation)	40,788,406	175,834,816	39,720,945	178,312,367
Remuneration in respect of insurance premiums already collected and to be collected				
Other mediators				
Total	**43,324,025**	**200,821,460**	**41,919,434**	**201,421,613**

Note: The remaining paragraphs of the standard do not apply.

55. OTHER INFORMATION

Regulatory proceedings

In the daily operation of its business, CTT is regularly subject to inquiry from the supervisory entities for verification of compliance with current legislation and verification of procedures to ensure the provision of services, the Company adopts an attitude of collaboration by providing the necessary clarifications and due answer.

In this context, and following the statement of objections issued by the Competition Authority (AdC) in August 2016 on the basis of CTT's alleged set up of obstacles on the access to its postal network infrastructure by its competitors, to which CTT reacted within the legal deadline, as well as the investigation carried out by said authority, CTT, with the objective of responding to the competition concerns expressed by the AdC, presented, on 22 December 2017, under the terms and for the purposes set forth in article 23 of Law no. 19/2012, of 8 May (Competition Law), a set of commitments that consist in the extension of the scope of the Offer of Access to the Postal Network (Offer of Access), made available to the competing postal operators, as follows:

1. Extension of the postal services covered by the Access Offer, namely the National Editorial Service, the Domestic Priority Service and the Domestic Registered Service;
2. Introduction of new access points to the postal network, further downstream in the postal distribution chain, namely Destination Production and Logistics Centers and 218 Destination

Post Offices (with the exception of the Domestic Base Service weighing up to 50 g), whose mail is directly forwarded for delivery by postal workers through the Postal Delivery Offices;

3. Introduction of faster delivery time in the case of access through the Destination Post Offices for the Domestic Basic Service items weighing more than 50 g and the Domestic Editorial Service;
4. Possibility for a competing operator to be able to carry out additional mail processing tasks, namely the separation of mail by distribution area from the Postal Delivery Office and by street;
5. Lower pricing for access to the network than that applied to final customers, with differentiated prices depending on the access point, mail service and mail processing tasks carried out by the competing operator.

The commitments submitted by CTT were subject to a public consultation, pending a final decision by the AdC, which will take into account the comments submitted by those interested in that consultation.

56. SUBSEQUENT EVENTS

Retail Network optimisation

CTT's Board of Directors, aiming at the present and future sustainability of the company, approved an Operational Transformation Plan that provides, among other measures to be applied during its implementation, the optimisation of the presence of post offices according to the demand, always ensuring an adequate quality in the provision of services, namely the Universal Postal Service.

In a first phase (1st quarter of 2018), 25 CTT post offices (Access Points) were identified for optimisation, resulting in an increase of 3 access points which is a direct outcome of the reduction of 20 own post offices and the increase of 23 postal agencies that are part of the more than 2,360 access points existing throughout the country. It is important to note that this optimisation does not jeopardise the presence of CTT and its capillarity throughout the national territory or the full compliance with the criteria of geographical density required of the company as a Universal Postal Service provider. CTT will continue to ensure a proximity service to the populations and to its customers to meet the existing demand for the services provided by CTT, namely the Universal Postal Service – including the payment of postal money orders regarding social benefits (retirement pensions and all others), invoice collection, ordinary and priority mail, the reception of registered mail items and parcels, among others.

Share Capital increase in Banco CTT

On 4 January 2018, the share capital of Banco CTT was increase by 6,400,000 Euros through the transfer to Banco CTT of all the shares representing the share capital of Payshop (Portugal), SA. This operation is aligned with the strategy of concentrating the Group's business lines related to the financial sector at Banco CTT as well as with the project submitted to Banco de Portugal at the time of its creation and information transmitted at Capital Markets Day.

Additionally, on 7 March 2018, a new capital increase was made in the amount of 25,000,000 Euros (from 131,400,000 Euros to 156,400,000 Euros), through the issue of new shares without nominal value and with the issuance value of 1 Euro each, to be fully subscribed and paid in cash by the sole shareholder CTT. This operation is also in line with the 2016-2018 and 2017-2019 Plans approved by the Bank's Board of Directors, as well as with the information transmitted at Capital Markets Day.

PART III – AUDIT REPORT AND REPORT AND OPINION OF THE AUDIT COMMITTEE

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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **CTT – Correios de Portugal, S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 (showing a total of 1,608,765,392 euros and shareholders' equity of 183,990,949 euros, including non-controlling interests of 146,738 euros and a profit attributable to the shareholders of the Entity of 27,263,244 euros), and the consolidated income statement by nature, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of **CTT – Correios de Portugal, S.A.** as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Risk	Our Response
CTT is a listed company and the International Standards on Auditing assume that there is an increased risk of fraud related to revenue when there is pressure over management to achieve budgeted results. Additionally, CTT is active in several business areas (Post, Express & Parcels, Financial services and Banking) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 40.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Test the design and implementation of key controls related to revenue recognition; ▪ Test the operating effectiveness of controls related with the revenue recognition process; ▪ Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition; ▪ Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls; and ▪ Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.

Employee benefits

Risk	Our Response
The responsibilities with post-employment health benefits and other long-term benefits of employees and board members involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 32.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility; ▪ Comparison of the information provided by management to the independent actuary for the computation of the responsibility; ▪ Evaluation of the competence, independence and integrity of the actuary hired by management; and ▪ Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.

Provisions

Risk	Our response
The provisions for labor contingencies included in the financial statements are based on the Board of Directors' best estimate about the timing and future cash outflows for their settlement, using assumptions that require judgment, as referred to in notes 2.21, 2.28 and 33.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Analysis of the lawsuits brought against CTT by third parties and the contingencies identified by CTT, namely supporting information and replies to our confirmation requests from lawyers on the status of the lawsuits where CTT is involved; ▪ Challenge the assumptions that support the estimates of the Board of Directors; and ▪ Evaluation of the adequacy of the disclosures made by CTT in relation to the recognition of provisions, taking into account the applicable accounting framework.

Start of activity of Banco CTT (Bank)

Risk	Our response
As referred in note 1.2 the Bank started its activity at the end of 2015, and in 2017 continued the strategy for investment, increase of the number of branches and launch of new products. The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities.	Among other procedures, we analyzed the evolution of the activity during 2017, the revised budget for 2018 and the new medium term business plan as well as the adjustments performed to the plan approved at the end of 2016. We discussed with the management the future expectations, namely regarding the development of credit concession, forms of financing, shareholders' support and expected profitability.

Operational transformation plan

Risk	Our response
As referred in notes 33, 45 and 56, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were: ▪ Recognition of a restructuring provision of 11,841,708 euros; ▪ Recognition of a 1,729,651 euros provision related to costs to incur with the closure of branches to optimize the existing net of branches; ▪ Decrease of the variable remuneration liability estimate.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Challenge the assumptions supporting Management's estimates; ▪ Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions; ▪ Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and ▪ Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2017, taking into account the accounting framework.

Credit concession

Risk	Our response
The *Banco CTT* started conceding housing loans in March 2017. This process was newly created by the bank, based on an IT workflow developed with an external partner. Due to the recent integration of this process, defined objectives and related risks, we have classified this area as a key audit matter.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Understanding the credit concession process, since the proposals reception until the final booking, identifying the risks and related controls; ▪ Analysis of the minutes of the Credit Committee, where the proposals with higher risk are discussed and the key guidelines for the credit concession process are defined; ▪ Analysis of the integration of processes between the bank and the other partners, as well as between the operational and accounting systems; ▪ Evaluation of the design and implementation of controls related to the credit concession process; ▪ Analysis of the impairment model implemented by the bank; and ▪ Evaluation of disclosures made by the Entity in accordance with the applicable accounting framework.

Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

— the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;

— the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;

— designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error;

— the adoption of accounting policies and principles appropriate in the circumstances; and,

— assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

— conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;

— evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

— obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

— communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,

- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge and assessment of the Group, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Group has prepared a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, having that report being published with the management report.

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

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following::

- We were first appointed as auditors of CTT – Correios de Portugal, S.A. (parent Entity of the Group) in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;

- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the consolidated financial statements due to fraud;
- We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Group on 6 March 2018; and
- We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Group in conducting the audit.

Lisbon, 7 March 2018

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)

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STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT

(Free translation from a report originally issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of **CTT – Correios de Portugal, S.A.** (the Entity or CTT), which comprise the statement of financial position as at 31 December 2017 (showing a total of 941,045,268 euros and shareholders' equity of 183,844,211 euros, including a profit of 27,263,244 euros), the income statement by nature, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of **CTT – Correios de Portugal, S.A**. as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Risk	Our Response
CTT is a listed company and the International Standards on Auditing assume that there is an increased risk of fraud related to revenue when there is pressure over management to achieve budgeted results. Additionally, CTT is active in several business areas (Post and Financial Services) and the policies for the recognition of revenue are different for each of the area, as mentioned in notes 2.22 and 40.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Test the design and implementation of key controls related to revenue recognition; ▪ Test the operating effectiveness of controls related with the revenue recognition process; ▪ Tests of details to the transactions (on a sample basis) namely in relation to the timing of revenue recognition; ▪ Substantive analytical procedures and tests of the journal entries in order to identify and test the risk of fraud and possible override of the implemented controls; and ▪ Evaluation of the adequacy of disclosures made by the Entity in relation to revenue recognition, taking into account the applicable accounting framework.

Employee benefits

Risk	Our Response
The responsibilities with post-employment health benefits and other long-term benefits of employees and board members involve a significant degree of judgment in the definition of long term assumptions, which might result in significant variances of the amounts booked in the financial statements as referred to in notes 2.19, 2.28 and 32.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Evaluation of the reasonableness of assumptions and estimates used in the actuarial computation and the methodology for the computation of the responsibility; ▪ Comparison of the information provided by management to the independent actuary for the computation of the responsibility; ▪ Evaluation of the competence, independence and integrity of the actuary hired by management; and ▪ Evaluation of the adequacy of disclosures made by the Entity in relation to employee benefits, including the sensitivity analyses, taking into account the applicable accounting framework.

Provisions

Risk	Our response
The provisions for labor contingencies included in the financial statements are based on the Board of Directors' best estimate about the timing and future cash outflows for their settlement, using assumptions that require judgment, as referred to in notes 2.21, 2.28 and 33.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Analysis of the lawsuits brought against CTT by third parties and the contingencies identified by CTT, namely supporting information and replies to our confirmation requests from lawyers on the status of the lawsuits where CTT is involved; ▪ Challenge the assumptions that support the estimates of the Board of Directors; and ▪ Evaluation of the adequacy of the disclosures made by CTT in relation to the recognition of provisions, taking into account the applicable accounting framework.

Start of activity of Banco CTT (Bank)

Risk	Our response
As referred in note 1.2 the Bank started its activity at the end of 2015, and in 2017 continued the strategy for investment, increase of the number of branches and launch of new products. The development stage of the activity of a bank that is in its starting point is relevant for the audit strategy, being particularly relevant the adjustment and monitoring of the financial model, approved by the shareholder, to the market conditions in each moment, taking into consideration risks and opportunities.	In this area, our audit procedures included, among others, the following: ▪ Analysis of the valuation methodology used, *Dividend Discount Model* (DDM), with the involvement of our valuation specialists; ▪ Analysis of the computation of the recoverable amount of Banco CTT and of the main assumptions of the imparity model, namely the discount rate (cost of equity), the perpetuity growth rate, the Core Tier 1 requirements considered for the computation of profits available for distribution, dividends distributed and capital increases; ▪ Test the mathematical accuracy of the impairment model; ▪ Comparison of the financial projections with the budget and plan approved and presented to the Banco de Portugal; ▪ Discuss with management the future expectations, namely in relation to credit concession, forms of financing and expected profitability; ▪ Performance of sensitivity analyses to the main assumptions; and ▪ Evaluation of the adequacy of disclosures made by the Entity in the financial statements.

Operational transformation plan

Risk	Our response
As referred in notes 33, 45 and 56, CTT communicated to the markets an operational transformation plan with the objective of optimizing the growth and operational efficiency. The main impacts of the plan in the financial statements were: ▪ Recognition of a restructuring provision of 11,841,708 euros; ▪ Recognition of a 1,729,651 euros provision related to costs to incur with the closure of branches to optimize the existing net of branches; ▪ Decrease of the variable remuneration liability estimate.	Within the scope of our audit we performed, among others, the following audit procedures: ▪ Challenge the assumptions supporting Management's estimates; ▪ Evaluation of the remaining impacts of the operational transformation plan and challenging the underlying assumptions; ▪ Discuss with Management the impact of the plan's measures, namely in the future plans used in the impairment tests; and ▪ Evaluation of the adequacy of disclosures related to provisions recognition, as well as subsequent events after 31 December 2017, taking into account the accounting framework.

Responsibilities of Management and the Supervisory Body for the Financial Statements

Management is responsible for:

— the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and the cash flows, in accordance with the International Financial Reporting Standards as adopted by the European Union;

— the preparation of the management report and the corporate governance report in accordance with applicable laws and regulations;

— designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

— the adoption of accounting policies and principles appropriate in the circumstances; and,

— assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor´s Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,

- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, al. (e) of the Portuguese Companies' Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements.

On the Corporate Governance Report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide under article 245-A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of that article.

On the non-financial information defined in the article 66-B of the Portuguese Companies' Code

Pursuant to article 451, nr. 6, of the Portuguese Companies' Code, we inform that the Entity has prepared a separate report where includes the non-financial information defined in article 66-B of the Portuguese Companies' Code, having that report being published with the management report.

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

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following::

- We were first appointed as auditors of the Entity in the shareholders general assembly held on 5 May 2014 to complete the last year of the term of the three year period from 2012 to 2014. We were appointed at the shareholders' meeting on 5 May 2015 for the current term from 2015 to 2017;

- Management as confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism, and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud;

— We confirm that the audit opinion we issue is consistent with the additional report that we prepared and delivered to the supervisory body of the Entity on 6 March 2018; and

— We declare that we have not provided any prohibited services as described in article 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes, and we have remained independent of the Entity in conducting the audit.

Lisbon, 7 March 2018

SIGNED ON THE ORIGINAL

KPMG & Associados -
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Paulo Alexandre Martins Quintas Paixão (ROC nr. 1427)

AUDIT COMMITTEE

Report and Opinion of the Audit Committee

- 2017 Financial Year -

1. Introduction

In compliance with the provisions of Article 423-F(1)(g) of the Portuguese Companies Code ("PCC") and article 5(5) of Internal Regulation of the Audit Committee ("AUC" or "Committee"), of CTT-Correios de Portugal, S.A. ("CTT" or "Company"), this body is hereby submitting its report of the supervisory and oversight activities carried out during the 2017 financial year and giving its opinion on the CTT Annual Report for the financial year ended on 31 December 2017, as well as on the respective Proposal for the Appropriation of Results, both presented by the Board of Directors.

2. Activities Carried Out

During the 2017 financial year, the AUC held 18 meetings at which all its members were present.

In order to ensure the full accomplishment of its mission, throughout the year, the Commission carried out various activities within the scope of its competences and in the fulfilment of its duties and responsibilities, with emphasis on the following in each of its main areas of intervention:

- **Monitor the functioning of the Company and ensure compliance with the law, the regulations and the articles of association**

The regular monitoring of the evolution of the activity of the Company and its main subsidiaries was carried out in particular through:

(i) the participation of its members in the Board of Directors meetings; ***(ii)*** the contacts with the Executive Committee, especially the participation in the meetings of approval of accounts; ***(iii)*** other contacts with Company Directors as deemed necessary and timely by the AUC, particularly with the Chief Financial Officer and other senior officers of the Company such as the Heads of the Accounting & Treasury, Planning & Control, Finance & Risk, Legal Services and Audit & Quality Departments, including the Head of Compliance; and ***(iv)*** meetings with the Statutory Auditor.

In the performance of its duties the Committee also examined the documents distributed to support its work and obtained the information and clarifications to the questions raised in the analysis of such documents, especially those considered timely and adequate on the compliance of the Articles of Association and the applicable legal and regulatory provisions. The Committee did not come across any constraints or limitations to its action.

- **Supervising the quality and integrity of the financial information in the statements of accounts**

Within the competences laid down in Article 423-F(1)(c) to (f) of the PCC, particularly for the purpose of supervising the compliance with accounting policies, criteria and practices, and reliability of the financial information, the following main actions were carried out:

(i) Regular monitoring of the preparation and disclosure of the financial information as well as assessment of the accounting principles and standards and respective amendments, including the supervision of their compliance, as well as of the estimates and judgements, the proceedings and the valuation criteria used; ***(ii)*** Monitoring of the new IFRS and their impacts on CTT; ***(iii)*** Analysis of the impact of the subsidiaries accounts on CTT accounts; ***(iv)*** Monitoring of the relevant financial and operating indicators; ***(v)*** Analysis of the Annual Report of the 2016 financial year as well as of the Corporate Governance Report, including opinion on same and on the Proposal for the Appropriation of Results submitted to the Annual General Meeting of Shareholders held on 20 April 2017; and ***(vi)*** Analysis of the consolidated and individual quarterly and half-yearly accounts of the 2017 financial year.

- **Overseeing the internal audit, internal control and risk management systems**

In the scope of the oversight of the effectiveness of the risk management, internal control and internal audit systems, as well as the assessment of their functioning and their procedures, the following aspects should be noted:

(i) Follow-up of the work of the Audit & Quality Department on internal audit and compliance issues, and of the implementation of the recommendations issued; ***(ii)*** Approval of the Audit & Quality Department Activity Plan; ***(iii)*** Follow-up of the preparation of the Report on the Prevention of Money Laundering and Terrorism Financing ("PML/PTF") as laid down in Notices no. 9/2012 and no.2/2014 of the Bank of Portugal, on which an opinion was issued, and a PML/PTF self-evaluation questionnaire appreciated that was sent to the Bank of Portugal; ***(iv)*** Follow-up of the work related to the assessment, control and management of the main risks and vulnerabilities identified by the Company and the respective mitigation plans; ***(v)*** Follow-up of the litigation underway and other closed relevant contingencies; ***(vi)*** Assessment of the Reports on the Violation of the Code of

Conduct; ***(vii)*** Assessment of the Activity Report of the Ethics Committee and of the Whistleblowing Reports; and ***(viii)*** Preliminary assessment of the transactions with related parties, whenever required under the Regulation on Related Parties' Transactions, and subsequent assessment in the case of the other transactions with related parties, as provided for in same Regulation.

- **Supervising the performance of the duties of the Statutory Auditor**

Regarding the supervision of the independence and the work of the Statutory Auditor of the CTT Group companies, KPMG & Associados, SROC, S.A. ("KPMG"), the AUC carried out several activities, of which the following stand out:

(i) Analysis of the proposal for the contracting of statutory audit services and prior authorisation for the provision of non-audit services by the Statutory Auditor to companies of the CTT Group in 2017; ***(ii)*** Assessment of the KPMG 2017 audit plan, including the methodology, timeline and corresponding work team; ***(iii)*** Assessment of the Statutory Auditor's Report and Audit Reports on the 2016 consolidated and individual Financial Statements; ***(iv)*** Appraisal of the Statutory Auditor's Additional Report for the 2016 financial year; ***(v)*** Assessment of the Limited Review Report regarding the consolidated Financial Statements as at 30 June 2017; ***(vi)*** Assessment of the preparatory work and matters considered relevant in the Statutory Auditor's Report of 2017; ***(vii)*** Assessment of the Statutory Auditor's recommendations, following the audit of the 2016 Financial Statements, on accounting and internal control aspects and of the information of the Company on the implementation of these recommendations; and ***(viii)*** Assessment of KPMG's activity and independence, appreciation of its letter of independence, and issuance of the Activity and Independence Assessment Report for the 2016 financial year.

3. Declaration of Conformity

Under the provisions of article 245(1)(c) of the Portuguese Securities Code ("PSC"), the members of the Audit Committee of CTT identified hereafter, in the framework of the duties they are assigned with, hereby state that, to the best of their knowledge, the information in the Management Report, the annual consolidated and individual Statements of Accounts, the Statutory Auditor's Report and Auditor's Report of consolidated accounts, and the Statutory Auditor's Report and Auditor's Report of individual accounts, and other consolidated and individual Financial Statements related documents required by law or regulation, regarding the financial year ended on 31 December 2017:

- **i.** was prepared in accordance with the International Financial Reporting Standards, giving a true and fair view of the assets and liabilities, the financial situation and the results of CTT and the companies included in its consolidation perimeter; and

ii. the Management Report, in particular, faithfully describes the business evolution, the performance and position of CTT and the companies included in its consolidation perimeter and contains a description of the major risks and uncertainties they are faced with.

4. Opinion on the Annual Report for the 2017 financial year

The AUC has reviewed the Management Report and the consolidated and individual Financial Statements for the financial year ended on 31 December 2017, including the statement of financial position, the income statements by nature, the statement of comprehensive income, the statement of changes in equity and the cash flow statement, as well as the notes attached thereto, all of which deserve its approval.

The consolidated and individual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union on 31 December 2017.

The AUC also analysed the Corporate Governance Report, taking into account the provisions of article 420(5) of the PCC and article 245-A of the PSC, and the Sustainability Report, pursuant to articles 66-B and 508-G of the PCC.

The AUC appraised with special attention the terms of the Statutory Auditor's Report and of the Audit Reports on ***(i)*** the auditing of the consolidated and individual Financial Statements approved by the Board of Directors and issued on 7 March 2018 by KPMG & Associados–Sociedade de Revisores Oficiais de Contas, S.A., which express a favourable opinion on said Financial Statements, with no limitations or qualifications and ***(ii)*** the compliance with other legal and regulatory requirements applicable to the Management Report, the Corporate Governance Report and to the Sustainability Report, which express compliance with said requirements in force. The AUC also noted that the Statutory Auditor's Report and the Audit Reports include the additional information required in Article 10 of Regulation (EU) No 537/2014, particularly the so-called "Audit-Relevant Matters" which, in the case of the Company, KPMG defined as being:

i. Recognition of revenue;
ii. Employee benefits;
iii. Provisions;
iv. Start of activity of Banco CTT;
v. Operational transformation plan;
vi. Granting of credit (in the consolidated accounts).

Given the above-mentioned data and the action carried out, as well as in compliance with the provisions of article 423-F(1)(g), article 420(5) and (6), applicable by reference to the provisions of article 423-F(2), and article 452, all of the PCC, the Audit Committee hereby states that, to the best of its knowledge:

- the Management Report,
- the consolidated and individual Financial Statements,
- the Proposal for the Appropriation of Results,
- the Corporate Governance Report,
- the Sustainability Report, and
- the Statutory Auditor's Report on the consolidated and individual accounts

comply with the applicable legal and accounting rules and the Articles of Association. Accordingly, the Committee agrees with same and recommends that the General Meeting of CTT approves them.

Lisbon, 7 March 2018

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

Maria Luísa Coutinho Ferreira Leite de Castro Anacoreta Correia (Chairwoman)

Nuno de Carvalho Fernandes Thomaz (Member)

Maria Belén Amatriain Corbi (Member)

(SIGNED ON THE ORIGINAL)

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