# Consolidated Results

January-September 2017

ctt

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

## 9 MONTHS 2017 CONSOLIDATED RESULTS

- **Recurring Revenues increase by 0.2%** that reflects some substitution of revenues from Mail and Financial Services due to growth of the Express & Parcels and Banco CTT business units, which puts pressure on the cost structure. Excluding the revenues of the agreement with Altice recorded in the same period of the previous year (€7.5m), recurring revenues grew by 1.6%.
- **Addressed mail volumes decrease by 6.1% (7.2% in the 3rd quarter) at a faster-than-anticipated pace and worse than the expected range,** but mitigated in terms of revenues by the price increase and the positive evolution of the product mix (registered mail and international mail growth) that led to a 5.5% increase in average revenue.
- **Express & Parcels volumes grow by 18.4% in Portugal and 24.6% in Spain** with revenues growth of 10.2% and 17.4%, respectively, but with higher-than-expected incremental costs (limited use of the installed capacity).
- **Banco CTT increased its focus on mortgage loans with a production of €24.3m in the 3rd quarter** and keeps growing in terms of customers (more than 240 thousand), who by the end of September had opened more than 190 thousand current accounts. As of today more than 200 thousand accounts have been opened.
- **Acquisition of Transporta has put pressure on results** with an impact on EBITDA of circa -€2.0m (-€0.7m in recurring terms), given the restructuring and integration process underway.
- **Recurring EBITDA and Net profit decrease by 25.1% (-€22.9m) and 35.9% (-€17.5m)**, respectively, as a consequence of the **loss of revenues from Altice**, the **sharp drop of mail volumes in the last two quarters and the costs associated with the process of adjustment of the networks to** the accelerated growth of Banco CTT and the Express & Parcels business.

**Consolidated Results**

€ Million

| | Reported | | | Recurring (*) | | |
|---|---|---|---|---|---|---|
| | **9M17** | **9M16** | **Δ** | **9M17** | **9M16** | **Δ** |
| Revenues | 518.0 | 518.8 | -0.2% | 518.0 | 517.1 | 0.2% |
| Sales and services rendered | 501.3 | 497.3 | 0.8% | 501.3 | 497.3 | 0.8% |
| Net interest income | 2.1 | -0.03 | » | 2.1 | -0.03 | » |
| Other operating income | 14.6 | 21.6 | -32.4% | 14.6 | 19.9 | -26.5% |
| Operating costs | 458.7 | 436.0 | 5.2% | 449.8 | 426.1 | 5.6% |
| **EBITDA** | **59.3** | **82.9** | **-28.5%** | **68.1** | **91.0** | **-25.1%** |
| Amortisation, depreciation, provisions and impairments | 22.9 | 12.5 | 83.4% | 21.6 | 19.5 | 10.9% |
| **EBIT** | **36.3** | **70.4** | **-48.4%** | **46.5** | **71.4** | **-34.9%** |
| Financial income, net | -3.7 | -4.2 | 11.5% | -3.7 | -4.2 | 11.5% |
| Gains / (losses) in associated companies | - | 0.2 | - | - | 0.2 | - |
| **Earnings before taxes (EBT)** | **32.6** | **66.4** | **-50.9%** | **42.8** | **67.5** | **-36.6%** |
| Income tax for the period | 13.2 | 20.6 | -35.8% | 11.7 | 19.0 | -38.3% |
| Gains/ (losses) attributable to non-controlling interests | -0.1 | -0.2 | -42.3% | -0.1 | -0.2 | -42.3% |
| **Net profit attributable to equity holders** | **19.5** | **46.0** | **-57.6%** | **31.2** | **48.7** | **-35.9%** |

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

## 1. Economic and Financial Analysis

### Revenues

Recurring revenues totalled €518.0m, corresponding to a growth of €0.9m (+0.2%) over the same period of the previous year.

The weight of each business unit in total recurring revenues underwent slight changes from 2016 to 2017. There was an increase in the weight of the Express & Parcels and Banco CTT business units in total recurring revenues and a small percentage reduction in the Mail and the Financial Services business units.

**Revenues**

€ Million

| | Reported | | | Recurring | | | Weight % | |
|---|---|---|---|---|---|---|---|---|
| | 9M17 | 9M16 | Δ | 9M17 | 9M16 | Δ | 9M17 | 9M16 |
| **Revenues** | **518.0** | **518.8** | **-0.2%** | **518.0** | **517.1** | **0.2%** | 100% | 100% |
| Business units | 543.1 | 539.7 | 0.6% | 543.1 | 539.7 | 0.6% | | |
| Mail | 393.4 | 398.0 | -1.1% | 393.4 | 398.0 | -1.1% | 76% | 77% |
| Express & Parcels | 96.2 | 88.1 | 9.2% | 96.2 | 88.1 | 9.2% | 19% | 17% |
| Financial Services | 48.2 | 53.4 | -9.7% | 48.2 | 53.4 | -9.7% | 9% | 10% |
| Banco CTT | 5.3 | 0.3 | » | 5.3 | 0.3 | » | 1% | 0.1% |
| Central Structure and intragroup eliminations | -25.2 | -20.9 | -20.4% | -25.2 | -22.6 | -11.3% | -5% | -4% |

### Mail

The recurring revenues of the **Mail** business unit totalled €393.4m, corresponding to a year-on-year decrease of 1.1%. The drop in the revenues is associated mostly with the evolution of **addressed mail volumes**, which decreased by 6.1% in the first 9 months of 2017, above the trend in recent years with an acceleration in the second and third quarters of 2017.

**Mail Volumes**

Million items

| | 1H17 | 1H16 | Δ | 3Q17 | 3Q16 | Δ | 9M17 | 9M16 | Δ |
|---|---|---|---|---|---|---|---|---|---|
| Transactional Mail | 331.0 | 349.9 | -5.4% | 144.3 | 155.0 | -6.9% | 475.3 | 504.9 | -5.9% |
| Editorial Mail | 21.6 | 22.6 | -4.3% | 9.1 | 9.3 | -2.4% | 30.7 | 31.9 | -3.8% |
| Advertising Mail | 35.4 | 38.6 | -8.2% | 14.0 | 16.0 | -12.7% | 49.4 | 54.6 | -9.5% |
| **Addressed Mail** | **388.0** | **411.1** | **-5.6%** | **167.4** | **180.3** | **-7.2%** | **555.4** | **591.4** | **-6.1%** |
| **Unaddressed Mail** | **234.8** | **234.7** | **0.0%** | **133.4** | **126.7** | **5.3%** | **368.2** | **361.4** | **1.9%** |

The reason for the change in addressed mail volumes was mainly the drop in **transactional mail volumes** (-5.9%), which fell by 6.9% in the 3rd quarter of 2017, maintaining the downward trend of the 2nd quarter of 2017 (-7.7%).

The decline of the transactional mail volumes was due, in particular, to the **decrease of ordinary mail (-7.6%)** and has a significant impact due to its weight in overall volumes (79% of the transactional mail in the first 9 months of the year). This decline in volumes stems from the reduction in consumption by large business customers in the banking and insurance sectors (-11.2%), and utilities and telecommunications (-8.9%), which continue to substitute physical mail (especially for sending bank statements and invoices) for other forms of digital communication.

**Registered mail** volumes grew by 2.2% in the first 9 months of 2017, but there was a reversal of this trend in the 3rd quarter compared to the 1st half of the year (-6.0% vs. + 6.1% respectively). The basis of this slowdown is the consumption contraction of the Tax Authority customer (-30% in the 3rd quarter of 2017 vs. +23% in the 1st half of 2017). **Editorial mail** volumes did not change significantly in relation to those reported in the 1st half of the year, with a decrease of 3.8% in the 9 months of 2017 which illustrates the effect of digital substitution by contractual customers.

The **price** update of the basket of letter mail, editorial mail and parcels services took effect from 4 April of this year. The average change in Universal Service prices in the 9 months of 2017 versus the same period of the previous year was 1.7%, thus mitigating the effect of the volumes decline on revenues.

**Addressed advertising mail** volumes dropped by 9.5% in the first 9 months of 2017 mostly due to the reduced number of campaigns by large customers of the retail, mail order catalogue and utilities industries, a trend that was particularly strong in the 3rd quarter. On the other hand, it is worth noting the 5.3% growth of **unaddressed advertising mail** volumes in the 3rd quarter which was due to the local election campaign and has contributed to an accumulated growth of 1.9% in the first 9 months of the year.

In the 1st quarter of 2017, the new **cttads.pt** solution was launched. This is an online channel of the CTT Ads – Advertising Solutions service, which is an integrated service aimed at the micro, small and medium-sized enterprises, allowing them in a self-service manner to design, produce and contract advertising campaigns. Until the 3rd quarter, it has not yet originated significant business growth (advertising mail, e-mail and sms), but the indicators show positive signs: more than 60 thousand accesses to the platform were registered, almost 4 thousand registrations were made for business clients and around 200 advertising campaigns were designed. CTT was distinguished with the Honourable Mention "Best Digital Platform" at the Portugal Digital Awards 2017 and with the PostEurop Innovation Award 2017 for its cttads.pt solution. This prize was awarded for the first time by PostEurop to distinguish the postal companies that stood out in the field of innovation throughout Europe.

The revenues from **philately** stood at € 6.1m in the period from January to September 2017, a year-on-year growth of 15.5%. This development was mainly due to the successful marketing of the "Fatima - 100 Years" philatelic project and the 2nd series of the "Benfica" stamp packs. Although the philatelic business represents a small share of the revenues of the Mail business unit, the unanimous international recognition that it has achieved, translated in the various awards of the industry it has been attributed internationally year after year, contributes favourably to the recognition and appreciation of the CTT brand.

To be highlighted is the suspension of the **sale of lottery** at CTT Retail Network that occurred in the 4th quarter of 2016 and only resumed in the 2nd quarter of 2017 with a new partner, due to its negative impact on the revenues of the Mail business unit in the first 9 months of the year (-€2.1m), as it exacerbated the effect of the loss of revenues related to the **agreement with Altice** (-€2.5m).

## EXPRESS & PARCELS

The **EXPRESS & PARCELS** business unit posted recurring revenues of €96.2m, corresponding to a 9.2% growth compared to the same period of 2016 (+12.4% excluding the effect of the revenues from the agreement with Altice in 2016). This business unit covers the activities of CTT Expresso and Transporta in Portugal, of Tourline Express in Spain and CORRE in Mozambique.

In **Portugal**, the acquisition of the total share capital of "Transporta - Transportes Porta a Porta, S.A." was concluded on 4 May 2017. The integrated management of this company within Express & Parcels business unit of CTT has taken place since then, thus allowing to start restructuring with the objective of obtaining positive results already in 2018, as further explained in section 2 "Other Highlights".

Revenues from this business (excluding internal customers of the Group) in Portugal stood at €56.9m, a year-on-year growth of 10.2% that includes €5.6m (€5.0m from cargo and €0.6m from logistics) related to the revenues of Transporta of the months of May to September. Revenues in Portugal excluding Transporta, i.e. from CTT Expresso, slightly decreased compared to the same period of the previous year (-0.6%). This situation resulted from the 2.6% growth of the CEP business being negatively offset by the marked decrease of the banking network business (-24.9%), which, nevertheless, currently has a lower weight (around 7%) in the revenues of this business unit in Portugal.

Total volumes in Portugal grew by 18.4% in the first 9 months of 2017 compared to the same period of 2016 (6.9%, excluding the approximately 1.2 million items contributed by Transporta). This performance is mainly the result of 3 different factors: (i) strong growth in the B2C/e-commerce segment and in the number of customers in the fashion and accessories industry, as well as new recruitments in the sporting goods segment and food industry (ii) growth in the B2B segment of customers in the retail, electronics and telecommunications industries acquired in 2016, as well as (iii) growth in the B2B segment due to new recruitments in 2017 in the auto parts and maintenance sector, and in the publishing and logistics industries. It should also be noted that micro and small enterprises managed through remote channels (telemarketing and web) recorded a marked increase in volumes (over 20%). The main industries are the small and medium industry and e-commerce. The evolution of volumes when compared to revenues shows a decline of average revenues per item (-3.7%) in CTT Expresso's domestic business.

The CTT *e-segue* offer (http://www.cttexpresso.pt/ctt-e-segue/index.html), by increasing the value proposition and the range of services directed to the e-buyers, and the focus on the growing SME segment should contribute to contain the decline of average revenues mentioned above. In order to adapt the response to the needs of one of the main growth drivers of the express business – e-commerce – the geographic coverage of the same-day deliveries was expanded to cover nights (07:00pm to 10:00pm) and weekends (Saturdays until 02:00pm). The reinforcement of these supply components has allowed for an extra level of convenience for deliveries to consumers. In September, the CTT *e-segue* App was launched which allows for parcel management directly on smartphones and tablets. With the CTT *e-segue* App, consumers can, in addition to tracking the course of their parcels, make changes to the delivery - address, date or time -, receive notifications at key moments and send parcels anytime, anywhere.

In the scope of e-commerce, mention should be made to the commercial partnerships established with two national e-commerce platforms, which aim to offer customers with online shops in these platforms an automatic integration with the systems of shipping and delivery of their parcels by CTT. During the first 9 months of 2017, e-commerce grew by 23.5% in terms of (last-mile) delivered volumes, including inbound cross-border flows.

In **Spain**, revenues of this business (revenues from external customers of the CTT Group) during the first 9 months of 2017 stood at €36.3m, +17.4% compared to the same period of the previous year, mainly due to the 24.6% growth in volumes.

Tourline captured 23 new franchisees in the 3rd quarter (34 in the first 9 months of 2017), allowing for a net growth of 14 franchisees by the end of September (vs. 6 in 2016), which illustrates the growing trust that the company enjoys. This increase will reduce the percentage of items distributed directly by Tourline in Spain by around 15% (by increasing the area covered by franchisees) and consequently also reduce unit distribution costs in the 4th quarter, as these are about 25% lower in franchisees than in own distribution.

The increase in franchisees and customers allowed for a significant acceleration of growth compared to 2016, which represented a 42% increase in volumes in the 3rd quarter, compared to 17% in the 1st half of 2017. As far as revenues are concerned, the increase vis-à-vis 2016 was 31% in the 3rd quarter of 2017 vs. 11% in the 1st half of 2017. The growth in this quarter should be highlighted since 2017 had less one working day and it was achieved without any deterioration of the average price, although the cost increase to support such growth with good quality levels has also been relevant.

In **Mozambique**, CORRE recorded a 7.1% revenues growth in local currency (metical) vis-à-vis the same period of the previous year (+5.5 million metical), mainly due to the growth of the banking business (+3.8 million metical; +8.7%). The revenues of this business (excluding internal customers of the Group) in terms of euros, which were penalised by the negative exchange rate evolution, decreased by 3.6%. CORRE, in contrast with the economic performance of the country, has increased its turnover and consolidated its position as the largest Mozambican logistics operator in the services sector, seeking diversification of its client portfolio (as for instance in the recent case of the collection of clinical samples for several NGOs in the field of the AIDS combat) in order to ensure less dependence on its hegemonic position in the banking sector.

With regard to cost cutting, CORRE has just completed a plan to reduce its human resources structure (expatriates) with effect from the 4th quarter. A strategic plan is under implementation to reinforce the commitment and alignment of shareholders with a set of assumptions that will allow the consolidation of CORRE's accounts by reducing its exposure to currency fluctuation and to comply with the capital ratio.

#### FINANCIAL SERVICES

The **FINANCIAL SERVICES** business unit revenues reached €48.2m in the 9 months of 2017, corresponding to a decrease of 9.7% (-€5.2m) compared to the same period of 2016, mainly due to the loss in 2017 of the revenues from the agreement with Altice (-€2.5m) and to the decrease in payment income (-€1.7m) while some growth initiatives for this business are still under development.

The CTT Retail Network maintained an extensive marketing activity regarding non-banking financial products and services based on partnership agreements, involving the areas of Savings, Life and Non-Life Insurance, Money Transfers/Remittances, as well as the consumer credit business and credit cards at CTT Retail Network counters without Banco CTT.

**Public debt** products, which account for about 49% of the revenue structure of the business unit, had flows of 4.6 billion euros, of which 3.2 billion euros in new placements until September 2017, which translates into a growth of 14.8% over the same period of last year. This was due to their high competitiveness with regard to bank deposits and treasury bonds, both in terms of yield (high average return rate) and the fact that they are fully cost-free, which is not the case of the variable-income Treasury Bonds, thus penalising the latter's profitability.

Within the area of **money orders and transfers**, which saw a decrease of 4.3% in revenues, the performance of the international component (Western Union and international money orders) should be noted, as it showed a growth of 2.0%. The business of **consumer credit** in post offices without banking activity credit granted reached €5.7m euros in the first 9 months of 2017. Special note in this 3rd quarter to the relaunch of the **non-financial insurance** business with the start of the sale of Multicare CTT healthcare offer (a partnership with the Fidelidade insurance company), preceded by a technical and behavioural training programme for commercial and motivation teams, involving more than 500 employees.

The **payments** business made more than 41 million transactions from January to September 2017 corresponding to more than €15.9m of generated revenues, a decrease of €1.7m compared to the same period of the previous year. This decrease resulted from the reduction in revenues from payment services for invoices and mobile phones, due to the tendency of customers to choose non-presence options which put pressure on prices as well. During the 3rd quarter, the projects included in the Payshop Transformation Programme[1] were continued, as well as others considered relevant, of which the following are the most noteworthy.

Payshop has made available in its network of agents a new service of physical and virtual prepaid cards and vouchers for purchases on the Internet. These prepaid products are an easy, fast and secure alternative when purchasing games and other content from internationally renowned brands such as Sony PlayStation, Sony Plus, Nintendo and X-box (new product added in the 3rd quarter).

After signing the contract with the Portuguese start-up OneBiller in the first semester of the year, the "Virtual Agent" project is under development. This project materialises in an innovative application, which intends to bring the Portuguese even closer to the single payment brand of CTT. It will be a web and mobile application that aims to consolidate and make available information on recurring expenses, helping users to manage and make all payments and expenses with just a click.

Based on one of the pillars of the Transformation Programme[1] of Payshop, the new mobility solutions aim to increase the number of customers in Public Transport ticketing and to provide solutions associated with parking. The payment service was added for companies that focus on the management and operation of concessions of parking spaces on the public highway, as well as the operation of all types of car parks, whether underground or surface. Also during the 3rd quarter, the PuDo - Pick-Up & Drop Off service was extended, as part of the partnership between Payshop and CTT Expresso, for delivery and collection of Expresso parcels at Payshop agents. This service is implemented in a total of 85 Payshop agents.

At the end of September 2017, the network of Payshop agents was made up of 4,372 agents.

### BANCO CTT

The recurring revenues of the **BANCO CTT** business unit reached €5.3m in the first 9 months of2017, although the most relevant fact is the bank's high and continued capacity to attract customers. At the end of September, Banco CTT reached more than 190 thousand current accounts of which more than 43 thousand opened in the 3rd quarter of 2017. In September, Banco CTT completed 18 months of activity since its opening to the public in March 2016. It is present countrywide in more than 200 CTT post offices, having already earned the trust of over 240 thousand customers.

The relationship of trust and proximity that customers have been establishing with the bank has led to the growth of the institution, with emphasis on the raising above 540 million euros of deposits, of which about 341 million euros

[1] Transformation Programme: set of projects elected every year as fundamental to achieve CTT strategy.

in current accounts, the success of the Banco CTT Credit Cards, with more than 43 thousand cards placed, and the placement of Consumer Credit in partnership with Cetelem BNP Paribas, available both in the post offices and on the bank's website, with a credit volume of over €25m throughout the 9 months of 2017.

In the 3rd quarter of 2017, Banco CTT strengthened the focus on mortgage loans, a product launched in the 2nd quarter to the general public. On 23 September a new advertising campaign was launched in the various media, namely in television, radio, outdoor, online and in-store communication, under the motto "Crédito Habitação sem Ais nem Uis" ("Mortgage loans as simple as it gets!"). The campaign highlights the simplicity of access conditions, no hidden costs (no obligation to subscribe extra products, no increased commissions) while underscoring the competitive spread offered. At the end of September, the volume of credit to customers amounted to approximately 42 million euros, of which 29.2 million in mortgage loans after a placement of almost 25 million in the 3rd quarter only.

Focus on the customer and facilitation of their day-to-day demands from Banco CTT a continuous and growing concern about offering affordable, convenient, reliable and innovative services. Therefore, in the 4th and last quarter of the year, Banco CTT will continue the strategy of simplicity, transparency and competitiveness of all its offer, so as to grow in customers, resources and credit granted, thus consolidating its presence and boosting its growth in the Portuguese banking sector.

The decision not to extend the presence of Banco CTT to more CTT post offices, together with the strong growth in the placement of credit products while maintaining a level of customer capture above the initial expectations, proves the strong acceptance of Banco CTT within the population while it also led to a higher-than-expected increase of the capacity to cope of post offices with Banco CTT counter so as to respond to the demand, by consequently bringing forward and preventing cost optimisation in the Retail Network as reflected in the costs of the Mail business unit throughout 2017.

### OPERATING COSTS[2]

Recurring operating costs totalled €449.8m, +€23.7m (+5.6%) over in the same period of the previous year, including +€5.3m from Banco CTT and +€6.4m from Transporta. Excluding these effects, costs increased by €11.9m with a relevant share related to the strong growth of the Express & Parcels activity in Spain where the use of the installed capacity is limited and grew €4.5m vis-à-vis 2016.

**Operating costs**

€ Million

| | Reported | | | Recurring | | |
|---|---|---|---|---|---|---|
| | **9M17** | **9M16** | **Δ** | **9M17** | **9M16** | **Δ** |
| **Operating costs (*)** | **458.7** | **436.0** | **5.2%** | **449.8** | **426.1** | **5.6%** |
| External supplies & services | 182.2 | 170.1 | 7.1% | 176.8 | 163.7 | 8.0% |
| Staff costs | 257.5 | 247.4 | 4.1% | 254.5 | 244.2 | 4.2% |
| Other operating costs | 19.1 | 18.5 | 2.9% | 18.6 | 18.2 | 2.1% |

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

Recurring **external supplies & services** (ES&S) costs increased by 8.0% (+€13.0m) year-on-year. The cost reductions resulting from the optimisation and rationalisation of the operations and the distribution networks

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

integration initiatives did not offset the increase in costs, of which the following should be mentioned (i) +€4.7m from Transporta since May 2017, (ii) +€3.5m relating to Tourline transport and distribution costs resulting from volumes growth as well as the creation and reinforcement of new domestic routes, and +€1.0m related to temporary work and travel expenses, (iii) +€2.8m from Banco CTT costs, and (iv) +€1.6m from energy and fuel costs (mostly due to price increases).

As far as **staff costs** are concerned, the €10.3m (+4.2%) growth in the recurring costs derives mainly from the following increased costs: (i) +€2.0m in staff costs of Banco CTT, (ii) +€2.0m in fixed-term contracted staff, (iii) +€1.7m resulting from the increase of the salary review agreed with the workers' representative organisations of and with effect as of January 2017, (iv) +€1.6m of staff costs in Transporta, and (v) +€1.4m related to the lower cost cut in the "telephone subscription fee" benefit.

## STAFF

As at 30 September 2017, the CTT headcount consisted of 12,843 employees, 69 more (+0.5%) than as at 30 September 2016. This increase includes the integration of 186 employees of Transporta following the acquisition in May 2017. There was a decrease of 14 permanent employees and an increase of 83 under fixed-term contracts. With special impact on this change is the increase in the staff of Banco CTT and the Express & Parcels business unit, as a consequence of the integration of the Transporta staff.

**Headcount**

| | 30.09.2017 | 30.09.2016 | Δ 2017/2016 | |
|---|---|---|---|---|
| Mail | 10,361 | 10,323 | 38 | 0.4% |
| Express & Parcels | 1,156 | 1,058 | 98 | 9.3% |
| Financial Services | 90 | 96 | -6 | -6.3% |
| Banco CTT | 182 | 162 | 20 | 12.3% |
| Other | 1,054 | 1,135 | -81 | -7.1% |
| **Total, of which:** | **12,843** | **12,774** | **69** | **0.5%** |
| Permanent | 11,316 | 11,330 | -14 | -0.1% |
| Fixed-term contracts | 1,527 | 1,444 | 83 | 5.7% |
| Total in Portugal | 12,413 | 12,324 | 89 | 0.7% |

Excluding the number of employees of Transporta, the total staff would be 12,657, which represents a reduction of 117 employees (-0.9%) compared to the same period of 2016 and if, additionally, the increase of 20 employees that joined Banco CTT were excluded, the reduction would be 137 employees. In terms of employee turnover from January to September 2017, and excluding the integration of Transporta, more employees left the company than joined it as explained below.

Due to their importance, special reference is made to two major units, Operations & Distribution (with 7,147 employees, with special emphasis on the importance of the functions of the delivery postmen who total 4,645) and Retail Network (with 2,815 employees). Together, these areas represent circa 88% of CTT headcount.

Thus, 180 employees left, due to termination of work contract and similar situations (114 employees in this situation, of whom 30 in Tourline Express and 5 in CORRE), to retirement (47) and death (19). On the other hand, 80 employees were hired, 60 in Portugal (3 for CTT Expresso, 20 for Banco CTT and 37 for CTT, SA) and 20 abroad (for Tourline Express). Staff recruitment aimed at obtaining inexistent but indispensable skills for accomplishing the company's strategic options (banking business, commercial activities and information systems, among others).

## RECURRING EBITDA

The operating activity generated a recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results) of €68.1m, 25.1% (-€22.9m) below that of the same period of 2016, with an EBITDA margin of 13.2%.

The recurring EBITDA is predominantly affected by the loss of the Altice revenues (-€7.5m), by the acquisition of Transporta, of which the restructuring and integration in CTT are underway (-€0.7m), and the evolution of Banco CTT (-€0.3m). In addition, the lower achievement of cost optimisation benefits in 2017 compared to 2016 and the lower cost cut in the "telephone subscription fee" benefit also contributed to the negative performance of the recurring EBITDA. In terms of operating activity, the evolution of addressed mail volumes which worsened to levels close to -7.0%, the increases in wages, energy and fuel and in rents were the main factors impacting EBITDA.

**Consolidated EBITDA by Business Unit**

€ Million

| | Reported | | | Recurring | | | Weight % | |
|---|---|---|---|---|---|---|---|---|
| | 9M17 | 9M16 | Δ | 9M17 | 9M16 | Δ | 9M17 | 9M16 |
| **EBITDA** | **59.3** | **82.9** | **-28.5%** | **68.1** | **91.0** | **-25.1%** | 100% | 100% |
| Mail | 54.3 | 69.7 | -22.1% | 58.7 | 73.9 | -20.5% | 86% | 81% |
| Express & Parcels | -1.5 | 2.8 | -151.6% | 0.2 | 2.9 | -93.2% | 0% | 3% |
| Financial Services | 24.1 | 28.8 | -16.4% | 24.1 | 28.8 | -16.3% | 35% | 32% |
| Banco CTT | -17.7 | -18.5 | 4.4% | -14.9 | -14.6 | -1.8% | -22% | -16% |

## RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax, and non-recurring results) stood at €46.5m, -€24.9m (-34.9%) than in the same period of 2016. The EBIT margin was 9.0%.

The consolidated net financial result reached -€3.7m, which represents growth of €0.3m (+6.4%) vis-à-vis the same period of 2016. Financial costs incurred amounted to €4.0m, mainly incorporating financial costs corresponding to the accounting effect in the amount of €3.9m associated with the discount rate of employee benefits. Interest and other financial income decreased by 48.9% (-€0.3m) compared to the figures of the same period of 2016 due to the reduced rates of return on time deposits, the reduction in the liquidity levels as a result of the investment in Banco CTT, and CTT's continued conservative policy of appropriation of funds.

CTT obtained a €19.5m consolidated net profit attributable to shareholders, which is 57.6% below that of the same period of 2016, corresponding to a result of €0.13 per share and to a 3.8% net profit margin on the revenues. Excluding the non-recurring effects in both periods, the net profit would have been €31.2m (-35.9%).

## NON-RECURRING COSTS AND REVENUES

In the first 9 months of 2017, CTT recorded non-recurring income before taxes and non-controlling interests of -€10.2m.

**Non-recurring costs and revenues**

€ Million

| | 9M17 | 9M16 |
|---|---|---|
| **Total** | **-10.2** | **-1.1** |
| **affecting EBITDA** | **-8.9** | **-8.1** |
| . Other operating income | 0.0 | 1.7 |
| . External supplies & services and other costs | -5.9 | -6.7 |
| . Staff costs | -3.0 | -3.2 |
| **affecting only EBIT** | **-1.3** | **7.0** |
| . Provisions (reinforcements / reductions) | 0.3 | 7.6 |
| . Impairments, depreciations and amortisations (losses / reversions) | -1.5 | -0.6 |

**ES&S costs** include €5.4m of costs incurred with studies and consulting on strategic projects, especially those related to (i) Banco CTT (€2.9m), (ii) the commercial excellence programme and business expansion strategies (€0.8m), and (iii) the Talent Management plan and consulting on various issues (€1.7m).

Under **staff costs** is mainly included the negative impact of two factors (i) €1.2m associated with the termination of employment contracts by mutual agreement at CTT and (ii) €1.2m relative to the human resources optimisation process due to the gradual integration of the activity of Transporta in CTT.

The depreciation / amortisation, impairments, and net provisions posted a net reversal incremented by €1.3m broken down into: (i) €1.1m of depreciation / amortisation regarding Banco CTT, (ii) -€0.01m of reversal of impairments of investment property, (iii) €0.4m of increased costs relative to net impairments resulting from the optimisation of the Express & Parcels business unit, due to the restructuring of the Tourline network, and (iv) -€0.3m of net reversal of provisions relative to labour contingencies.

## INVESTMENT

Capex of the Group stood at €10.4m, broken down mainly as follows: €4.6m in Banco CTT (€3.6m in IT systems), €4.3m in IT systems in other Group companies, and €1.0m in works in buildings and premises, and in security. This amount is 45.6% below that of the same period of last year (€19.1m), which was marked by the strong investment due to the launch of Banco CTT.

## FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased €121.6m year-on-year to €293.3m. The adjusted operating free cash flow (excluding the change in net financial services payables) stood at €80.6m.

The **change in cash** amounted to €46.5m, which is a positive change of €57.4m versus the same period of 2016. Excluding the change in the financial services receivables/payables (-€3.5m), the change in cash would be €50.0m. The change in cash results mostly from: (i) +€241.2m in operating cash flows related to Banco CTT; (ii) +€52.1m of cash flow from the operating activities (excluding the financial services and Banco CTT's cash flows); (iii) -€3.5m regarding the change in the financial services receivables/payables; (iv) -€29.1m relative to payments regarding tangible and intangible fixed assets (-€27.3m) and in the acquisition of the company Transporta (-€1.7m); (v) -€189.7m of financial assets held by Banco CTT; and (vi) -€72.0m relative to dividend payment. The cash flow is negatively impacted by the high amount of payments made for the investments of 2016, partly related to the opening of Banco CTT branches and partly due to the acquisition of Transporta.

**Cash flow**

€ Million

| | Reported | | | Adjusted (*) | | |
|---|---|---|---|---|---|---|
| | **9M17** | **9M16** | **Δ** | **9M17** | **9M16** | **Δ** |
| **Cash flow from operating activities** | **289.8** | **212.4** | **36.5%** | **293.3** | **171.7** | **70.8%** |
| *Cash flow without Fin. Services and Banco CTT* | - | - | - | *52.1* | *8.4* | *519.7%* |
| *Cash flow Banco CTT* | - | - | - | *241.2* | *163.3* | *47.7%* |
| **Cash flow from investment activities** | **-212.7** | **-153.5** | **-38.6%** | **-212.7** | **-153.5** | **-38.6%** |
| Capex | -29.1 | -25.1 | -15.9% | -29.1 | -25.1 | -15.9% |
| *Of which cash flow Banco CTT* | - | - | - | *-4.6* | *-9.1* | *48.8%* |
| Financial assets Banco CTT (**) | -189.7 | -134.3 | -41.2% | -189.7 | -134.3 | -41.2% |
| Other | 6.1 | 5.9 | 2.9% | 6.1 | 5.9 | 2.9% |
| **Operating free cash flow** | **77.1** | **58.9** | **31.0%** | **80.6** | **18.3** | **341.6%** |
| **Cash flow from financing activities** | **-74.2** | **-71.8** | **-3.3%** | **-74.2** | **-71.8** | **-3.3%** |
| *Of which Dividends* | *-72.0* | *-70.3* | *-2.5%* | *-72.0* | *-70.3* | *-2.5%* |
| Other (***) | 43.6 | 2.1 | » | 43.6 | 2.1 | » |
| **Net change in cash** | **46.5** | **-10.9** | **528.9%** | **50.0** | **-51.5** | **197.2%** |

| | **30.09.2017** | **31.12.2016** | **Δ** | **30.09.2017** | **31.12.2016** | **Δ** |
|---|---|---|---|---|---|---|
| **Cash and equivalents at the end of the period** | **665.3** | **618.8** | **7.5%** | **345.3** | **295.3** | **16.9%** |

(*) *Cash flow* excluding change in Net Financial Sevices payables (-€3.5m in 9M17 and +€40.6m in 9M16).
Cash and equivalents at the end of the period excluding Net Financial Services payables (€320.0m in September 2017 and €323.5m in December 2016).

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

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

## CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 30.09.2017 and that at the end of the 2016 financial year are as follows:

Total **assets** reached €1,546.5m, an increase of €229.8m (+17.5%), of which €351.1m relative to investment, financial assets and credit held by Banco CTT, broken down as follows: (i) €227.7m of investments held to maturity and available-for-sale financial assets; (ii) €81.0m of other banking financial assets, mostly investments in credit institutions and in the interbank market; and (iii) €42.0m of credit to banking clients, especially mortgage loans and other credit. Within the total assets, mention should be made to the €46.5m increase in cash and equivalents (+7.5%).

**Equity** decreased €51.6m (-22.1%) as a result of the payment of dividends relative to the 2016 financial year (€72.0m) that took place in May 2017 and is above the accumulated net profit as at the end of September 2017. In addition, on 31 January 2017, a total of 600,530 own shares were granted to the Executive Directors of the Company as long-term variable remuneration, as the corresponding reserve was reduced by €5.1m and a non-recurring cost of €0.6m was recognised.

**Liabilities** increased by €281.4m (+26.0%) of which the €286.5m increase of Banco CTT customer deposits stands out.

**Consolidated Balance Sheet**

€ Million

| | 30.09.2017 | 31.12.2016 | Δ |
|---|---|---|---|
| Non-current Assets | 587.1 | 452.6 | 29.7% |
| Current Assets | 959.4 | 864.1 | 11.0% |
| **Assets** | **1,546.5** | **1,316.7** | **17.5%** |
| **Equity** | **181.7** | **233.3** | **-22.1%** |
| **Total Liabilities** | **1,364.8** | **1,083.4** | **26.0%** |
| Non-current Liabilities | 264.7 | 269.5 | -1.8% |
| Current Liabilities | 1,100.0 | 813.8 | 35.2% |
| **Total Equity and Liabilities** | **1,546.5** | **1,316.7** | **17.5%** |

As at 30 September 2017, the **liabilities related to employee benefits** amounted to €264.7m, 2.8% below those registered in December 2016, broken down as shown in the table below.

**Liabilities related to long-term employee benefits**

€ Million

| | 30.09.2017 | 31.12.2016 | Δ |
|---|---|---|---|
| Total responsibilities | **264.7** | **272.3** | **-2.8%** |
| Healthcare | 248.1 | 249.1 | -0.4% |
| Staff (suspension agreements) | 3.7 | 5.5 | -32.2% |
| Other benefits to Corporate Bodies | - | 4.5 | -100.0% |
| Other long-term benefits | 12.5 | 13.2 | -5.3% |
| Transporta pension plans | 0.4 | - | - |

## 2. OTHER HIGHLIGHTS

### ACQUISITION OF TRANSPORTA

On 4 May 2017, the **acquisition by CTT of the total share capital** of "Transporta – Transportes Porta a Porta, S.A." was concluded. The agreement with Grupo Barraqueiro for the purchase had been announced on 15 December 2016 and CTT was notified of the Competition Authority's decision not to oppose it on 2 March 2017.

This acquisition falls within the scope of CTT's expansion and diversification strategy to capture growth opportunities in neighbouring markets with potential synergies with the express and parcels market to allow for a greater adhesion and share of wallet from the customers. On the one hand, the fact that Transporta offers integrated logistics and last-mile cargo solutions in Portugal allows CTT to expand and reinforce its presence in these markets. On the other, as it operates mostly in the market of delivery and transport of items above 30 kg, it will allow CTT to widen the range of services provided and offer even more integrated solutions to its customers.

Since May, the operational and commercial integration process of Transporta in CTT has been underway aiming at capturing synergies of various natures: synergies in the migration of items between networks (transferring items from the Transporta network to that of CTT and vice versa depending on the degree of competitiveness of each of the companies in the different types of flows), infrastructure synergies(integration of operational centres in the central and southern areas of the country), as well as fleet and support functions synergies (Accounting and Treasury, Human Resources, Customer Support, among others), and also optimisation of outsourcer networks, human resources and in External Supplies and Service (ES&S). In commercial terms, an integrated approach to the market has begun, with the preparation of joint proposals to achieve a more comprehensive offer to the customers.

In the 4th quarter of 2017, CTT will continue to focus on capturing synergies, on the optimisation of national infrastructures and networks and their extension to the Iberian operation of the various companies of the Group, as well as on commercial dynamism, fostering cross-selling and offering growingly integrated solutions to the customers.

### TRANSFORMATION PROGRAMME[1]

- **OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS**

  In the first 9 months of 2017, the restructuring of the operating cycle, as well as the expansion of the **integration of the Mail and the Express & Parcels distribution networks** proceeded with a view to increasing the productivity and improve the efficiency of the networks.

  As result of the initiatives carried out in recent years to better profit from the mail distribution capacity for the delivery of EMS, in the 9 months of 2017, approximately 74% of all the EMS volumes were delivered by the mail distribution network (71% in the same period of 2016). Especially noteworthy is the implementation of the NARPEL (New Logistics Network Architecture), a project that involves changes to the mail and EMS items routing model and to the videocoding operating model, encompassing the intensification of the North and South Production and Logistics Centres activity, which entails the adjustment of resources, a new sorting model and new layouts in said centres. It should also be mentioned that very recently, on 25 October 2017, this project has been awarded the Excellence Logistics Award 2017 promoted by the Portuguese Logistics Association (APLOG) and by the magazine Logística Moderna (Modern Logistics). Since May, the abovementioned integration process of the Transporta network in CTT network has been underway.

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

This more comprehensive integration project has led to a growth of incremental costs in the distribution network, especially with transportation, caused also by the strong growth of the parcels volumes in 2017. This performance led to a new round of analysis of the best operating structure and process of the integrated networks, now considering also the volume and typology of the flows arising from the integration of the Transporta business.

Regarding the GEO10 project (geo-referencing of the doors of each domicile and their classification), it is important to mention the address information, either due to the introduction of the place names as approved by the municipalities or to the integration of the surveys carried out in the framework of GEO10, totalling 4.8 million doors with identification and enabling coverage of 97% of the Portuguese population and 98% of the entire territory.

During the European Mobility Week 2017, CTT announced sustainable transport alternatives such as the Electric Vehicle of Urban Distribution (VEDUR), 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 routes currently performed on scooters or on foot. The successful pilot will allow to extend the initiative and provide, until the end of the year, an additional set of delivery routes with this new equipment. The advantages of using VEDUR are unequivocal, such as the ability to customise with a local partner, the improved load capacity needed to cope with the growth of e-commerce and the increased sustainable mobility through electric vehicles.

Finally, a special note to the strong growth of the Customs activities which had a positive impact on the quality of service to the client and on the revenues and led to a strong growth of the revenues from international mail.

A new plan to optimise integrated operations is under analysis, which will profit from the experience acquired throughout the two last years of network integration, and from the overall vision of the mail, the express & parcels and the cargo business, as well as the perspectives for the future evolution of these business asreas.

- **INFORMATION SYSTEMS STRATEGIC PLAN**

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

In the first 9 months of 2017, the most relevant initiatives in the field of **transformation of applications** are highlighted below:

- consolidation of the CTT Expresso offer with the new *e-segue* service, an innovative service based on the interaction with the final client and allowing him/her to schedule the delivery according to his/her convenience;
- mobile devices were given to all postmen which will enable acknowledgement of the delivery of parcels without using paper, thus increasing efficiency and allowing for future savings;
- new versions of the CTT App, Via CTT and CTT *e-segue* applications were made available in the marketplace which allow access to CTT to be increasingly "in the hands" of customers;
- start of the implementation of the support solution for the sale and assistance to the customer (after the organisational change of the commercial structure). The CRM of CTT will cover all companies in the group, enabling synergies that allow for a better service to customers;
- pilot tests were successfully conducted using Robotic Process Automation (RPA), a technology to be implemented in several projects of the support areas throughout the next year and training the internal teams to a continued development;
- integration of Transporta IT systems within CTT's IT.

In the area of **transformation of infrastructures**, the consolidation of the SQL Server database pool has started, which allows for significant savings of maintenance costs and strong performance improvements.

**REGULATORY ISSUES**

Complying with the pricing criteria for the 2015-2017 period as defined by a decision of ANACOM of 21.11.2014, the proposal on the **prices of the universal service** submitted by CTT on 31.01.2017, and subsequently adjusted, was approved by ANACOM in a deliberation of 28.03.2017. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 04.04.2017. This update corresponds to a 2.4% annual average change of the price of the letter mail, editorial mail and parcels basket of services, excluding the offer of the universal service to bulk mail senders, to whom the special pricing arrangement applies. The special pricing arrangement for postal services included in the universal service applicable to bulk mail senders, these were also updated on 04.04.2017, following a proposal submitted to the Regulator on 24.03.2017.

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

In the context of the **access to the universal service provider (USP) network**, on 16.06.2017, ANACOM published a draft decision which provides for access to the USP network in certain postal delivery offices for the distribution of non-priority non-letter items. CTT considers that the possible adoption of this measure significantly hampers the automation and centralising strategy that the Company has been following with a view to increase operational efficiency and rationalise costs in a context of declining postal volumes. In addition, this decision might endanger the efficiency of the operation and the future sustainability of the Universal Postal Service. This draft decision was submitted to public consultation until 03.08.2017, and the final decision of the Regulator is yet to be known.

As regards the **quality of the universal postal service**, following the new Postal Law, as from the beginning of the 4$^{th}$ quarter of 2016 the quality of service levels started to be measured by an independent external entity and such measurement is carried out by an international company. As some deficiencies were detected in the measurement process, this entity is currently implementing a number of improvements to the operation and stability of the new quality of service measurement system. On 15.09.2017, CTT was notified of ANACOM's draft decision regarding the alleged non-compliance with one of the eleven quality of service indicators which had to be complied with in 2016. Within the deadline granted, CTT gave its opinion on this draft decision which is based on a difference of understanding between ANACOM and CTT on the methodology for calculating the value of said quality of service indicator. CTT challenged the conclusions of the draft decision, since the calculation formula presented by the Company for this indicator derived, essentially, from the entry into work of a new measurement system on 01.10.2016. This system was subject to some operational constraints inherent to the start-up phase of a new system, which in CTT's opinion, were not duly pondered by ANACOM. The final decision, following CTT's reply challenging ANACOM's understanding, has not yet taken place.

Under Base XV of the Concession of the Universal Postal Service, on 15.09.2017, ANACOM approved the final decision on the **density targets of the postal network and minimum service offers** that CTT should meet during the 2018/2020 triennium. The density targets defined for postal establishments and other points of access to the postal network, such as letter-boxes and mailboxes, do not alter the current ones, thus having no impact on the postal network, maintaining the guarantee of availability and accessibility of the provision of the universal service entrusted to CTT.

According to the legal framework, the **quality of service standards** and the performance targets associated with the provision of the universal service, as well as the **criteria to be met by the formation of prices** are set by the regulator. The position of the regulator on these matters for the next three years is expected to be presented to the market later this year, the last one of the regulatory period 2014/2017. CTT considers that such position should take into account the recent evolution of mail volumes and the changes in consumer needs due to the new reality brought about by new information and communication technologies. Declining volumes put a stronger pressure the mail on unit costs and on the economies of scale of the operation, constantly forcing the adoption of operating efficiency measures; however, the capacity to take that into consideration on the price or the type of service is key to the future sustainability of the Universal Postal Service.

**COMPANY AGREEMENT**

On 28 June 2017, with effect from January 2017, a **Revised Agreement of the 2016 CTT Company Agreement** was entered into with all eleven trade unions represented in the Company, under which a salary increase between 0.65% and 1% in monthly remunerations up to €2,772.3 was agreed. A similar increase was applied in the subsidiaries. In addition, it was agreed to set at €600.00 the minimum amount of the basic monthly salary to be paid in the various companies of the group, effective as from 1 July 2017. This revision of the fixed remuneration represented an important adjustment in the lower remuneration levels and had an impact on the cost increase in the Mail business unit.

This Agreement takes into account the promotion of a stable and peaceful social climate in the Company, which is the purpose of CTT and the signatory unions, while also valuing the work factor.

## 3. FUTURE PERSPECTIVES

The declines above 7% of addressed mail volumes in the 2nd and 3rd quarters of 2017, clearly above the 4% to 5% range estimated for the year 2017, puts a high pressure on the profitability of the Mail business unit, due to the low possibility of adjusting the installed capacity and the integrated distribution operations so as to absorb fixed costs. As a result of the integration of the Mail and Express & Parcels operations, the maximised use of the mail delivery network is facilitated but leads to an operational reengineering process in the short to medium term but not immediately. The strong growth of parcels volumes of the two last quarters did not allow for the full absorption by the mail delivery network due to the mail volumes decline and created the need to reanalyse the transport and distribution routes.

The development of Banco CTT based on the CTT Retail Network and working currently in more than 200 CTT post offices, has put significant pressure on the capacity to meet the demand for products and services, especially due to the strong and continued demand for Banco CTT clearly shown in the quick pace of opening of accounts. Despite the decision of opening Banco CTT branches only in around 200 post offices at this stage, the capture of customers is above initial expectation and led to the need of increasing human resources in some branches, thus generating incremental costs.

The turnaround process of the Express & Parcels operation in Spain continues to show positive developments, based on a strong growth strategy so as to obtain economies of scale and scope, consolidating and expanding the network of franchisees with impact on the reduction of the distribution costs. Despite the high growth needed to achieve it and the positive trajectory of EBITDA, breakeven has not yet been achieved; however, the objective to attain breakeven by the end of the year is maintained.

The addressed mail volumes decline above 7% in the last two quarters leads CTT to reduce its estimates for the next quarters, which will have an impact in the profitability of the Mail business unit until the operational areas are able to adjust their installed capacity or use it for the Express & Parcels business. This effect, as well as the incremental costs needed to support the growth of the Express & Parcels and Banco CTT businesses will put relevant pressure on the consolidated EBITDA of the CTT group in 2017. Measures adjusting the installed capacity to the actual operational needs are being prepared to enable a relevant cost reduction and will be presented before the end of the year.

The company now expects to achieve recurring EBITDA around 20% below the initial guidance for the full year 2017. Given this EBITDA evolution, the Board of Directors intends to propose a full-year 2017 dividend of circa €0.38 per share, payable in 2018.

CTT is confident that these optimisation measures of the installed capacity and the continued development of the revenues growth levers will allow for the success of the deep transformation process it is committed to.

## FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 9 months of 2017, which are attached hereafter.

Lisbon, 31 October 2017

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code and is also available on CTT's Investor Relations website at: http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1.

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***Forward-looking statements***

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

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

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

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

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

# 9 months report 2017

## Interim condensed consolidated financial statements

# INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2017 AND 31 DECEMBER 2016
Euros

| | NOTES | Unaudited 30.09.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Tangible fixed assets | 4 | 197,922,491 | 208,921,781 |
| Investment properties | 6 | 6,881,261 | 9,291,983 |
| Intangible assets | 5 | 39,526,316 | 38,916,723 |
| Goodwill | | 7,703,455 | 7,700,739 |
| Investments in associated companies | | 296,260 | 296,260 |
| Other investments | | 1,503,572 | 1,503,572 |
| Investments held to maturity | 8 | 205,342,434 | 93,986,115 |
| Other non-current assets | | 1,512,023 | 1,306,148 |
| Credit to bank clients | 11 | 29,193,616 | - |
| Financial assets available for sale | 9 | 5,277,696 | 4,473,614 |
| Other banking financial assets | 10 | 8,105,618 | - |
| Deferred tax assets | 24 | 83,866,894 | 86,220,762 |
| **Total non-current assets** | | **587,131,636** | **452,617,698** |
| **Current assets** | | | |
| Inventories | | 5,915,440 | 5,407,685 |
| Accounts receivable | | 126,881,430 | 122,113,270 |
| Credit to bank clients | 11 | 13,211,147 | 7,103,905 |
| Income taxes receivable | 21 | - | 3,587,614 |
| Deferrals | 12 | 8,734,728 | 6,128,931 |
| Investments held to maturity | 8 | 8,357,746 | 1,108,428 |
| Other current assets | | 40,610,332 | 30,033,571 |
| Financial assets available for sale | 9 | 8,701,837 | 1,973,711 |
| Other banking financial assets | 10 | 72,869,692 | 59,054,303 |
| Cash and cash equivalents | | 665,345,797 | 618,811,099 |
| | | 950,628,150 | 855,322,515 |
| Non-current assets held for sale | | 8,756,999 | 8,756,999 |
| **Total current assets** | | **959,385,149** | **864,079,515** |
| **Total assets** | | **1,546,516,785** | **1,316,697,213** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 14 | 75,000,000 | 75,000,000 |
| Own shares | 15 | (8) | (5,097,536) |
| Reserves | 15 | 79,950,341 | 34,891,671 |
| Retained earnings | 15 | 34,265,781 | 93,589,211 |
| Other changes in equity | 15 | (27,137,824) | (27,137,824) |
| Net profit | | 19,509,567 | 62,160,395 |
| Equity attributable to equity holders | | 181,587,857 | 233,405,918 |
| Non-controlling interests | | 154,806 | (79,135) |
| **Total equity** | | **181,742,663** | **233,326,782** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Accounts payable | 19 | 386,099 | 375,379 |
| Medium and long term debt | | 145,172 | 127,145 |
| Employee benefits | | 247,645,843 | 250,445,608 |
| Provisions | 18 | 12,290,328 | 14,127,483 |
| Deferrals | 12 | 321,217 | 334,191 |
| Deferred tax liabilities | 24 | 3,939,143 | 4,123,146 |
| **Total non-current liabilities** | | **264,727,802** | **269,532,952** |
| **Current liabilities** | | - | |
| Accounts payable | 19 | 429,285,691 | 444,863,700 |
| Banking clients' deposits and other loans | 20 | 540,430,248 | 253,944,840 |
| Employee benefits | | 17,092,540 | 17,390,573 |
| Income taxes payable | 21 | 167,805 | - |
| Short term debt | | 7,886,357 | 9,679,829 |
| Deferrals | 12 | 1,224,918 | 4,177,609 |
| Other current liabilities | | 94,694,605 | 82,562,725 |
| Other banking financial liabilities | 10 | 9,264,156 | 1,218,205 |
| **Total current liabilities** | | **1,100,046,320** | **813,837,479** |
| **Total liabilities** | | **1,364,774,122** | **1,083,370,431** |
| **Total equity and liabilities** | | **1,546,516,785** | **1,316,697,213** |

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2017 AND 30 SEPTEMBER 2016
Euros

| | | Nine months ended | | Three months ended | |
|---|---|---|---|---|---|
| | | **Unaudited** | **Unaudited** | **Unaudited** | **Unaudited** |
| | NOTES | 30.09.2017 | 30.09.2016 | 30.09.2017 | 30.09.2016 |
| **Revenues** | | **517,980,942** | **518,825,966** | **165,867,350** | **167,742,405** |
| Sales and services rendered | 3 | 501,269,188 | 497,261,477 | 160,803,046 | 161,074,171 |
| Financial margin | | 2,102,591 | (31,391) | 941,412 | (46,901) |
| Other operating income | 22 | 14,609,163 | 21,595,881 | 4,122,892 | 6,715,136 |
| **Operating costs** | | **(481,660,395)** | **(448,464,299)** | **(160,101,603)** | **(144,813,548)** |
| Cost of sales | | (8,248,399) | (10,262,066) | (3,279,896) | (3,480,296) |
| External supplies and services | | (182,159,109) | (170,069,489) | (62,123,115) | (55,531,229) |
| Staff costs | 23 | (257,500,142) | (247,360,012) | (83,278,694) | (80,286,132) |
| Impairment of accounts receivable, net | | (933,817) | (65,358) | (628,808) | 194,309 |
| Provisions, net | 18 | 758,906 | 7,465,719 | 745,832 | 3,807,873 |
| Depreciation/amortisation and impairment of investments, net | | (22,755,062) | (19,905,863) | (7,854,632) | (6,919,585) |
| Other operating costs | | (10,822,772) | (8,267,229) | (3,682,290) | (2,598,487) |
| **Earnings before financial income and taxes** | | **36,320,547** | **70,361,668** | **5,765,747** | **22,928,858** |
| **Financial results** | | **(3,723,850)** | **(3,979,440)** | **(1,324,010)** | **(1,471,234)** |
| Interest expenses | | (4,026,908) | (4,802,433) | (1,342,000) | (1,600,992) |
| Interest income | | 303,058 | 592,653 | 17,990 | 129,758 |
| Gains/losses in associated companies | | - | 230,340 | - | - |
| **Earnings before taxes** | | **32,596,697** | **66,382,227** | **4,441,737** | **21,457,624** |
| Income tax for the period | 24 | (13,224,676) | (20,585,820) | (2,764,861) | (7,211,067) |
| **Net profit for the period** | | **19,372,021** | **45,796,408** | **1,676,876** | **14,246,557** |
| **Net profit for the period attributable to:** | | | | | |
| Equity holders | | 19,509,567 | 46,034,675 | 1,764,468 | 14,358,139 |
| Non-controlling interests | | (137,546) | (238,268) | (87,592) | (111,583) |
| **Earnings per share:** | 17 | 0.13 | 0.31 | 0.01 | 0.10 |

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2017 AND 30 SEPTEMBER 2016
Euros

| | | Nine months ended | | Three months ended | |
|---|---|---|---|---|---|
| | | **Unaudited** | **Unaudited** | **Unaudited** | **Unaudited** |
| | NOTES | 30.09.2017 | 30.09.2016 | 30.09.2017 | 30.09.2016 |
| **Net profit for the period** | | **19,372,022** | **45,796,408** | **1,676,876** | **14,246,556** |
| Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss) | 15 | 16,174 | - | 20,819 | - |
| Changes to fair value reserves | 15 | 39,307 | 10,194 | 10,256 | 3,672 |
| Other changes in equity | | 5,278 | 74,515 | 9,923 | 6,939 |
| **Other comprehensive income for the period after taxes** | | **60,760** | **84,709** | **40,997** | **10,611** |
| **Comprehensive income for the period** | | **19,432,781** | **45,881,117** | **1,717,873** | **14,257,167** |
| Attributable to non-controlling interests | | (132,267) | (226,938) | (77,668) | (108,113) |
| Attributable to shareholders of CTT | | 19,565,049 | 46,108,054 | 1,795,542 | 14,365,280 |

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 30 SEPTEMBER 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 | | - | - | - | - | (70,264,792) | - | - | (70,264,792) |
| Acquisition of own shares | | - | (3,224,411) | - | - | - | - | - | (3,224,411) |
| Share plan | | - | - | 1,493,546 | - | - | - | - | 1,493,546 |
| | | **-** | **(3,224,411)** | **1,493,546** | **-** | **1,800,491** | **(72,065,283)** | **-** | **(71,995,658)** |
| Other movements | | - | - | - | - | 40,906 | - | 8,871 | 49,777 |
| Actuarial gains/losses - Health Care, net from deferred taxes | | - | - | - | (8,492,992) | - | - | - | (8,492,992) |
| Changes to fair value reserves | | - | - | 14,014 | - | - | - | - | 14,014 |
| Adjustments from the application of the equity method | | - | - | - | - | 19,820 | - | - | 19,820 |
| Net profit for the period | | - | - | - | - | | 62,160,395 | (263,328) | 61,897,067 |
| **Comprehensive income for the period** | | **-** | **-** | **14,014** | **(8,492,992)** | **60,726** | **62,160,395** | **(254,457)** | **53,487,686** |
| **Balance on 31 December 2016** | | **75,000,000** | **(5,097,536)** | **34,891,671** | **(27,137,824)** | **93,589,211** | **62,160,395** | **(79,135)** | **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 | | 49,500,000 | - | - | - | (49,500,000) | - | 366,209 | 366,209 |
| Share capital decrease | | (49,500,000) | - | 49,500,000 | - | - | - | - | - |
| Appropriation of net profit for the year of 2016 | | - | - | - | - | 62,160,395 | (62,160,395) | - | - |
| Dividends | | - | - | - | - | (72,000,000) | - | - | (72,000,000) |
| Attribution of own shares | | - | 5,097,527 | (4,480,638) | - | - | - | - | 616,890 |
| | | **-** | **5,097,527** | **45,019,362** | **-** | **(59,339,605)** | **(62,160,395)** | **366,209** | **(71,016,901)** |
| Other movements | | - | - | - | - | - | - | 5,278 | 5,278 |
| Changes to fair value reserves | | - | - | 39,307 | - | - | - | - | 39,307 |
| Adjustments from the application of the equity method | | - | - | - | - | 16,174 | - | - | 16,174 |
| Net profit for the period | | - | - | - | - | - | 19,509,567 | (137,546) | 19,372,022 |
| **Comprehensive income for the period** | | **-** | **-** | **39,307** | **-** | **16,174** | **19,509,567** | **(132,267)** | **19,432,781** |
| **Balance on 30 September 2017 (unaudited)** | | **75,000,000** | **(8)** | **79,950,341** | **(27,137,824)** | **34,265,781** | **19,509,567** | **154,806** | **181,742,663** |

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE NINE MONTH PERIODS ENDED 30 SEPTEMBER 2017 AND 30 SEPTEMBER 2016

Euro

| | NOTES | Unaudited 30.09.2017 | Unaudited 30.09.2016 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Collections from customers | | 485,514,557 | 465,425,489 |
| Payments to suppliers | | (183,258,879) | (194,850,435) |
| Payments to employees | | (235,591,422) | (231,834,406) |
| Banking customer deposits and other loans | | 286,561,588 | 182,048,811 |
| Credit to bank clients | | (35,250,182) | (2,976,694) |
| Cash flow generated by operations | | 317,975,663 | 217,812,765 |
| Payments/receivables of income taxes | | (8,188,522) | (22,530,191) |
| Other receivables/payments | | (19,982,643) | 17,088,893 |
| Cash flow from operating activities (1) | | 289,804,498 | 212,371,467 |
| **Cash flow from investing activities** | | | |
| Receivables resulting from: | | | |
| Tangible fixed assets | | 2,453,103 | 225,264 |
| Investment properties | | 3,172,600 | 4,919,750 |
| Financial assets available for sale | | 11,900,000 | 12,517,040 |
| Investments held to maturity | | 2,995,779 | 15,505,000 |
| Other banking financial assets | | 101,615,000 | 68,805,000 |
| Interest income | | 443,241 | 753,641 |
| Payments resulting from: | | | |
| Tangible fixed assets | | (18,755,283) | (10,688,130) |
| Intangible assets | | (8,585,208) | (14,387,366) |
| Financial investments | | (1,728,091) | - |
| Financial assets available for sale | | (19,533,418) | (33,884,026) |
| Investments held to maturity | | (121,164,027) | (79,889,616) |
| Demand deposits at Bank of Portugal | | (42,344,406) | (1,737,354) |
| Other banking financial assets | | (123,135,000) | (115,605,000) |
| Cash flow from investing activities (2) | | (212,665,709) | (153,465,798) |
| **Cash flow from financing activities** | | | |
| Receivables resulting from: | | | |
| Loans obtained | | 6,838,204 | 6,443,271 |
| Payments resulting from: | | | |
| Loans repaid | | (7,646,409) | (3,490,000) |
| Interest expenses | | (438,596) | (557,864) |
| Finance leases | | (977,908) | (740,328) |
| Acquisition of own shares | | - | (3,224,411) |
| Dividends | | (72,000,000) | (70,264,792) |
| Cash flow from financing activities (3) | | (74,224,708) | (71,834,125) |
| Net change in cash and cash equivalents (1+2+3) | | 2,914,081 | (12,928,455) |
| Changes in the consolidation perimeter | | 134,862 | - |
| Cash and equivalents at the beginning of the period | | 613,845,248 | 603,649,717 |
| Cash and cash equivalents at the end of the period | | 616,894,191 | 590,721,262 |

| | | | |
|---|---|---|---|
| **Cash and cash equivalents at the end of the period** | | **616,894,191** | **590,721,262** |
| Sight deposits at Bank of Portugal | | 46,136,739 | 1,737,354 |
| Outstanding checks of Banco CTT / Checks clearing of Banco CTT | | 2,314,867 | 341,049 |
| **Cash and cash equivalents (Balance sheet)** | | **665,345,797** | **592,799,664** |

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

**CTT – CORREIOS DE PORTUGAL, S.A.**

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

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## 1. INTRODUCTION

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

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

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

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

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

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

The shares of CTT are listed on Euronext Lisbon.

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

These interim condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 31 October 2017.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of presentation

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

## 3. SEGMENT REPORTING

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

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

The business of CTT is organised in the following segments:

- Mail – CTT, S.A. excluding financial services, but including retail network, sales department, corporate and support areas, CTT Contacto, Mailtec Comunicação and Escrita Inteligente, S.A.;
- Express & Parcels – includes CTT Expresso, Tourline, 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 Sales Departments. 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 attributed to the different segments by allocating the internal transactions for the services mentioned above. After this initial allocation, costs relating to corporate and support areas (CTT Central Structure) previously unallocated, are split by the segments Mail and Financial Services according to the average number of CTT, S.A. employees assigned 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 periods ended on 30 September 2017 and 2016 are analysed as follows:

| | | | | 30.09.2017 | | | | |
|---|---|---|---|---|---|---|---|---|
| Euros | Mail | Express & Parcels | Financial Services | Banco CTT | CTT Central Structure | Intragroup eliminations | Others non allocated | Total |
| Revenues | 393,421,717 | 96,185,271 | 48,224,063 | 5,318,523 | 80,680,649 | (105,849,282) | - | 517,980,942 |
| Sales and services rendered | 361,428,312 | 94,724,699 | 47,344,118 | - | - | (2,227,942) | - | 501,269,188 |
| Sales | 12,193,815 | 605,761 | - | - | - | (305) | - | 12,799,271 |
| Services rendered | 349,234,497 | 94,118,939 | 47,344,118 | - | - | (2,227,637) | - | 488,469,917 |
| Financial Margin | - | - | - | 2,102,591 | - | - | - | 2,102,591 |
| Operating revenues external customers | 20,149,302 | 1,460,572 | 817,008 | 3,215,931 | 10,675,501 | (21,709,151) | - | 14,609,163 |
| Internal services rendered | 11,844,103 | - | 62,937 | - | 29,842,295 | (41,749,336) | - | - |
| Allocation to CTT central structure | - | - | - | - | 40,162,853 | (40,162,853) | - | - |
| Operating costs | 339,102,604 | 97,635,733 | 24,117,418 | 23,043,299 | 80,680,649 | (105,849,282) | - | 458,730,422 |
| External supplies and services | 75,595,019 | 78,529,601 | 6,861,214 | 13,270,275 | 31,746,027 | (23,843,028) | - | 182,159,109 |
| Staff costs | 183,470,624 | 17,391,072 | 3,446,552 | 9,019,444 | 44,264,823 | (92,373) | - | 257,500,142 |
| Other costs | 11,452,211 | 1,715,061 | 1,182,072 | 753,580 | 3,969,939 | (1,693) | - | 19,071,171 |
| Internal services rendered | 28,683,983 | - | 12,365,493 | - | 699,860 | (41,749,336) | - | - |
| Allocation to CTT central structure | 39,900,766 | - | 262,087 | - | - | (40,162,853) | - | - |
| **EBITDA (1)** | **54,319,114** | **(1,450,462)** | **24,106,645** | **(17,724,776)** | **-** | **-** | **-** | **59,250,520** |
| Depreciation/amortisation and impairment of investments, net | (11,891,977) | (2,916,467) | (346,779) | (1,959,272) | (5,528,607) | - | (111,960) | (22,755,062) |
| Impairment of accounts receivable, net | | | | | | | | (933,817) |
| Impairment of other financial banking assets | | | | | | | | - |
| Provisions net | | | | | | | | 758,906 |
| Interest expenses | | | | | | | | (4,026,908) |
| Interest income | | | | | | | | 303,058 |
| Gains/losses in associated companies | | | | | | | | - |
| **Earnings before taxes** | | | | | | | | **32,596,697** |
| Income tax for the period | | | | | | | | (13,224,676) |
| **Net profit for the period** | | | | | | | | **19,372,021** |
| Non-controlling interests | | | | | | | | (137,546) |
| **Equity holders of parent company** | | | | | | | | **19,509,567** |

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

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

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

The revenues are detailed as follows:

| Thousand Euros | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Mail | 393,422 | 397,965 |
| Transactional mail | 301,151 | 303,005 |
| Editorial mail | 11,716 | 11,687 |
| Parcels (USO) | 5,414 | 4,545 |
| Advertising mail | 20,861 | 21,607 |
| Retail | 7,764 | 13,085 |
| Philately | 6,091 | 5,276 |
| Business Solutions | 6,375 | 6,985 |
| Other | 34,050 | 31,776 |
| Express & Parcels | 96,185 | 88,089 |
| Financial Services | 48,224 | 53,399 |
| Banco CTT | 5,319 | 271 |
| CTT Central Structure | 80,681 | 75,487 |
| Intragroup eliminations | (105,849) | (96,384) |
| | **517,981** | **518,826** |

The assets by segment are detailed as follows:

| Assets (Euros) | 30.09.2017 Mail | Express & Parcels | Financial Services | Banco CTT | CTT Central Structure | Non allocated assets | Total |
|---|---|---|---|---|---|---|---|
| Intagible assets | 2,989,468 | 3,788,372 | 581,930 | 20,293,343 | 6,276,586 | 5,596,617 | 39,526,316 |
| Tangible fixed assets | 167,704,324 | 14,130,740 | 524,318 | 262,045 | 14,050,210 | 1,250,853 | 197,922,491 |
| Investment properties | | | | | | 6,881,261 | 6,881,261 |
| Goodwill | 7,294,638 | 2,716 | 406,101 | | | | 7,703,455 |
| Deferred tax assets | | | | | | 83,866,894 | 83,866,894 |
| Accounts receivable | | | | | | 126,881,430 | 126,881,430 |
| Credit to bank clients | | | | 42,404,763 | | | 42,404,763 |
| Investments held to maturity | | | | 213,700,180 | | | 213,700,180 |
| Financial assets available for sale | | | | 13,979,533 | | | 13,979,533 |
| Other banking financial assets | | | | 80,975,310 | | | 80,975,310 |
| Other assets | | | | | | 58,572,355 | 58,572,355 |
| Cash and cash equivalents | | | | | | 665,345,797 | 665,345,797 |
| Non-current assets held for sale | | | | | | 8,756,999 | 8,756,999 |
| | **177,988,431** | **17,921,828** | **1,512,348** | **371,615,175** | **20,326,797** | **957,152,206** | **1,546,516,785** |

| 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) | 30.09.2017 Mail | Express & Parcels | Financial Services | Banco CTT | CTT Central Struture | Total |
|---|---|---|---|---|---|---|
| **Medium and long-term debt** | **-** | **145,172** | **-** | **-** | **-** | **145,172** |
| Bank loans | - | 89,853 | - | - | - | 89,853 |
| Leasings | - | 55,319 | - | - | - | 55,319 |
| **Short-term debt** | **-** | **7,886,357** | **-** | **-** | **-** | **7,886,357** |
| Bank loans | - | 7,837,045 | - | - | - | 7,837,045 |
| Leasings | - | 49,312 | - | - | - | 49,312 |
| | **-** | **8,031,529** | **-** | **-** | **-** | **8,031,529** |

| 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 | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Revenue - Portugal | 438,089 | 441,260 |
| Revenue - other countries | 63,181 | 56,001 |
| | 501,269 | 497,261 |

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

## 4. TANGIBLE FIXED ASSETS

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movements occurred in Tangible fixed assets, as well as in the respective accumulated depreciation and accumulated impairment, were as follows:

| | 30.09.2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 | - | 273,168 | 837,609 | 432 | 632,735 | 250,086 | 1,088,057 | 127,286 | 3,209,372 |
| Disposals | - | - | (160,225) | - | (40,687) | (137) | - | - | (201,049) |
| Transfers and write-offs | 1,396 | 5,688,122 | 833,388 | - | 1,010,490 | 166,782 | (4,980,274) | (3,261,708) | (541,804) |
| Adjustments | - | (45,303) | (9,413) | (642) | (38,645) | (21,428) | - | (10,570) | (126,001) |
| 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 | 341,927,960 | 142,667,842 | 3,299,752 | 61,003,123 | 26,584,172 | 1,124,249 | 206,414 | 613,915,651 |
| **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 | - | 7,404,356 | 5,273,308 | 26,544 | 2,570,323 | 805,040 | - | - | 16,079,570 |
| Disposals | - | - | (154,288) | - | (40,236) | (137) | - | - | (194,660) |
| Transfers and write-offs | - | - | (302,199) | - | (28,678) | (201,302) | - | - | (532,178) |
| Adjustments | - | 87 | 8,559 | (666) | 336 | (459) | - | - | 7,857 |
| Changes in the consolidation perimeter | - | 422,804 | 459,736 | 28,437 | 218,784 | 572,388 | - | - | 1,702,149 |
| Closing balance | 3,851,494 | 205,186,997 | 127,219,739 | 3,263,311 | 54,976,335 | 21,415,014 | - | - | 415,912,891 |
| **Accumulated impairment** | | | | | | | | | |
| Opening balance | - | - | - | - | - | 173,055 | - | - | 173,055 |
| Other variations | - | - | - | - | - | (92,786) | - | - | (92,786) |
| Closing balance | - | - | - | - | - | 80,269 | - | - | 80,269 |
| **Net Tangible fixed assets** | 33,250,644 | 136,740,963 | 15,448,103 | 36,441 | 6,026,788 | 5,088,889 | 1,124,249 | 206,414 | 197,922,491 |

| | 31.12.2016 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land and natural resources | Buildings and other constructions | Basic equipment | Transport equipment | Office equipment | Other tangible fixed assets | Tangible fixed assets in progress | Advance payments to suppliers | Total |
| **Tangible fixed assets** | | | | | | | | | |
| Opening balance | 37,306,577 | 337,982,013 | 138,002,341 | 3,273,327 | 54,961,400 | 23,252,352 | 1,971,616 | 1,398,408 | 598,148,034 |
| Acquisitions | - | 313,458 | 6,625,240 | 9,719 | 4,156,018 | 1,937,614 | 8,381,884 | 2,888,955 | 24,312,888 |
| Disposals | (526,637) | (3,885,980) | (1,503,859) | - | (52,919) | - | - | - | (5,969,395) |
| Transfers and write-offs | 123,778 | 675,516 | (2,289,200) | (8,174) | 51,751 | (115,897) | (5,337,034) | (812,692) | (7,711,951) |
| Adjustments | - | (175,240) | (399,323) | (5,800) | (94,314) | (36,644) | - | (123,265) | (834,586) |
| Closing balance | 36,903,717 | 334,909,766 | 140,435,200 | 3,269,073 | 59,021,936 | 25,037,425 | 5,016,467 | 3,351,405 | 607,944,989 |
| **Accumulated depreciation** | | | | | | | | | |
| Opening balance | 3,888,322 | 192,743,987 | 118,629,681 | 3,154,422 | 50,187,217 | 19,306,751 | - | - | 387,910,380 |
| Depreciation for the period | - | 9,180,124 | 7,410,835 | 66,457 | 2,621,487 | 1,111,546 | - | - | 20,390,450 |
| Disposals | (36,827) | (2,390,937) | (1,481,994) | - | (52,919) | - | - | - | (3,962,677) |
| Transfers and write-offs | - | (2,172,820) | (2,533,931) | (8,174) | (487,515) | (173,533) | - | - | (5,375,973) |
| Adjustments | - | (604) | (89,968) | (3,709) | (12,465) | (5,280) | - | - | (112,027) |
| Closing balance | 3,851,494 | 197,359,750 | 121,934,624 | 3,208,996 | 52,255,806 | 20,239,484 | - | - | 398,850,154 |
| **Accumulated impairment** | | | | | | | | | |
| Opening balance | - | - | - | - | - | 296,769 | - | - | 296,769 |
| Other variations | - | - | - | - | - | (123,714) | - | - | (123,714) |
| Closing balance | - | - | - | - | - | 173,055 | - | - | 173,055 |
| **Net Tangible fixed assets** | 33,052,223 | 137,550,016 | 18,500,576 | 60,077 | 6,766,130 | 4,624,886 | 5,016,467 | 3,351,405 | 208,921,781 |

During the nine-month period ended 30 September 2017, Land and natural resources and Buildings and other constructions include 634,903 Euros (650,717 Euros as at 31 December 2016), related to land and property in co-ownership with MEO – Serviços de Comunicações e Multimédia, S.A..

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

During the nine-month period ended 30 September 2017, the most significant movements in Tangible fixed assets were the following:

**Buildings and other constructions:**
The movements associated to acquisitions and transfers relate mostly to the capitalisation of repairs in own and third-party buildings of CTT, Banco CTT and Tourline.

**Basic equipment:**
The amount of acquisitions mainly relates to the purchase of ATMs in the amount of 51 thousand Euros, pallets for Rest Mail for about 40 thousand Euros and IT equipment worth approximately 234 thousand Euros by CTT. Tourline acquired pallets in the amount of 34 thousand Euros, IT equipment worth approximately 20 thousand Euros and PDAs amounting to 355 thousand Euros.

**Office equipment:**
The amount of acquisitions relates essentially to the purchase by CTT of various administrative equipment, namely safes and security doors totalling 68 thousand Euros, various office furniture worth about 50 thousand Euros, medium and large-size equipment for about 35 thousand Euros and the acquisition of several micro-computing equipment for approximately 27 thousand Euros. Banco CTT acquired several office and IT equipment in the amount of 286 thousand Euros. In addition, Tourline acquired office furniture worth 20 thousand Euros and several micro-computing equipment for approximately 12 thousand Euros.

**Other tangible fixed assets:**
The amount of acquisitions mainly relates to prevention and safety equipment for approximately 231 thousand Euros by CTT.

**Tangible fixed assets in progress:**
The amounts under this heading are related to the capitalisation of improvements in own and third-party properties.

In the nine-month period ended 30 September 2017, the amounts recorded under changes in the consolidation perimeter refer to the balances of Transporta at the acquisition date.

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

The depreciation recorded in the amount of 16,079,570 Euros (14,672,711 Euros on 30 September 2016), is booked under the heading Depreciation/amortisation and impairment of investments, net.

Contractual commitments related to Tangible fixed assets are as follows:

| | 30.09.2017 |
|---|---|
| Motorcycles | 354,040 |
| Hardware firewall networks | 280,353 |
| Trucks | 97,908 |
| Monitors and scanners | 88,021 |
| Tractors | 76,235 |
| Safes and security doors | 70,238 |
| Upgrades to mail sorting machines | 52,532 |
| Trailers | 48,046 |
| Enveloping machine | 30,135 |
| Pallets | 24,090 |
| CCTV | 12,293 |
| | 1,133,891 |

## 5. INTANGIBLE ASSETS

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movements which occurred in the main categories of Intangible assets, as well as the respective accumulated amortisation, were as follows:

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | - | 2,398,044 | 2,175 | - | 4,728,065 | 7,128,284 |
| Disposals | - | - | - | - | - | - |
| Transfers and write-offs | - | 5,212,863 | (16,833) | - | (6,543,595) | (1,347,565) |
| Adjustments | - | - | 11,631 | - | 996 | 12,627 |
| Changes in the consolidation perimeter | 7,629 | - | - | - | 19,281 | 26,910 |
| Closing balance | 4,380,552 | 77,343,376 | 11,719,533 | 444,739 | 7,075,024 | 100,963,225 |
| **Accumulated amortisation** | | | | | | |
| Opening balance | 4,360,060 | 43,021,166 | 8,400,280 | 444,739 | - | 56,226,245 |
| Amortisation for the period | 7,765 | 6,308,959 | 246,807 | - | - | 6,563,531 |
| Disposals | - | - | - | - | - | - |
| Transfers and write-offs | - | (1,340,356) | (16,833) | - | - | (1,357,189) |
| Adjustments | - | (454) | 4,096 | - | - | 3,642 |
| Changes in the consolidation perimeter | 679 | - | - | - | - | 679 |
| Closing balance | 4,368,504 | 47,989,315 | 8,634,350 | 444,739 | - | 61,436,908 |
| **Net intangible assets** | 12,048 | 29,354,061 | 3,085,183 | - | 7,075,024 | 39,526,316 |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Development projects | Computer Software | Industrial property | Other intangible assets | Intangible assets in progress | Total |
| **Intangible assets** | | | | | | |
| Opening balance | 4,372,923 | 48,455,024 | 12,004,296 | 444,739 | 12,175,413 | 77,452,395 |
| Acquisitions | - | 7,715,502 | 17,573 | - | 10,114,453 | 17,847,528 |
| Disposals | - | (15,490) | - | - | - | (15,490) |
| Transfers and write-offs | - | 13,235,156 | 1,893 | - | (13,419,588) | (182,539) |
| Adjustments | - | (15,640) | (301,202) | - | - | (316,843) |
| Other movements | - | 357,918 | - | - | - | 357,918 |
| Closing balance | 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 caption Industrial property includes the license of the trademark "Payshop Internacional" of CTT Contacto, S.A., of 1,200,000 Euros. This license has an indefinite useful life, therefore it is not being amortised.

The transfers occurred in the nine-month period ended 30 September 2017 in Intangible assets in progress to Computer software refer to IT projects which were completed during the period.

The amounts of 568,161 Euros and 492,943 Euros that were capitalised in Computer software or in Intangible assets in progress as at 30 September 2017 and 30 September 2016, respectively, related to the staff costs incurred in the development of these projects.

In the nine-month period ended 30 September 2017, the amounts recorded under changes in the consolidation perimeter refer to the balances of Transporta at the acquisition date.

As at 30 September 2017, Intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

| | 30.09.2017 |
|---|---|
| International (E-CIP) | 812,364 |
| Management information - Software | 777,162 |
| NAVE evolution | 579,065 |
| Mail products evolution | 517,468 |
| SAP Hana & Hybris Billing | 508,049 |
| BD SQL Server consolidation | 229,986 |
| Mortgage loans - software | 213,845 |
| RAID - Software | 211,612 |
| Business Excellence - Software | 206,927 |
| FATCA/CRS | 175,704 |
| SAP developments | 126,363 |
| CTT Mobile | 121,731 |
| SADIP - Dynamics Change Plans | 109,660 |
| APARTADOS - Software | 104,986 |
| Aplica Legacy adaptations | 100,358 |
| DOL - Treatment and generation of schedules | 98,266 |
| OPICS - Treasury management | 86,475 |
| | 4,980,022 |

The amortisation for the period, of 6,563,531 Euros (4,842,341 Euros as at 30 September 2016), was recorded under Depreciation / amortisation and impairment of investments, net.

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

Contractual commitments relative to Intangible assets are as follows:

| | 30.09.2017 |
|---|---|
| CBS - Core Banking System | 4,176,609 |
| SAP S/4 Hana e SAP Hybris | 2,177,054 |
| Access and Identity Management System | 186,403 |
| Worflow Solution | 173,100 |
| APP Mobile CTT 2.0 | 94,710 |
| Riposte – NAVe | 84,881 |
| CRM - Microsoft Dynamics | 45,030 |
| APP Mobility Android | 20,295 |
| Insurance Integrator | 19,660 |
| | 6,977,742 |

## 6. INVESTMENT PROPERTIES

As at 30 September 2017 and 31 December 2016, the Group has the following assets classified as investment properties:

| | 30.09.2017 | | | |
|---|---|---|---|---|
| | Land and natural resources | Buildings and other constructions | Investment properties in progress | Total |
| **Investment properties** | | | | |
| Opening balance | 3,921,049 | 18,372,780 | - | 22,293,828 |
| Additions | - | - | 43,152 | 43,152 |
| Disposals | (846,692) | (4,994,149) | - | (5,840,842) |
| Transfers and write-offs | - | 43,152 | (43,152) | - |
| Closing balance | 3,074,356 | 13,421,783 | - | 16,496,139 |
| **Accumulated depreciation** | | | | |
| Opening balance | 210,097 | 11,500,249 | - | 11,710,347 |
| Depreciation for the period | - | 211,508 | - | 211,508 |
| Disposals | (19,988) | (3,571,725) | - | (3,591,713) |
| Closing balance | 190,109 | 8,140,033 | - | 8,330,142 |
| **Accumulated impairment** | | | | |
| Opening balance | - | 1,291,498 | - | 1,291,498 |
| Transfers/Adjustments | - | (6,762) | - | (6,762) |
| Closing balance | - | 1,284,736 | - | 1,284,736 |
| **Net Investment properties** | 2,884,247 | 3,997,014 | - | 6,881,261 |

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

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

During the nine-month period ended 30 September 2017, the amount of disposals relates to the sale of six properties, having the corresponding gains, of 923 thousand Euros, been recorded in the caption Other operating income.

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

Depreciation for the period, of 211,508 Euros (487,211 Euros on 30 September 2016), was recorded in the caption Depreciation / amortisation and impairment of investments, net.

## 7. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 30 September 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:

| | | | 30.09.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Percentage of ownership | | | Percentage of ownership | | |
| Company name | Place of business | Head office | Direct | Indirect | Total | Direct | Indirect | Total |
| Parent company: | | | | | | | | |
| CTT - Correios de Portugal, S.A. | Portugal | Av. D. João II N.º 13 1999-001 Lisboa | - | - | - | - | - | - |
| Subsidiaries: | | | | | | | | |
| CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso") | Portugal | Lugar do Quintanilho 2664-500 São Julião do Tojal | 100 | - | 100 | 100 | - | 100 |
| Payshop Portugal, S.A. ("Payshop") | Portugal | Av. D. João II N.º 13 1999-001 Lisboa | 100 | - | 100 | 100 | - | 100 |
| CTT Contacto, S.A. ("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. ("BancoCTT") | 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 | - | - | - |

On 27 April 2017 the share capital of Banco CTT, S.A. was increased by 40,000,000 Euros, currently totaling 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.

Joint ventures

As at 30 September 2017 and 31 December 2016, the Group held the following interests in joint ventures, accounted for by the equity method:

| | | | 30.09.2017 | | | 31.12.2016 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Percentage of ownership | | | Percentage of ownership | | |
| Company name | Place of business | Head office | Direct | Indirect | Total | Direct | Indirect | 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 30 September 2017 and 31 December 2016, the Group held the following interests in associated companies accounted for by the equity method:

| Company name | Place of business | Head office | 30.09.2017 Percentage of ownership Direct | Indirect | Total | 31.12.2016 Percentage of ownership Direct | Indirect | Total |
|---|---|---|---|---|---|---|---|---|
| Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert") | Portugal | R. do Centro Cultural, 2 Lisboa | 20 | - | 20 | 20 | - | 20 |
| Payshop Moçambique, S.A. [(a)] | Mozambique | R. da Sé, 114-4º. Maputo - Mozambique | - | 35 | 35 | - | 35 | 35 |
| Mafelosa, SL [(b)] | Spain | Castellon - Spain | - | 25 | 25 | - | 25 | 25 |
| Urpacksur, SL [(b)] | Spain | Málaga - Spain | - | 30 | 30 | - | 30 | 30 |

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

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

Changes in the consolidation perimeter

During the nine-month period ended 30 September 2017, the consolidation perimeter was changed following the acquisition of the company Transporta – Transportes Porta a Porta, S.A. on 4 May 2017.

The following table summarizes the impacts on the balance sheet at the acquisition date:

**Statement of financial position - Acquisition date**

| Caption | Amount |
|---|---|
| Non-current assets | 2,075,180 |
| Current assets | 3,426,473 |
| **Total assets** | **5,501,653** |
| Equity | 1,593,190 |
| Non-current liabilities | 461,277 |
| Current liabilities | 3,447,186 |
| **Total liabilities** | **3,908,463** |
| **Total equity and liabilities** | **5,501,653** |

The main impacts on results at 30 September 2017 are as follows and refer to the months from May to September:

**Income Statement - 30.09.2017**

| Caption | Amount |
|---|---|
| Revenues | 5,650,679 |
| Operating costs | (7,647,120) |
| **Earnings before financial income and taxes** | **(1,996,441)** |
| Other captions | 391,184 |
| **Net profit for the period** | **(1,605,257)** |

## 8. INVESTMENTS HELD TO MATURITY

As at 30 September 2017 and 31 December 2016, this caption showed the following composition:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Non-current | | |
| Debt securities and other fixed-income securities | | |
| Public issuers | 182,841,137 | 78,863,164 |
| Other issuers | 22,501,297 | 15,122,951 |
| | 205,342,434 | 93,986,115 |
| Current | | |
| Debt securities and other fixed-income securities | | |
| Public issuers | 8,328,740 | 878,115 |
| Other issuers | 29,006 | 230,313 |
| | 8,357,746 | 1,108,428 |
| | 213,700,180 | 95,094,543 |

The analysis of the residual maturity of the investments held to maturity as at 30 September 2017 and 31 December 2016, is detailed as follows:

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | Total |
| | Due within 3 months | Over 3 months and less than 1 year | Over 1 year and less than 3 years | Over 3 years | Undetermined | |
| Debt securities and other fixed-income securities | | | | | | |
| Public issuers | 3,202,191 | 5,126,549 | 32,105,105 | 150,736,032 | - | 191,169,877 |
| Other issuers | 29,006 | - | - | 22,501,297 | - | 22,530,303 |
| | 3,231,197 | 5,126,549 | 32,105,105 | 173,237,329 | - | 213,700,180 |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | Total |
| | Due within 3 months | Over 3 months and less than 1 year | Over 1 year and less than 3 years | Over 3 years | Undetermined | |
| Debt securities and other fixed-income securities | | | | | | |
| Public issuers | 878,115 | - | 12,256,862 | 66,606,302 | - | 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 |

## 9. FINANCIAL ASSETS AVAILABLE FOR SALE

As at 30 September 2017 and 31 December 2016, the composition of this heading is as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Non-current | | |
| Debt securities and other fixed-income securities | | |
| Public issuers | 560,515 | 540,400 |
| Other issuers | 4,717,181 | 3,933,214 |
| | 5,277,696 | 4,473,614 |
| Current | | |
| Debt securities and other fixed-income securities | | |
| Public issuers | 5,136,200 | 139,180 |
| Other issuers | 3,565,637 | 1,834,531 |
| | 8,701,837 | 1,973,711 |
| | 13,979,533 | 6,447,325 |

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

| | 30.09.2017 | | | |
|---|---|---|---|---|
| | Cost [1] | Fair value reserve | Impairment losses | Total |
| Debt securities and other fixed-income securities | | | | |
| Public-debt securities | | | | |
| National | 5,669,001 | 27,714 | - | 5,696,715 |
| Foreign | - | - | - | - |
| Other issuers | | | | |
| National | 2,550,118 | - | - | 2,550,118 |
| Foreign | 5,707,632 | 25,068 | - | 5,732,700 |
| | 13,926,751 | 52,782 | - | 13,979,533 |

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

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | Total |
| | Due within 3 months | Over 3 months and less than 1 year | Over 1 year and less than 3 years | Over 3 years | Undetermined | |
| Debt securities and other fixed-income securities | | | | | | |
| Public-debt securities | | | | | | |
| National | 5,136,200 | - | - | 560,515 | - | 5,696,715 |
| Foreign | - | - | - | - | - | - |
| Other issuers | | | | | | |
| National | 2,550,118 | - | - | - | - | 2,550,118 |
| Foreign | 815,352 | 200,167 | 4,603,882 | 113,299 | - | 5,732,700 |
| | 8,501,670 | 200,167 | 4,603,882 | 673,814 | - | 13,979,533 |

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

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

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | Total |
| | Due within 3 months | Over 3 months and less than 1 year | Over 1 year and less than 3 years | Over 3 years | Undetermined | |
| Debt securities and other fixed-income securities | | | | | | |
| Public-debt securities | | | | | | |
| National | 14,866 | 124,314 | - | 540,400 | - | 679,580 |
| Foreign | - | - | - | - | - | - |
| Other issuers | | | | | | |
| National | - | - | - | - | - | - |
| Foreign | 562,258 | 1,272,273 | 3,614,529 | 318,685 | - | 5,767,745 |
| | 577,124 | 1,396,587 | 3,614,529 | 859,085 | - | 6,447,325 |

## 10. OTHER BANKING FINANCIAL ASSETS AND LIABILITIES

As at 30 September 2017 and 31 December 2016, the headings Other banking financial assets and Other banking financial liabilities showed the following composition:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Non-current assets | | |
| Investments in credit institutions | 8,105,618 | - |
| | 8,105,618 | - |
| Current assets | | |
| Investments in credit institutions | 72,165,625 | 58,718,171 |
| Other | 704,067 | 336,132 |
| | 72,869,692 | 59,054,303 |
| | **80,975,310** | **59,054,303** |
| Current liabilities | | |
| Other | 9,264,156 | 1,218,205 |
| | **9,264,156** | **1,218,205** |

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

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Up to 3 months | 32,063,129 | 42,111,692 |
| From 3 to 6 months | 1,365,773 | 4,500,135 |
| From 6 to 12 months | 38,736,723 | 12,106,344 |
| From 1 to 3 years | 5,160,908 | - |
| Over 3 years | 2,944,710 | - |
| | 80,271,243 | 58,718,171 |

## 11. CREDIT TO BANK CLIENTS

As at 30 September 2017 and 31 December 2016, the caption Credit to bank clients was detailed as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| **Performing loans** | **42,427,108** | **7,104,322** |
| Mortgage loans | 29,222,944 | - |
| Overdrafts | 231,106 | 69,498 |
| Other credits | 12,973,058 | 7,034,824 |
| **Overdue loans** | **60,167** | **-** |
| **Credit risk impairment** | **(82,512)** | **(417)** |
| | 42,404,763 | 7,103,905 |

The maturity analysis of the Credit to bank clients as at 30 September 2017 and 31 December 2016 is detailed as follows:

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | |
| | 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 |
| Mortgage loans | - | - | - | - | 29,193,616 | 29,193,616 |
| Overdrafts | 228,285 | - | - | - | - | 228,285 |
| Other credits | - | 12,973,058 | - | - | - | 12,973,058 |
| Overdue loans | - | 9,804 | - | - | - | 9,804 |
| | 228,285 | 12,982,862 | - | - | 29,193,616 | 42,404,763 |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Current | | Non-current | | | Total |
| | 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 | |
| Overdrafts | 69,498 | - | - | - | - | 69,498 |
| Factoring | - | 7,034,407 | - | - | - | 7,034,407 |
| Mortgage loans | - | - | - | - | - | - |
| Overdue loans | - | - | - | - | - | - |
| | 69,498 | 7,034,407 | - | - | - | 7,103,905 |

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movement in the Credit risk impairment caption was as follows:

| | 30.09.2017 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Closing balance |
| **Non-current assets** | | | | | |
| Credit to bank clients | - | 29,564 | (236) | - | 29,328 |
| | - | 29,564 | (236) | - | 29,328 |
| **Current assets** | | | | | |
| Credit to bank clients | 417 | 61,366 | (8,600) | - | 53,184 |
| | 417 | 61,366 | (8,600) | - | 53,184 |
| | **417** | **90,930** | **(8,836)** | **-** | **82,512** |

| | 31.12.2016 | | | | |
|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Closing balance |
| **Current assets** | | | | | |
| Credit to ban clients | - | 417 | - | - | 417 |
| | - | 417 | - | - | 417 |

## 12. DEFERRALS

As at 30 September 2017 and 31 December 2016, the Deferrals included in Current assets and Current and Non-current liabilities showed the following composition:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Assets deferrals | | |
| Current | | |
| Rents payable | 1,262,567 | 1,293,963 |
| Meal allowances | 1,644,719 | 1,668,745 |
| Other | 5,827,442 | 3,166,223 |
| | 8,734,728 | 6,128,931 |
| Liabilities deferrals | | |
| Non-current | | |
| Tangible fixed assets | 321,217 | 334,191 |
| | 321,217 | 334,191 |
| Current | | |
| Deferred capital gains | 535,844 | 2,143,378 |
| Phone-ix top ups | 145,676 | 158,698 |
| Deferred comissions | 57,318 | 799,062 |
| Investment subsidy | 17,299 | 17,299 |
| Other | 468,781 | 1,059,172 |
| | 1,224,918 | 4,177,609 |
| | 1,546,135 | 4,511,800 |

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

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the amounts of 1,607,534 Euros and 3,394,833 Euros, respectively, were recognised under Other operating income in the consolidated income statement, related to the above-mentioned gains. The amount recognised in the year ended 31 December 2016 includes the amount of 1,725,642 Euros regarding Conde Redondo building as a result of the lease contract's termination.

Following the agreement signed with Cetelem in 2014, an amount of 57,318 Euros is deferred during the nine-month period ended 30 September 2017 (799,062 Euros as at 31 December 2016).

## 13. ACCUMULATED IMPAIRMENT LOSSES

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the following movements occurred in impairment losses:

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Changes in the consolidation perimeter | Closing balance |
| **Non-current assets** | | | | | | |
| Tangible fixed assets | 173,055 | - | (92,786) | - | - | 80,269 |
| Investment properties | 1,291,498 | - | (6,762) | - | - | 1,284,736 |
| | 1,464,553 | - | (99,548) | - | - | 1,365,005 |
| Credit to bank clients | - | 29,564 | (236) | - | - | 29,328 |
| Other non-current assets | 1,748,286 | 80,532 | - | - | - | 1,828,818 |
| | 1,748,286 | 110,096 | (236) | - | - | 1,858,146 |
| | **3,212,839** | **110,096** | **(99,784)** | **-** | **-** | **3,223,151** |
| **Current assets** | | | | | | |
| Accounts receivable | 30,309,524 | 2,053,209 | (810,941) | (708,707) | 2,278,091 | 33,121,176 |
| Credit to bank clients | 417 | 61,366 | (8,600) | - | - | 53,184 |
| Other current assets | 8,173,677 | 50,128 | (521,205) | (109,481) | 326,796 | 7,919,915 |
| | 38,483,618 | 2,164,703 | (1,340,746) | (818,188) | 2,604,887 | 41,094,275 |
| Merchandise | 1,565,187 | 294,234 | (455) | (81,241) | - | 1,777,725 |
| Raw, subsidiary and consumable | 579,327 | 90,295 | - | - | - | 669,622 |
| | 2,144,514 | 384,529 | (455) | (81,241) | - | 2,447,347 |
| | **40,628,132** | **2,549,232** | **(1,341,201)** | **(899,429)** | **2,604,887** | **43,541,622** |
| | **43,840,971** | **2,659,328** | **(1,440,985)** | **(899,429)** | **2,604,887** | **46,764,773** |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Transfers | Closing balance |
| **Non-current assets** | | | | | | |
| Tangible fixed assets | 296,769 | - | (123,714) | - | - | 173,055 |
| Investment properties | 1,282,622 | 12,491 | (3,615) | - | - | 1,291,498 |
| | 1,579,391 | 12,491 | (127,329) | - | - | 1,464,553 |
| Other non-current assets | 1,472,836 | 83,597 | - | - | 191,853 | 1,748,286 |
| INESC loan | 347,021 | - | (347,021) | - | - | - |
| | 1,819,857 | 83,597 | (347,021) | - | 191,853 | 1,748,286 |
| | **3,399,248** | **96,088** | **(474,350)** | **-** | **191,853** | **3,212,839** |
| **Current assets** | | | | | | |
| Accounts receivable | 31,737,169 | 2,875,921 | (2,267,005) | (2,036,561) | - | 30,309,524 |
| Credit to bank clients | - | 417 | - | - | - | 417 |
| Other current assets | 8,622,168 | 440,664 | (691,210) | (6,092) | (191,853) | 8,173,677 |
| INESC loan | 49,740 | - | (49,740) | - | - | - |
| | 40,409,077 | 3,317,002 | (3,007,955) | (2,042,653) | (191,853) | 38,483,618 |
| Merchandise | 1,397,098 | 198,203 | (438) | (29,676) | - | 1,565,187 |
| Raw, subsidiary and consumable | 565,513 | 21,592 | (7,778) | - | - | 579,327 |
| | 1,962,611 | 219,795 | (8,216) | (29,676) | - | 2,144,514 |
| | **42,371,688** | **3,536,797** | **(3,016,171)** | **(2,072,329)** | **(191,853)** | **40,628,132** |
| | **45,770,936** | **3,632,885** | **(3,490,521)** | **(2,072,329)** | **-** | **43,840,971** |

In the nine-month period ended 30 September 2017, the caption Changes in the consolidation perimeter refers to the balances of Transporta at the acquisition date.

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

## 14. EQUITY

As at 30 September 2017, the Company's share capital was composed of 150,000,000 shares with the nominal value of 0.50 Euros each. The share capital is fully underwritten and paid-up.

As at 30 September 2017 and 31 December 2016 the Company's shareholders with greater than or equal to 2% shareholdings, according to the information reported, are as follows:

| Shareholder | | 30.09.2017 No. of shares | % | Nominal value |
|---|---|---|---|---|
| Gestmin SGPS, S.A. [1] | | 15,401,967 | 10.268% | 7,700,984 |
| **Manuel Carlos de Melo Champalimaud [1]** | **Total** | **15,686,852** | **10.458%** | **7,843,426** |
| **Allianz Global Investors GmbH [2]** | **Total** | **7,552,637** | **5.035%** | **3,776,319** |
| Wilmington Capital, S.L. [3] | | 7,501,583 | 5.001% | 3,750,792 |
| **Indumenta Pueri, S.L. [3]** | **Total** | **7,501,583** | **5.001%** | **3,750,792** |
| BNP Paribas Asset Management SAS [4] [5] | | 0 | 3.710% | 0 |
| **BNP Paribas Investment Partners S.A. [5]** | **Total** | **7,274,095** | **4.849%** | **3,637,048** |
| **Norges Bank** | **Total** | **3,333,792** | **2.223%** | **1,666,896** |
| **Wellington Management Group LLP [6]** | **Total** | **3,105,222** | **2.070%** | **1,552,611** |
| **CTT, S.A. (own shares) [7]** | **Total** | **1** | **0.000%** | **0.50** |
| **Other shareholders** | **Total** | **105,545,818** | **70.364%** | **52,772,909** |
| **Total** | | **150,000,000** | **100.000%** | **75,000,000** |

(1) Includes GestminSGPS, S.A. with 15,329,698 shares and members of the Board of Directors of Gestmin with 72,269 shares, the latter attributable to Gestmin. Qualifying shareholding directly and indirectly attributable to Manuel Carlos de Melo Champalimaud, who holds a controlling interest in Gestmin and also holds directly 284,885 shares corresponding to 0.190% of the share capital and voting rights in CTT.

(2) Previously, Allianz Global Investors Europe GmbH.

(3) Wilmington Capital, S.L. is controlled by Indumenta Pueri, S.L..

(4) Company controlled by BNP Paribas Investment Partners S.A..

(5) Percentages indicatedby the shareholder in the last notification of qualifying holdings, disclosed through a press release of 4 May 2017 available at CTT website (www.ctt.pt) and CMVM website (www.cmvm.pt): BNP Paribas Asset Management - 1.86% directly; BNP Paribas Investment Partners Belgium SA - 1.09% directly (proxy voting by BNP Paribas Investment Partners UK Ltd); BNP Paribas Investment Partners Luxembourg - 1.90% indirectly (proxy voting by BNP Paribas Asset Management 1.846% + BNP Paribas Investment Partners Nederland N.V. 0.055%).

(6) The full chain of controlled undertakings through which the voting rights are held includes Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP and Wellington Management Company LLP.

(7) 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 | | 31.12.2016 No. of shares | % | Nominal value |
|---|---|---|---|---|
| Gestmin SGPS, S.A. (1) | | 14,576,115 | 9.717% | 7,288,058 |
| Manuel Carlos de Melo Champalimaud | | 284,885 | 0.190% | 142,443 |
| **Manuel Carlos de Melo Champalimaud** | **Total** | **14,861,000** | **9.907%** | **7,430,500** |
| Standard Life Investments Limited (2) | | 9,910,580 | 6.607% | 4,955,290 |
| Ignis Investment Services Limited (2) | | 97,073 | 0.065% | 48,537 |
| **Standard Life Investments (Holdings) Limited** | **Total** | **10,007,653** | **6.672%** | **5,003,827** |
| **Allianz Global Investors GmbH (3)** | **Total** | **7,552,637** | **5.035%** | **3,776,319** |
| BNP Paribas Investment Partners Belgium S.A. (4) | | | 0.833% | |
| BNP Paribas Investment Partners Luxembourg S.A. (4) | | | 2.972% | |
| BNP Paribas Asset Management SAS (4) | | | 1.197% | |
| **BNP Paribas Investment Partners S.A.** | **Total** | **7,502,430** | **5.002%** | **3,751,215** |
| **Norges Bank** | **Total** | **7,422,099** | **4.948%** | **3,711,050** |
| **BlackRock, Inc. (5)** | **Total** | **4,961,965** | **3.308%** | **2,480,983** |
| F&C Asset Management plc (6) | | 3,124,801 | 2.083% | 1,562,401 |
| **Banco de Montreal (6)** | **Total** | **3,124,801** | **2.083%** | **1,562,401** |
| **Kames Capital PLC (7)** | **Total** | **3,022,170** | **2.015%** | **1,511,085** |
| Wilmington Capital, S.L. (8) | | 3,020,368 | 2.014% | 1,510,184 |
| **Indumenta Pueri, S.L. (8)** | **Total** | **3,020,368** | **2.014%** | **1,510,184** |
| **CTT, S.A. (own shares) (9)** | **Total** | **600,531** | **0.400%** | **300,266** |
| **Other shareholders** | **Total** | **87,924,346** | **58.616%** | **43,962,173** |
| **Total** | | **150,000,000** | **100.000%** | **75,000,000** |

(1) Shareholding directly and indirectly attributable to Manuel Carlos de Melo Champalimaud.
(2) Company held by Standard Life Investments (Holdings) Limited.
(3) Previously, Allianz Global Investors Europe GmbH.
(4) Companies controlled by BNP Paribas Investment Partners S.A..
(5) The full chain of BlackRock, Inc. controlled undertakings through which the voting rights and/or financial instruments are effectively held may be consulted at the attachments of the qualifying holding press releases, available at: http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1#panel2-1
(6) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.
(7) Kames Capital PLC is acting as investment manager for Scottish Equitable PLC, Royal County of Berkshire Pension Fund, Kames Capital Investment Company (Ireland) PLC and Kames Capital ICVC and is the nominated holder of the voting rights and custodian of the shares to which voting rights are attached.
(8) Wilmington Capital, S.L. is controlled by Indumenta Pueri, S.L..
(9) The voting rights inherent to own shares held by the Company are suspended pursuant to article 324 of the Portuguese Companies Code.

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

Own shares

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

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

As at 30 September 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.

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movements that occurred in this caption were as follows:

| | Quantity | Value | Average price |
|---|---|---|---|
| Balance at 31December 2016 | 600,531 | 5,097,536 | 8.488 |
| Acquisitions | - | - | - |
| Attribution | (600,530) | (5,097,527) | 8.488 |
| Balance at 30 September 2017 | 1 | 8 | 8.488 |

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

Reserves

As at 30 September 2017 and 31 December 2016, the heading Reserves is detailed as follows:

| | 30.09.2017 | | | | |
|---|---|---|---|---|---|
| | Legal reserves | Own shares reserves | Fair Value reserves | Other reserves | Total |
| Opening balance | 18,072,559 | 5,097,536 | 13,474 | 11,708,102 | 34,891,671 |
| Share capital decrease | - | - | - | 49,500,000 | 49,500,000 |
| Transfers | (3,072,559) | - | - | 3,072,559 | - |
| Own shares attribution | - | (5,097,527) | - | 5,097,527 | - |
| Assets fair value | - | - | 39,307 | - | 39,307 |
| Share Plan (attribution) | - | - | - | (4,480,638) | (4,480,638) |
| Closing balance | 15,000,000 | 8 | 52,781 | 64,897,551 | 79,950,341 |

| | 31.12.2016 | | | | |
|---|---|---|---|---|---|
| | Legal reserves | Own shares reserves | Fair Value reserves | Other reserves | Total |
| Opening balance | 18,072,559 | 1,873,125 | (540) | 13,438,968 | 33,384,112 |
| Own shares acquisitions | - | 3,224,411 | - | (3,224,411) | - |
| Assets fair value | - | - | 14,014 | - | 14,014 |
| Share Plan | - | - | - | 1,493,546 | 1,493,546 |
| Closing balance | 18,072,559 | 5,097,536 | 13,474 | 11,708,102 | 34,891,671 |

As deliberated 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, the correspondent reserve was, in January 2017, reduced in the amount of 5,097,527 Euros.

As at 30 September 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, it also recorded the amount recognised in each year related to the Share Plan that constituted the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee, in the amount of 4,480,638 Euros.

<u>Retained earnings</u>

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the following movements were made in the heading Retained earnings:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Opening balance | 93,589,211 | 91,727,994 |
| Application of the net profit of the prior year | 62,160,395 | 72,065,283 |
| Distribution of dividends (Note 16) | (72,000,000) | (70,264,792) |
| Share capital increase | (49,500,000) | - |
| Adjustments from the application of the equity method | 16,174 | 19,820 |
| Other movements | - | 40,906 |
| Closing balance | 34,265,781 | 93,589,211 |

Other changes in equity

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

Thus, for the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movements occurred in this heading were as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Opening balance | (27,137,824) | (18,644,832) |
| Actuarial gains/losses - Healthcare | - | (11,827,990) |
| Tax effect - Healthcare | - | 3,334,998 |
| Closing balance | (27,137,824) | (27,137,824) |

## 16. DIVIDENDS

According to the dividends distribution proposal included in the 2016 Annual Report, at the General Meeting of Shareholders, which was held on 20 April 2017, a dividend distribution of 72,000,000 Euros regarding the financial year ended 31 December 2016 was proposed and approved. The dividend amount assigned to own shares was transferred to Retained earnings, totaling 0.48 Euros.

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

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Assigned dividends | 72,000,000 | 70,500,000 |
| Dividends assigned to own shares | (0.48) | (235,208) |
| Dividends paid | 72,000,000 | 70,264,792 |

## 17. EARNINGS PER SHARE

During the nine-month periods ended 30 September 2017 and 30 September 2016, the earnings per share were calculated as follows:

| | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Net income for the period | 19,509,567 | 46,034,675 |
| Average number of ordinary shares | 149,934,007 | 149,569,956 |
| Earnings per share | | |
| Basic | 0.13 | 0.31 |
| Diluted | 0.13 | 0.31 |

The average number of shares is detailed as follows:

| | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Shares issued at begining of the period | 150,000,000 | 150,000,000 |
| Own shares effect | 65,993 | 430,044 |
| Average number of shares during the period | 149,934,007 | 149,569,956 |

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares, excluding the average number of own shares held by the Group.

As at 30 September 2017, the number of own shares held by the Group is 1 and its average number for the period ended 30 September 2017 is 65,993, 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.

## 18. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the nine-month period ended 30 September 2017 and the year ended 31 December 2016, in order to face legal proceedings and other liabilities arising from past events, the Group recognised provisions, which showed the following movement:

| | 30.09.2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Transfers | Changes in the consolidation perimeter | Closing balance |
| Non-current provisions | | | | | | | |
| Litigations | 4,838,552 | 1,685,124 | (2,377,684) | (950,184) | 120,789 | 30,000 | 3,346,597 |
| Other provisions | 9,288,931 | 30,650 | (96,996) | (304,286) | (120,789) | - | 8,797,510 |
| | 14,127,483 | 1,715,774 | (2,474,680) | (1,254,470) | - | 30,000 | 12,144,107 |
| Restructuring | - | 1,198,418 | - | (1,052,197) | - | - | 146,221 |
| | 14,127,483 | 2,914,192 | (2,474,680) | (2,306,667) | - | 30,000 | 12,290,328 |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | Opening balance | Increases | Reversals | Utilisations | Transfers | Closing balance |
| Non-current provisions | | | | | | |
| Litigations | 9,102,699 | 1,929,078 | (5,715,244) | (2,093,786) | 1,615,805 | 4,838,552 |
| Onerous contracts | 14,358,103 | 139,058 | (6,613,918) | (7,883,243) | - | - |
| Other provisions | 17,035,233 | 180,942 | (6,263,597) | (47,842) | (1,615,805) | 9,288,931 |
| | 40,496,035 | 2,249,078 | (18,592,759) | (10,024,871) | - | 14,127,483 |
| Investments in subsidiary and associated compan | 189,775 | - | (189,775) | - | - | - |
| Restructuring | 46,522 | - | - | (46,522) | - | - |
| | 40,732,332 | 2,249,078 | (18,782,534) | (10,071,393) | - | 14,127,483 |

In the nine-month period ended 30 September 2017, the caption changes in the consolidation perimeter refers to the balances of Transporta at the acquisition date.

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to 758,906 Euros (7,465,719 Euros as at 30 September 2016).

Litigations

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

Onerous Contracts

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

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

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

Consequently, as at 30 September 2017 and 31 December 2016 there are no amounts recognised as onerous contracts.

Other provisions

For the nine-month period ended 30 September 2017, the provision to cover contingencies relating to employment litigation actions not included in the current court proceedings and related to remuneration differences that can be claimed by workers, amounts to 7,912,694 Euros (8,130,479 Euros as at 31 December 2016).

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

- in CTT, S.A. they include the result of the review of the calculation methodology associated with this provision through the incorporation of additional historical data, namely, information regarding the outcome of the legal proceedings.
- at CTT Expresso, S.A., as a result of the favourable outcome of the court actions, in 2016, the probability of the provision was revised and the total amount of the provision, amounting to 2.1 million Euros, was reversed. Therefore, in 2016, these proceedings were considered as contingent liabilities.

As at 30 September 2017, in addition to the previously mentioned situations, this heading also includes:

- the amount of 56,191 Euros to cover costs for dismantlement of tangible fixed assets and/or removal of facilities and restoration of the sites;
- the amount of 278,498 Euros, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in associated companies

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A.. The reversal recorded in the year ended 31 December 2016 results from the Group's assessment in which it concluded that the previously existing obligations are no longer maintained.

Restructuring

During the nine-month period ended 30 September 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 (Note 23).

Guarantees provided

As at 30 September 2017 and 31 December 2016, the Group had provided bank guarantees to third parties as follows:

| Description | 30.09.2017 | 31.12.2016 |
|---|---|---|
| FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA | 3,030,174 | 3,030,174 |
| PLANINOVA - Soc. Imobiliária, S.A. | 2,033,582 | 2,033,582 |
| LandSearch, Compra e Venda de Imóveis | 1,792,886 | 1,792,886 |
| NOVIMOVESTE - Fundo de Investimento Imobiliário | 1,523,201 | 1,523,201 |
| LUSIMOVESTE - Fundo de Investimento Imobiliário | 1,274,355 | 1,274,355 |
| Autoridade Tributária e Aduaneira | 823,187 | 590,000 |
| Municipal autarchy | 185,681 | 183,677 |
| Courts | 118,704 | 167,107 |
| Solred | 80,000 | 80,000 |
| ANA - Aeroportos de Portugal | 68,000 | 34,000 |
| TIP - Transportes Intermodais do Porto, ACE | 50,000 | 50,000 |
| 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 |
| EMEL, S.A. | 26,984 | 19,384 |
| Águas do Norte | 23,804 | - |
| EPAL - Empresa Portuguesa de Águas Livres | 21,433 | 21,433 |
| ACT Autoridade Condições Trabalho | 21,404 | 58,201 |
| Serviços Intermunicipazilados Loures e Odivelas | 17,000 | - |
| Direção Geral do Tesouro e Finanças | 16,867 | 16,867 |
| Portugal Telecom, S.A. | 16,658 | 16,658 |
| Refer | 16,460 | - |
| Instituto de Gestão Financeira Segurança Social | 16,406 | 16,406 |
| SMAS Sintra | 15,889 | - |
| Repsol | 15,000 | - |
| Other entities | 14,103 | 29,992 |
| Administração Regional de Saúde LVT | 13,086 | - |
| Águas do Porto, E.M | 10,720 | 10,720 |
| SMAS Torres Vedras | 9,909 | 9,909 |
| Instituto de Segurança Social | 8,190 | - |
| Inmobiliaria Ederkin | 7,998 | 7,998 |
| Promodois | 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 | - |
| IFADAP | 1,746 | 1,746 |
| Águas de Coimbra | 870 | 870 |
| Lisboagás, S.A. | - | 190,000 |
| Record Rent a Car (Cataluña, Levante) | - | 40,000 |
| SetGás, S.A. | - | 30,000 |
| Estradas de Portugal, EP | - | 5,000 |
| | 11,393,100 | 11,371,107 |

Guarantees for lease contracts

According to the terms of some lease contracts of the buildings occupied by the Group's services, at the moment that the Portuguese State ceased to hold the majority of the share capital of CTT, bank guarantees on first demand had to be provided. These guarantees amount to 9,654,198 Euros as at 30 September 2017 and 31 December 2016.

Commitments

As at 30 September 2017, the Group had subscribed promissory notes amounting to approximately 41.5 thousand Euros, for various credit institutions intended to secure complete and timely compliance with the corresponding financing contracts.

The Group assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros for the subsidiary Tourline and regarding the subsidiary CORRE in the amount of 89,853 Euros, which are still active as at 30 September 2017.

As at 30 September 2017, the commitments assumed by the Group regarding the sponsoring of "Taça da Liga" (Football League Cup) for three seasons amount to 0.7 million Euros.

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

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

## 19. ACCOUNTS PAYABLE

As at 30 September 2017 and 31 December 2016, the heading Accounts payable showed the following composition:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Non-current | | |
| Other accounts payable | 386,099 | 375,379 |
| | 386,099 | 375,379 |
| Current | | |
| Advances from customers | 2,945,410 | 3,039,657 |
| CNP money orders | 195,219,436 | 200,238,100 |
| Suppliers | 63,366,269 | 65,044,068 |
| Invoices pending confirmation | 11,528,352 | 8,559,890 |
| Fixed assets suppliers | 1,606,156 | 13,684,684 |
| Invoices pending confirmation (fixed assets) | 1,746,163 | 6,206,806 |
| Amounts collected on behalf of third parties | 10,181,747 | 8,955,667 |
| Postal financial services | 132,603,056 | 131,878,955 |
| Advances regarding disposals | 5,097,434 | 2,516,337 |
| Other accounts payable | 4,991,668 | 4,739,536 |
| | 429,285,691 | 444,863,700 |
| | 429,671,790 | 445,239,079 |

CNP money orders

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

Postal financial services

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

Advances regarding disposals

The increase of this heading mainly regards the deposit reinforcement provided in the agreement for the sale of real estate properties located at Rua de S. José.

## 20. BANKING CLIENTS' DEPOSITS AND OTHER LOANS

As at 30 September 2017 and 31 December 2016, the composition of the heading Banking clients' deposits and other loans is as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Sight deposits | 341,297,115 | 114,041,001 |
| Term deposits | 131,757,562 | 131,417,483 |
| Savings deposits | 67,375,571 | 8,486,356 |
| | 540,430,248 | 253,944,840 |

The above-mentioned amounts relate to Banco CTT clients' deposits. As at 30 September 2017 and 31 December 2016, the residual maturity of banking clients' deposits and other loans, is detailed as follows:

| | 30.09.2017 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 341,297,115 | - | - | - | - | 341,297,115 |
| Term deposits | - | 50,707,943 | 81,049,619 | - | - | 131,757,562 |
| Savings deposits | 67,375,571 | - | - | - | - | 67,375,571 |
| | 408,672,686 | 50,707,943 | 81,049,619 | - | - | 540,430,248 |

| | 31.12.2016 | | | | | |
|---|---|---|---|---|---|---|
| | No defined maturity | Due within 3 months | Over 3 months and less than 1 year | Over 1 year and less than 3 years | Over 3 years | 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 |

## 21. INCOME TAXES RECEIVABLE / PAYABLE

As at 30 September 2017 the caption reflects the difference between the estimated income tax regarding the nine-month period ended 30 September 2017 and the amounts already paid regarding payments on account and additional payments on account.

## 22. OTHER OPERATING INCOME

During the nine-month periods ended 30 September 2017 and 30 September 2016, the composition of the heading Other operating income was as follows:

| | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Supplementary revenues | 3,371,433 | 3,116,168 |
| Altice agreement | - | 7,500,000 |
| Early settlement discounts received | 48,161 | 33,666 |
| Favourable exchange rate differences of assets and liabilities other than financing | 2,595,044 | 698,685 |
| Income from financial investments | 487,062 | 450,142 |
| Income from non-financial investments | 2,544,724 | 4,669,493 |
| Income from services and commissions | 3,131,897 | 184,144 |
| Interest income and expenses - financial services | 147,372 | 246,428 |
| VAT adjustments | 1,888,084 | 3,522,637 |
| Other | 395,386 | 1,174,518 |
| | 14,609,163 | 21,595,881 |

Following the Memorandum of understanding signed with Altice and being the acquisition of PT Portugal completed by Altice, CTT received from Altice the agreed initial payment, which was recognised in the consolidated income statement over the period for the negotiation of the partnerships, as provided in the Memorandum. This recognition ended in December 2016.

The caption Income from non-financial investments includes, in the period ended 30 September 2016, the gain in the amount of 1.7 million Euros regarding Conde Redondo building as a result of the lease contract termination.

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

## 23. STAFF COSTS

During the nine-month periods ended 30 September 2017 and 30 September 2016, the composition of the heading Staff Costs was as follows:

| | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Statutory bodies remuneration | 4,056,562 | 3,414,643 |
| Staff remuneration | 195,768,586 | 190,939,279 |
| Employee benefits | 3,316,737 | 1,897,108 |
| Indemnities | 3,079,821 | 1,448,996 |
| Social Security charges | 43,588,369 | 42,414,425 |
| Occupational accident and health insurance | 2,538,400 | 2,334,349 |
| Social welfare costs | 5,030,242 | 4,873,169 |
| Other staff costs | 121,425 | 38,044 |
| | 257,500,142 | 247,360,012 |

## Remuneration of the statutory bodies

In the nine-month periods ended 30 September 2017 and 30 September 2016, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

| | 30.09.2017 | | | | |
|---|---|---|---|---|---|
| | Board of Directors | Audit Comittee | Remuneration Board | General Meeting of Shareholders | Total |
| Short-term remuneration | | | | | |
| Fixed remuneration | 3,044,642 | 298,857 | 36,291 | 4,500 | 3,384,290 |
| Annual variable remuneration | 672,272 | - | - | - | 672,272 |
| | 3,716,914 | 298,857 | 36,291 | 4,500 | 4,056,562 |
| Long-term remuneration | | | | | |
| Defined contribution plan RSP | 185,197 | - | - | - | 185,197 |
| Long-term variable remuneration - Share Plan | 616,890 | - | - | - | 616,890 |
| | 802,087 | - | - | - | 802,087 |
| | 4,519,001 | 298,857 | 36,291 | 4,500 | 4,858,649 |

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

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

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

## Employee benefits

The variation registered under Employee benefits mainly reflects the liability reduction related to the Telephone subscription fee due to the adjustment to the actual cost of the beneficiaries in the nine-month period ended 30 September 2017 and 30 September 2016, in the amount of 425,298 Euros and 1,815,868 Euros respectively.

## Indemnities

During the nine-month period ended 30 September 2017, this caption includes the amount of 1,215,142 Euros related to compensation paid for termination of employment contracts by mutual agreement.

It also includes the amount of 1,198,418 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 with active workers, as well as expenses related to Health and Safety at Work.

During the nine-month periods ended 30 September 2017 and 30 September 2016, the heading Staff costs includes the amounts of 622,537 Euros and 517,842 Euros, respectively, related to expenses with workers' representative bodies.

For the nine-month periods ended 30 September 2017 and 30 September 2016, the average number of staff of the Group was 12,579 and 12,432, respectively.

## 24. INCOME TAX FOR THE PERIOD

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

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

Reconciliation of the income tax rate

In the nine-month periods ended 30 September 2017 and 30 September 2016, the reconciliation between the nominal rate and the effective income tax rate is as follows:

| | 30.09.2017 | 30.09.2016 |
|---|---|---|
| Earnings before taxes | 32,596,697 | 66,382,227 |
| Nominal tax rate | 21.0% | 21.0% |
| | **6,845,306** | **13,940,268** |
| | | |
| Tax Benefits | (272,766) | (164,833) |
| Accounting capital gains/(losses) | (270,842) | (441,208) |
| Tax capital gains/(losses) | (105,587) | (844,621) |
| Equity method | - | (8,518) |
| Provisions not considered in the calculation of deferred taxes | 828 | - |
| Impairment losses and reversals | (106,771) | 275,835 |
| Other situations, net | 1,606,365 | 2,322,015 |
| Adjustments related with - autonomous taxation | 918,559 | 1,159,059 |
| Adjustments related with - Municipal Surcharge | 751,830 | 920,446 |
| Adjustments related with - State Surcharge | 2,550,165 | 3,152,854 |
| Tax losses without deferred tax | 1,306,821 | 1,298,506 |
| Excess estimated income tax | 767 | (1,023,983) |
| Income taxes for the period | 13,224,676 | 20,585,820 |
| Effective tax rate | 40.57% | 31.01% |
| | | |
| Income taxes for the period | | |
| Current tax | 10,810,930 | 14,785,924 |
| Deferred tax | 2,412,979 | 6,823,879 |
| Excess estimated income tax | 767 | (1,023,983) |
| | 13,224,676 | 20,585,820 |

During the nine-month period ended 30 September 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 nine-month period ended 30 September 2016 the same caption includes the amount of 268,898 Euros regarding the tax credit allocated under the SIFIDE program of 2014 of CTT – Correios de Portugal, S.A..

Deferred taxes

As at 30 September 2017 and 31 December 2016, the balance of deferred tax assets and liabilities was composed as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Deferred tax assets | | |
| Employee benefits - healthcare | 70,235,522 | 70,523,096 |
| Employee benefits - pension plan | 86,753 | - |
| Employee benefits - other long-term benefits | 4,602,758 | 5,301,326 |
| Deferred accounting capital gains | 151,697 | 606,790 |
| Impairment losses and provisions | 3,065,631 | 3,030,558 |
| Tax losses carried forward | 881,952 | 327,183 |
| Impairment losses in tangible fixed assets | 323,038 | 360,333 |
| Share Plan | - | 1,268,470 |
| Land and buildings | 1,434,993 | 1,847,637 |
| Tangible assets' tax revaluation regime | 2,594,129 | 2,680,786 |
| Other | 490,421 | 274,583 |
| | 83,866,894 | 86,220,762 |
| Deferred tax liabilities | | |
| Revaluation of tangible fixed assets before IFRS | 2,994,065 | 3,151,709 |
| Suspended capital gains | 908,462 | 934,821 |
| Other | 36,616 | 36,616 |
| | 3,939,143 | 4,123,146 |

As at 30 September 2017, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 3.9 million Euros and 0.2 million Euros, respectively.

During the nine-month period ended 30 September 2017 and the year ended 31 December 2016, the movements which occurred under the deferred tax headings were as follows:

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Deferred tax assets | | |
| Opening balances | 86,220,762 | 87,535,941 |
| Effect on net profit | | |
| Employee benefits - healthcare | (287,574) | 29,917 |
| Employee benefits - pension plan | 86,753 | - |
| Employee benefits - other long-term benefits | (698,568) | (1,230,552) |
| Deferred accounting gains | (455,093) | (1,116,452) |
| Impairment losses and provisions | 35,074 | (5,967,001) |
| Tax losses carried forward | 554,769 | 2,857 |
| Impairment losses in tangible fixed assets | (37,295) | (45,040) |
| Share plan | (1,162,764) | 421,330 |
| Land and buildings | (412,644) | 454,713 |
| Tangible assets' tax revaluation regime | (86,657) | 2,680,786 |
| Other | 110,131 | 119,265 |
| Effect on equity | | |
| Employee benefits - healthcare | - | 3,334,998 |
| Closing balance | 83,866,894 | 86,220,762 |

| | 30.09.2017 | 31.12.2016 |
|---|---|---|
| Deferred tax liabilities | | |
| Opening balances | 4,123,146 | 4,576,598 |
| Effect on net profit | | |
| Revaluation of tangible fixed assets before IFRS adoption | (157,644) | (410,811) |
| Suspended capital gains | (26,359) | (36,858) |
| Other | - | (5,783) |
| Closing balance | 3,939,143 | 4,123,146 |

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

| Company | Tax losses | Deferred tax assets |
|---|---|---|
| Tourline | 43,251,063 | 320,408 |
| Escrita Inteligente | 58,026 | 12,185 |
| Transporta | 2,615,993 | 549,359 |
| **Total** | 45,925,082 | 881,952 |

Regarding Tourline, the tax losses of the years 2008, 2009 and 2011 may be reported in the next 15 years, the tax losses related to 2012, 2013 and 2014 may be carried forward in the next 18 years and the tax losses of the year 2015 have no time limit for deduction. As far as Escrita Inteligente is concerned the tax losses refer to the years 2015, 2016 which may be carried forward in the next 12 years and the tax losses regarding the nine-month period ended 30 September 2017 may be carried forward in the next 5years. Transporta's tax losses refer to the nine-month period ended 30 September 2017 and may be carried forward in the next 5years.

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.

SIFIDE

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

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

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

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

Other information

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

The Board of Directors of the Company believes that any corrections arising from reviews/inspections by the tax authorities of these income tax returns will not have a significant effect on the interim condensed consolidated financial statements as at 30 September 2017.

## 25. RELATED PARTIES

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

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

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

During the nine-month periods ended 30 September 2017 and 30 September 2016, the following transactions took place and the following balances existed with related parties:

| | 30.09.2017 | | | | |
|---|---|---|---|---|---|
| | Accounts receivable | Accounts payable | Revenues | Costs | Dividends |
| Shareholders | - | - | - | - | 72,000,000 |
| Other shareholders of Group companies | | | | | |
| Associated companies | 74,849 | 857 | 8,789 | 71,394 | - |
| Jointly controlled | 173,649 | - | 376,247 | 1,994 | - |
| Members of the | | | | | |
| Board of Directors | - | - | - | 3,716,914 | - |
| Audit Committee | - | - | - | 298,857 | - |
| Remuneration Committee | - | - | - | 36,291 | - |
| General Meeting | - | - | - | 4,500 | - |
| | 248,498 | 857 | 385,036 | 4,129,950 | 72,000,000 |

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

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

## 26. OTHER INFORMATION

Regulatory proceedings

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

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

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

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

The case is still under instruction phase and there is no decision by the Competition Authority yet. A final decision of this entity to impose a potential fine and / or penalties is still subject to a court appeal.

Acquisition of Transporta,S.A.

Following the acquisition of Transporta - Transportes Porta a Porta, SA, which occurred on 4 May 2017, the integration process is underway, as the first stage of the human resources optimisation plan has started, entailing a process of collective redundancies which encompassed 41 workers. This integration process will continue to assess growth opportunities in adjacent markets and with business synergies with the CEP market.

Financing contract

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 30 September 2017, no amount has been used.

## 27. SUBSEQUENT EVENTS

After the end of the year and up to the present date, no relevant or material fact has occurred in the Group's activity that has not been disclosed in the notes to the financial statements.

THE DIRECTOR OF ACCOUNTING & TREASURY                THE BOARD OF DIRECTORS