



# Interim Report

1<sup>st</sup> Half of 2016





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GOVERNING AND MANAGEMENT BODIES<sup>1</sup>

## Corporate Bodies

## Board of the General Meeting

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

## Board of Directors

Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Vice-Chairmen:	Antonio Sarmento Gomes Mota (Chairman of the Audit Committee and Lead Independent Director) Manuel Cabral de Abreu Castelo-Branco
Members <sup>2</sup> :	André Manuel Pereira Gorjão de Andrade Costa (CFO) Dionizia Maria Ribeiro Farinha Ferreira Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo Nuno de Carvalho Fernandes Thomaz (Member of the Audit Committee) Diogo José Paredes Leite de Campos (Member of the Audit Committee) Rui Miguel de Oliveira Horta e Costa José Manuel Baptista Fino Manuel Carlos de Melo Champalimaud <sup>3</sup>

## Remuneration Committee

Chairman:	João Luís Ramalho de Carvalho Talone
Members <sup>4</sup> :	Rui Manuel Meireles dos Anjos Alpalhão Manuel Fernando Macedo Alves Monteiro <sup>5</sup>

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<sup>1</sup> As at the date of approval of this Interim Report.

<sup>2</sup> António Manuel de Carvalho Ferreira Vitorino resigned from the position of Non-Executive Director by letter dated 30/05/2016.

<sup>3</sup> Elected at the Annual General Meeting of 28/04/2016 for the current term of office 2014 - 2016.

<sup>4</sup> José Gonçalo Ferreira Maury resigned from the position of member of the Remuneration Committee by letter dated 04/01/2016.

<sup>5</sup> Elected at the Annual General Meeting of 28/04/2016 for the current term of office 2014 - 2016 following the resignation of José Gonçalo Ferreira Maury from the position by letter dated 04/01/2016.

#### Executive Committee

Chairman:	Francisco José Queiroz de Barros de Lacerda (CEO)
Members:	Manuel Cabral de Abreu Castelo-Branco André Manuel Pereira Gorjão de Andrade Costa (CFO) Dionizia Maria Ribeiro Farinha Ferreira Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo

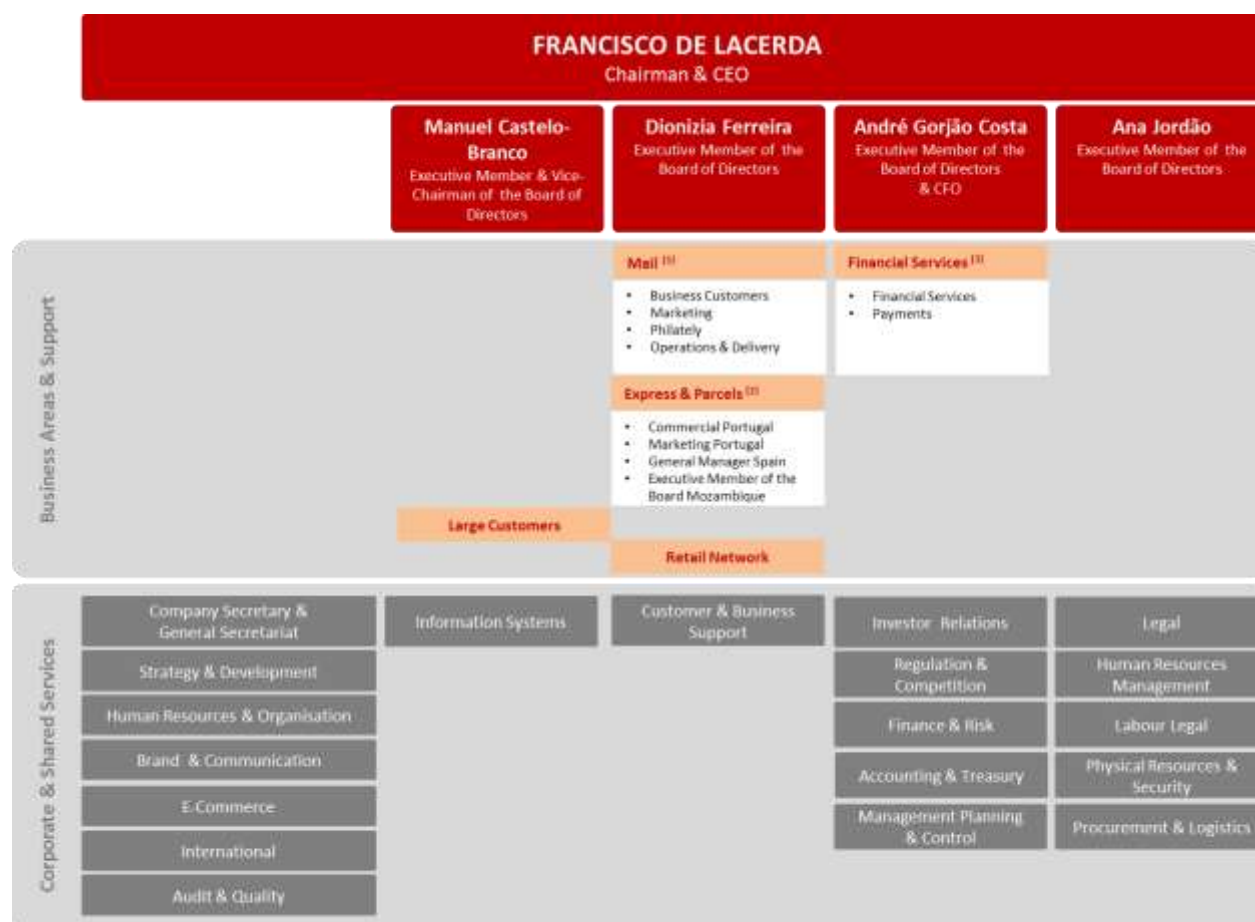
#### Audit Committee

Chairman:	António Sarmento Gomes Mota
Members:	Nuno de Carvalho Fernandes Thomaz Diogo José Paredes Leite de Campos

#### Statutory Auditor and External Auditor

Statutory Auditor:	KPMG & Associados, SROC, S.A., represented by Maria Cristina Santos Ferreira
External Auditor:	Vítor Manuel da Cunha Ribeirinho

## Management Organisation



<sup>(1)</sup> Includes Mailtec Comunicação and CTT Contacto; <sup>(2)</sup> Includes CTT Expresso, Tourline & CORRE; <sup>(3)</sup> Includes Payshop.  
Note: Banco CTT has its own managing structure autonomous from CTT's Executive Committee.

## KEY FIGURES

Economical and financial indicators (consolidated data in IFRS)

€ thousand or %, except where indicated	1H16	1H15	Δ%16/15
Revenues <sup>(1)</sup>	349,358	367,054	-4.8
Operating costs excluding depreciation, amortisation, impairments, provisions and non recurring-costs	286,896	291,546	-1.6
Recurring EBITDA <sup>(2)</sup>	62,462	75,509	-17.3
Recurring EBIT <sup>(2)</sup>	49,461	64,625	-23.5
EBIT	47,433	59,864	-20.8
EBT	44,925	57,321	-21.6
Net profit for the period	31,550	39,178	-19.5
Net profit attributable to equity holders	31,677	39,165	-19.1
Earnings per share (euro)	0.21	0.26	-19.1
Recurring EBITDA margin	17.9%	20.6%	-2.7 p.p.
Recurring EBIT margin	14.2%	17.6%	-3.4 p.p.
Net profit margin	9.1%	10.7%	-1.6 p.p.
Capex	12,461	10,893	14.4
Operating free cash flow <sup>(3)</sup>	-13,506	21,644	-162.4

	30.06.2016	31.12.2015	Δ%16/15
Cash and cash equivalents	644,499	603,650	6.8
Net cash	194,900	278,999	-30.1
Assets	1,221,309	1,119,472	9.1
Liabilities	1,009,902	867,637	16.4
Equity	211,406	251,835	-16.1
Share Capital	75,000	75,000	-
Number of shares	150,000,000	150,000,000	-

(1) Excluding non-recurring revenues.

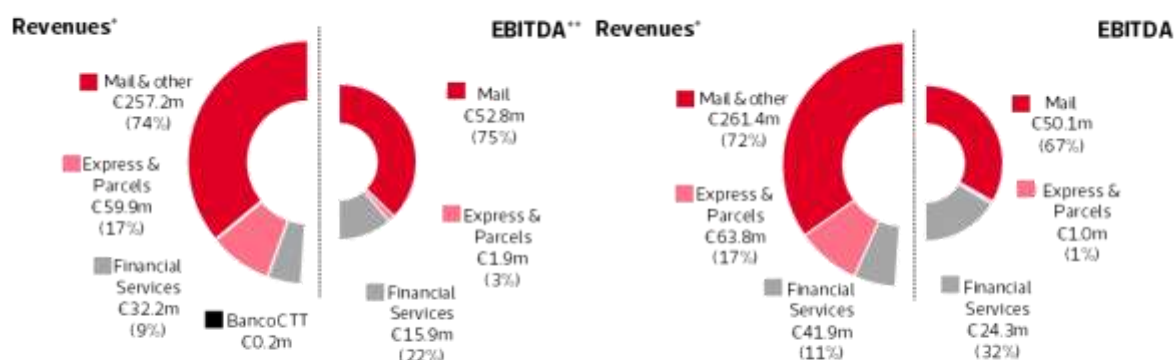
(2) Before non-recurring revenues and costs.

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



### Recurring revenues\* and EBITDA by Business unit

January to June 2016
January to June 2015



\* Including CTT Central Structure revenues and Intragroup Eliminations amounting to -€14.8m in 1H16 and -€17.2m in 1H15.

\*\* The weight of each business unit is calculated excluding -€8.1m related to BancoCTT's EBITDA.

### Operating Indicators

	1H16	1H15	Δ%16/15
<b>Mail</b>			
Addressed mail volumes (million items)	411.2	421.0	-2.3
Transactional mail	350.0	357.8	-2.2
Editorial mail	22.6	23.3	-2.9
Advertising mail	38.5	39.9	-3.5
Unaddressed mail volumes (million items)	234.7	225.1	4.3
<b>Express &amp; Parcels</b>			
Portugal (million items)	6.9	7.0	-1.8
Spain (million items)	6.1	6.7	-8.9
<b>Financial Services</b>			
Payments (number of transactions; million)	28.8	30.4	-5.5
<b>Savings and insurance (subscriptions; € million)</b>	2,014.1	2,999.1	-32.8
<b>BancoCTT</b>			
Number of current accounts	20,163	-	-
<b>Customer deposits (€ million)</b>	55,967	-	-
Number of branches	66	-	-
<b>Staff</b>			
Staff (FTE) <sup>(1)</sup>	12,215	12,323	-0.9
<b>Retail, Transport and Delivery Networks</b>			
Post offices	617	621	-0.6
Postal agencies (partnership branches)	1,709	1,698	0.6
PayShop agents	4,000	3,887	2.9
Postal delivery offices	249	257	-3.1
Postal delivery routes	4,769	4,740	0.6
Fleet (number of vehicles)	3,632	3,487	4.2

(1) FTE = Full-time equivalent.

## Sustainability Indicators

	1H16	1H15	Δ%16/15
<b>Customers</b>			
Customer satisfaction (%)	85.9	85.8	0.1 p.p.
Total number of operating units certified (ISO standard and retail and delivery networks certification)	1,183	1,118	5.8
Retail and delivery networks certification (% coverage)	100	100	0.0
Overall Quality of Service Indicator (points) <sup>(1)</sup>	133.1	215.1	-82.0
<b>Staff</b>			
Number of accidents	469	450	4.2
Training (hours)	165,129	162,005	1.9
Women in management positions (1 <sup>st</sup> management level) (%)	32.4	38.2	-5.8 p.p.
<b>Community/Environment</b>			
Cadeia de valor - contratos c/ critérios ambientais (%)	99.3	99.9	-0.6 p.p.
Total CO2 emissions, scope 1 and 2 (kton.) <sup>(2)</sup>	8.0	7.8	3.1
Energy consumption (TJ) <sup>(2)</sup>	181.0	180.1	0.5
Weight of Eco product range in Direct Mail line (%)	37.0	33.1	3.9 p.p.
<b>Investment in the Community (€ thousand)</b>	<b>585</b>	<b>368</b>	<b>59.0</b>

<sup>(1)</sup> After 1 January 2016 the composition of the OQSI changed, with the introduction of new indicators and changes in indicator weights. Accordingly, the indicator for 2016 is not comparable with that of previous years.

<sup>(2)</sup> Indicators based on CTT S.A. and CTT Expresso data.

## HIGHLIGHTS OF THE SEMESTER

## February

- Price update effective 1 February 2016. The update corresponded to an average annual change of 1.3% in the price of the basket of letter mail, editorial mail and parcel services.
- CTT grants access to its postal network to postal operators with an individual license.

## March

- Banco CTT, S.A. opens to the general public with 52 branches, the biggest opening on a single day ever in Portugal.
- A **Revision Agreement for CTT's 2015 Company Agreement** is signed with ten trade unions, effective 1 January 2016.
- CTT grants access to the delivery service at P.O. Boxes and to the service of returning mail found in the CTT network with postage from other operators, also under the opening of elements of the postal infrastructure to other postal operators.
- CTT, S.A. acquires a 100% shareholding in Tourline from CTT Expresso, under the new strategy defined to develop the company.

## April

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

## May

- A gross dividend of €0.47 per share is paid out.
- **Banco CTT, S.A.'s share capital is increased by €26m.**
- A share in profits is granted **to the company's employees and executive directors.**

## June

- 14 additional Banco CTT, S.A branches are opened in **CTT's Retail Network**, thereby widening Banco CTT's presence in the network.

## AWARDS AND RECOGNITIONS

- FRANCISCO DE LACERDA RECEIVES BEST CEO AND ANDRÉ GORJÃO COSTA BEST CFO IN THE IRG AWARDS 2016

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

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

Miguel Salema Garção, CTT's Brand and Marketing Head, was distinguished with the Big Fish award in the 8<sup>th</sup> edition of the Marketeer Awards.

- THE 2016 WORLD POST & PARCELS AWARDS DISTINGUISH CTT

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

- 46<sup>th</sup> ASIAGO PRIZE

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

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

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

- **CTT'S CUSTOMER SERVICE LINE DISTINGUISHED IN APCC BEST AWARDS 2016**

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

- HUMAN RESOURCES PORTUGAL GRANTS CTT THREE AWARDS

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

- **"BICYCLE-FRIENDLY COMPANY 2016"**

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

## PART I - INTERIM MANAGEMENT REPORT

### 1. STRATEGIC LINES

#### 1.1. Sector trends

The ongoing revisiting of initiatives to be launched (arising from the strategic plan) is based on new consumer demands and the main trends currently detected in the sector and which are contributing towards its profound transformation on a global scale. However, the importance of these trends has suffered changes as postal operators take advantage of opportunities in the digital economy:

1. Growth of e-commerce – the online retail world represents not only a new paradigm, but also a new business opportunity for postal operators to reap.
2. Focus on efficiency – continuous operational improvement and resource optimisation in order to improve profitability and which is increasingly based on a flexible and wide-reaching technological architecture that maximises the offer with new features and services.
3. Service portfolio diversification – focus on new businesses by leveraging the unique networks already in place, namely the delivery network and retail network, and maximising return on existing assets (a focus on financial services, partnerships with the Government, network integration, etc.).
4. The postal sector **tripod “Globalisation, Liberalisation and Privatisation”** – pressure from competition, both direct and from new technologies, permanent scrutiny and demand for profitability and growth by the various stakeholders.
5. Digitalisation / substitution effect – the continued structural decline in mail volume, due to the growing use of digitalised services and new forms of communication.
6. Internet of Postal Things – use of some of the postal operators’ **most valuable assets**, specifically buildings, the fleet of vehicles, letter boxes and postmen and women that cover the entire country on a daily basis, to collect data via sensors for subsequent processing and supply of information and/or services.

#### 1.2. Strategic lines

CTT has recently revised its strategy and slightly adjusted its strategic pillars in order to reflect its corporate priorities.

Therefore, the strategic pillars are currently five, three of which are directly related to new businesses and the offer upgrade in its main business units (Mail, Express & Parcels and Financial Services), in line with before. The other two, which span throughout the entire organisation, are operational efficiency and commercial excellence, which are now granted greater importance and relevance within the organisation.

Within this framework, we highlight some of the main strategic initiatives carried out or currently underway:

1. Preserve the value of the mail business: i) regulatory management; ii) developing specialised segments, such as advertising mail; iii) reviewing **CTT's non-core** portfolio of corporate solutions; and iv) reflecting on positioning in the convergence of physical and digital services.
2. Capture the growth trend in Parcels (CEP): i) launching a new modular offer, that sets itself apart from what already exists in the marketplace and applies principles of simplicity, convenience, flexibility and interactivity; ii) undertaking specific initiatives to develop e-commerce in both the domestic and cross-border market (ex. linehaul solutions, postal virtualisation, etc.); iii) monitoring growth opportunities in businesses adjacent to the CEP market, such as integrated logistics/transport services and specialised delivery; and iv) **focusing on restructuring Tourline's business in order to ensure future profitability** and ensure a strong position in the Iberian Peninsula.
3. Launch Banco CTT to expand the Financial Services business: i) gradual opening of Banco **CTT in CTT's existing** retail network; ii) focus on gaining new clients and deposits through a portfolio of no-frills banking products that is very competitive relative to what is currently available in the market; iii) repositioning PayShop by adapting it to new market trends outside the banking offer (fintech, payment gateway, etc.); and iv) focus on developing new solutions/services that continue to pursue the diversification of the offer and thereby foster further growth resilience.
4. Operational efficiency – continuous improvement of processes and operations in order to promote profitability: i) installing new mail sorting equipment for medium-sized items (Rest Mail) to service the growing e-commerce market; ii) incorporating Mailtec in the Lisbon Sorting and Logistics Centre and improving procedures in the value chain; and iii) strong integration delivery of Express & Parcels non-time-definite delivery products in the mail distribution network, which results in relevant cost savings in both businesses, while maintaining an excellent level of service.
5. Commercial Excellence – integrated customer-focused commercial approach to identify and meet **the customers'** needs and preferences: i) increased rationalisation in price management; ii) promoting commercial proactivity, in order to adapt CTT to a new competitive environment, a growing offer diversification and greater client sophistication; iii) **improving the client's digital and interactive experience**; and iv) optimising procedures and creating new tools to support sales.

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

1. Financial strength: a strong balance sheet and strong capacity to generate cash flow.
2. Proximity (network and brand): **leverage the scalability of CTT's core assets and brand.**
3. Cultural transformation: build a human capital structure that allows greater efficiency and effectiveness in process and knowledge management.
4. IT and Digital Systems: a critical tool to modernise the business, make decisions and grow (information, flexibility, time to market, etc.).

5. Innovation: new approach to innovation management, by encouraging contributions by all employees.

## CTT Strategy



## 2. BUSINESSES

### 2.1. Economic and regulatory environment

#### 2.1.1. Economic framework

##### International

In the beginning of the 2<sup>nd</sup> quarter of 2016, world industrial production increased due to the recovery of advanced economies, while slowing down in emerging and developing economies, mainly in Asia and Brazil. World trade in goods also increased mainly due to the recovery in global imports. Commercial exchanges for the whole of advanced economies improved. On the other hand, external commerce of emerging and developing countries suffered, with particular emphasis on Asia.

In the first quarter of 2016, the GDP of the G20 had a year-on-year growth of 3%, which reflected, among advanced economies, an improvement in the U.S. (2.0%); a slowdown in the European Union (1.8%), while weakening in Japan (0.0%). Among **emerging countries, China's GDP (6.7%) slowed down**, in contrast to strong growth in India (8.0%), whereas Brazil remained in recession (-5.1%).

In the Eurozone, the GDP had a year-on-year growth of 1.7% in the first quarter of 2016. External demand in the Eurozone registered a modest recovery, although still affected by weak demand from emerging economies. This negative impact on extra-Eurozone export growth was only partially mitigated by the delayed favourable effects of the previous depreciation of the Euro.

Year-on-year inflation rate in the Eurozone was -0.1% in May 2016 (-0.2% in the preceding month); while remaining at 0.1% in terms of variation in the last 12-months. The slight recovery in the year-on-year inflation rate resulted mainly from a lesser fall in energy prices (-8.1% in May) relative to the previous months.

**The economy's total employment in the Eurozone had a 1.4% year-on-year increase** in the first quarter of 2016 (1.2% in the preceding quarter), along with a slight year-on-year slowdown in productivity to +0.3% (+0.5% in the 4<sup>th</sup> quarter of 2015). In May 2016, the unemployment rate fell to 8.6% in the EU and 10.1% in the Eurozone, the lowest rate since July 2011.

Short-term interest rates remained on their downward trajectory in the Eurozone, renewing historically low rates at negative levels in June, while rising in the United States. In May, long-term interest rates remained approximately at the same level as the previous month for both the U.S. and the Eurozone, which reflects unchanged expectations for both economies.

The Euro depreciated against the US dollar, in June 2016 and for the 2<sup>nd</sup> consecutive month, partially due to the results of the referendum in the United Kingdom on 23 June that led to the approval of the **United Kingdom's exit from the European Union (Brexit)**. Also due to this phenomenon, there was equally a significant depreciation of the British pound vis-à-vis the main international currencies.

In June 2016, the price of Brent oil continued to recover at 50 USD/barrel (€44/barrel). This upward trajectory has been influenced by the drop in stocks in the U.S. and the expected increase in oil demand this year, fuelled by consumption in China, Russia and particularly India.



## National

The current recovery of the Portuguese economy has been relatively modest, in particular given the extent and duration of the recession that preceded it.

In the first quarter of 2016, according to the national quarterly accounts disclosed by the Portuguese National Institute of Statistics (INE – Instituto Nacional de Estatística), GDP increased by 0.2% as compared to the previous quarter, maintaining the profile of a year-on-year slowdown in the growth rate, with a 0.9% growth as compared to the first quarter of 2015.

Inherent to GDP evolution in the first quarter of 2016 was an increase in domestic demand, due to measures to incentivise consumption, and the negative impact of external demand. Domestic demand contributed 2.0 percentage points (p.p.), albeit less than seen in the previous quarter (2.4 p.p.) due to a fall in investment, given that private consumption accelerated and public consumption maintained the growth rate of the previous quarter. Net external demand registered a negative impact of 1.1 p.p. for the year-on-year GDP growth rate, the same as in the 4<sup>th</sup> quarter of 2015, with the slowdown of exports and imports of goods and services.

Private consumption had a year-on-year growth rate in the 1<sup>st</sup> quarter of 2016 of 2.9%, 0.6 p.p. greater than the growth rate registered in the preceding quarter. This evolution took place within the context of a rise in real disposable income, continued historically high consumer confidence and an acceleration in consumer credit. The rise in disposable income was influenced by the rise in minimum wage, measures announced for the State Budget for 2016 to reinstate income and also some growth in employment. The acceleration in private consumption was registered mainly in expenditure with durable goods that went from the annual rate of 7.5% in the preceding quarter to 12.8%, largely reflecting the evolution in the automotive component.

**The Portuguese economy's ability to finance itself, measured by the joint balance of the current and capital accounts, was 1.0% of GDP in the 1<sup>st</sup> quarter of 2016, 0.1 p.p. less than in the previous quarter. This evolution was due to improved gross savings and gross disposable income rose slightly more than the economy's final consumption expenditure.**

**The Public Administration's (PA) financing needs were -3.2% of GDP in the 1<sup>st</sup> quarter of 2016, 2.3 p.p. less than the same quarter in 2015. This improvement in the PA's balance was the result of the joint effect of the 2.3% rise in revenues and the -2.7% fall in expenditure as compared to the same quarter in 2015.**

Inflation remained low. In May 2016, the average growth rate of ICP over the last twelve months was 0.6%, 0.1 p.p. less than the previous month, and the Consumer Price Index was also 0.6% (the same as in the previous month). Based on Eurostat estimates, the rate difference between the Portuguese HIPC and that of countries in the Eurozone was 0.5 p.p. in May.

The employment rate registered a year-on-year growth rate of 0.4 p.p. in the 1<sup>st</sup> quarter of 2016. For that same period, the unemployment rate was 12.4%, 1.3 p.p. less than in the same quarter of 2015, having gradually fallen although it is still at a high level.

## 2.1.2. Postal regulatory framework

### At the level of the European Union

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

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

In the 5<sup>th</sup> Report on the application of the Postal Services Directive, published on 17 November 2015, the European Commission (EC) acknowledges that, overall, the two core aims of European postal policy, namely ensuring a minimum range of services of a defined quality at affordable prices for all users and the opening of the market with fair conditions of competition, have broadly been achieved, though concerns persist about the cross-border parcel market.

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

### At a national level

The Postal Law entered into force in April 2012 (Law 17/2012, of 26 April, as amended by Decree-Law 160/2013, of 19 November), transposing to the Portuguese legal system Directive 2008/6/EC. The postal market in Portugal was thereby fully opened to competition, eliminating the areas under the Universal Service that were still reserved to CTT. However, for reasons of public order and security or general public interest, some activities and services remain reserved up to 2020: placement of letter and mailboxes on public roads for the acceptance of mail, issuance **and sale of postage stamps with the word "Portugal" and registered mail used in legal or administrative proceedings.**

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

- a postal service for letter mail, excluding addressed advertising, and for books, catalogues, newspapers and other periodicals weighing up to 2 Kg;

- a postal service for parcels weighing up to 10 Kg, as well as delivery in the national territory of postal parcels received from other Member States of the European Union weighing up to 20Kg;
- a registered mail and an insured mail service.

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

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

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

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

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

As the concessionaire of the Universal Postal Service and in order to provide a standardised and non-discriminatory service for operators that wish to use the Universal Service network, as of February 2016, CTT made available to postal operators with an individual license a competitive access offer that safeguards network security and efficiency in providing the Universal Service.

This offer consists of a basic service of pick-up, transport, sorting and delivering non-priority letter mail with a maximum weight of 2kg. This service allows delivery within the national borders or beyond and can be accessed through the Lisbon, Taveiro (Coimbra) and Maia (Porto) Business Mail centres. Through this offer, operators have access to a specific price list to feed **their client's mail** into the CTT postal network. This offer allows other operators to develop their own network only in certain geographic areas in order to compete with CTT, while using CTT's network in the remaining areas of the country.

Further regarding access to elements of the postal infrastructure by other postal operators, the offer mentioned above was supplemented in March with two services: access to P.O. Boxes through

which operators can directly drop-off mail addressed to P.O. Boxes located in CTT post offices and agencies and the returning of mail found in the CTT network with postage from other operators.

Taking advantage of improvements to corporate management information and with the help of specialised consultants from the sector, CTT has been developing improvements to its cost accounting system, by increasing direct allocation and using a more adequate methodology for allocating common expenses to products. This makes the cost of the universal service clearer, as well as that of other products and services sold by CTT.

In terms of the quality of the Universal Postal Service and in the aftermath of the new Postal Law, a new quality measurement and control system is being implemented, which will be carried out by an independent external entity. Following the pre-qualified international tender, the external entity entrusted with the measurement of quality levels was selected. This entity is an international company that is currently carrying out the works necessary to implement the measurement system for quality of service indicators throughout the 2<sup>nd</sup> semester of the current year of 2016.

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

## 2.2. Mail

### 2.2.1. Business

The recurring operational revenues<sup>6</sup> of the Mail business unit reached **€272.0m** in the first half of 2016, corresponding to a 2.4% fall compared to the same period of 2015. The evolution in revenues is connected to the drop in addressed mail volumes (-2.3%), mainly in registered mail (-11.2%), that, as a more expensive service, cancelled out the effect on revenue of the price increase carried out on 1 February 2016.

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

#### Mail

The comparison of the decrease in addressed mail volumes in the first half of 2016 (-2.3%) and in the first quarter of 2016 (-4.1%) shows more favourable behaviour in the 2<sup>nd</sup> quarter, in part due to specific events in each of the quarters, which are eliminated or reduced in the half-year analysis.

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<sup>6</sup> Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

## Mail Volumes

							Million items		
	1Q16	1Q15	Δ	2Q16	2Q15	Δ	1H16	1H15	Δ
Transactional Mail	180.9	188.8	-4.2%	169.2	169.0	0.1%	350.0	357.8	-2.2%
Editorial Mail	11.6	11.3	2.2%	11.0	12.0	-7.8%	22.6	23.3	-2.9%
Advertising Mail	19.4	20.9	-7.1%	19.1	19.0	0.5%	38.5	39.9	-3.5%
Addressed Mail	211.8	221.0	-4.1%	199.3	200.0	-0.4%	411.2	421.0	-2.3%
Unaddressed Mail	108.5	110.3	-1.7%	126.2	114.8	9.9%	234.7	225.1	4.3%

The average change in prices for the Universal Service in the 1<sup>st</sup> semester of 2016 was a year-on-year 1.9% increase, thereby contributing, together with inbound international mail, to mitigate the effect of the fall in volumes, especially of registered mail, in addressed mail revenues. This change was mainly the result of the price update for the basket of letter mail, editorial mail and parcel services that took place as of 1 February 2016 (as better detailed below in the section on the Regulatory Framework), changes to the discount policy and the volume structure itself in terms of the various products and weight categories.

Transactional mail volumes decreased by 2.2% in the first half of 2016. This evolution is the result of changes in the volumes of ordinary mail (-1.4%), registered mail (-11.2%), priority mail (-8.8%), green mail (-3.5%) and outbound international mail (-1.4%). In contrast, inbound international mail saw an increase in volume (+7.0%).

The decrease in registered mail was due to the reduction in consumption by the State and Public Administration, especially the Tax Authorities, which have, since the third quarter of 2015, reduced the use of this type of mail to levels that are more consistent with the past. In the absence of this **client's behaviour in the 1<sup>st</sup> semester**, registered mail volumes would have had a year-on-year growth of 2%, due to a more segmented offer of value-added services.

The fall in priority mail volumes was particularly sharp in the 1<sup>st</sup> quarter in the occasional segment of pre-paid product sales in CTT post offices, because the significant increase in the 1<sup>st</sup> quarter of 2015, which was the client response to the expected price increase, did not have the same importance in 2016, due to a lower price increase. However, the 2<sup>nd</sup> quarter of 2016 showed signs of recovery in this segment, with only a 2% drop.

Ordinary mail volumes had a year-on-year growth of +0.8% in the 2<sup>nd</sup> quarter due to the recovery that took place in the large customer portfolio and growth in contractual clients in the remaining portfolios. The growth rate for the semester (-1.4%) is still affected by the drop in volumes in the 1<sup>st</sup> quarter of 2016 in the utilities, telecommunications and State and Public Administration sectors.

National editorial mail volumes fell sharply in the 2<sup>nd</sup> quarter essentially due to a drop in consumption by occasional clients.

Addressed advertising mail volumes recovered in the 2<sup>nd</sup> quarter (+0.5%) mainly due to the seasonal behaviour of large customer campaigns. Favourable developments are expected in Advertising Mail in the 2<sup>nd</sup> semester as a result of initiatives and tools, currently under development for this medium, that will have their market launch during that period.

Advertising Mail measures are an important focus in 2016 and the future. The vision for advertising mail is to position CTT as the benchmark for direct marketing and relational marketing in Portugal, based on two strategic objectives: 1) creating a greater market for advertising mail, increasing its

weight in advertising investment in Portugal, and 2) gain part of the digital marketing market, with an integrated physical and digital offer.

In this framework, the goal is to increase market penetration through a wider use of CTT products (direct mail, unaddressed mail, email, SMS) by SMEs, the most representative segment company segment in the Portuguese corporate landscape. Therefore, CTT intends to develop its offer of advertising campaign solutions and, for that purpose, focus on two axes: (i) developing a platform where advertisers may build their campaigns on a self-service basis, and (ii) enhance demand and create potential for partnerships with media agencies. The goal is to create an integrated online offer of advertising mail and digital marketing for SMEs, promoting an appealing and trendy concept that **will position CTT as an agile innovator in its support of advertising solutions for its clients' brands and products.**

Although production is only expected in the 2<sup>nd</sup> semester, in the first semester the team allocated to this project, which includes new skills drawn from external recruitment, mainly worked on the initial steps: new naming - CTT Ads - **for CTT's portfolio of advertising solutions, development of product stimulation campaigns and incentives for commercial areas, design of integrated advertising solutions, definition of the new relationship model with advertising agencies, development of innovative studies and event sponsorship ("Young Lions" and "CCP Festival - Portuguese Creatives Club 2016").**

## Business Solutions

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

There is growing market demand from a wide variety of business sectors for CTT's integrated solutions, which include features tailored to the needs and goals of each organisation, based on the portfolio and capabilities inherent to CTT's two capillary networks – post offices and delivery. In addition, the Integral Sorting Solution for Administrative Offenses and the Integrated Water Management Solution bring together in a unique offer a set of services made available by the CTT group: printing & finishing, despatch, mailmanager, payments, among others. Among the integrated solutions offered, special note is made to growth in the proximity and de-materialised services, where meter readings, document dematerialisation services and notice processing showed significant growth rates.

As regards Digital Communication, several features were implemented in the ViaCTT service support system that allow clients to become self-service shippers, thereby improving and simplifying the membership process that until then always required manual intervention.

## Philately

The **Philately business achieved €3.2m** in revenue in the first half of 2016, resulting in a year-on-year drop of 22.7%.

The extraordinary revenues obtained in 2015 contributed to this positive evolution: the sale of Montepio Geral products for its 175<sup>th</sup> anniversary (nearly 450 thousand euros) and the sale of the Vesalius issue to the Belgian Post (122 thousand euros). The lower face values issued in 2016 also contributed to this deviation.



In 2016, CTT has already received two international awards for quality in design. It was distinguished for the issue of the stamps “International Year of Light and International Year of the Soil”, which was deemed the most original in the entire world by the monthly magazine “L’Arte del Francobollo” in February 2016. CTT received another award under the 46<sup>th</sup> International Philatelic Art Award of Asiago, considered the Oscar of Philately, for its two commemorative issues “International Year of the Soil” in the “Ecology” category.

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

Commemorative issues	
<ul style="list-style-type: none"> <li>Centenary Museums – Abade de Baçal</li> <li>Centenary Museums – Grão Vasco</li> <li>The Jesuits, Architects of Globalisation</li> </ul>	History
<ul style="list-style-type: none"> <li>Madeira: Christmas and New Year Festivities</li> <li>50 Years of LUBRAPEX</li> <li>Cante Alentejano (Song of Alentejo) – UNESCO Heritage</li> <li>Shrines of Europe (joint issue with Germany and Austria)</li> <li>Treasures of the Portuguese Museums, 1<sup>st</sup> issue</li> <li>Historical and Cultural Figures</li> </ul>	Music, art and culture
<ul style="list-style-type: none"> <li>EUROPE: Think Green</li> <li>Azores: Sustainable Tourism</li> <li>Predatory Mammals in Portugal</li> </ul>	Environment

As mentioned above, the following thematic books have been launched with the usual high level of success:

Thematic books
<ul style="list-style-type: none"> <li>Portuguese Cathedrals - António Saraiva</li> <li>The Jesuits, Architects of Globalisation - Carlos Fiolhais and Eduardo Franco</li> </ul>

## 2.2.2. Retail network

The Retail Network is an increasingly important sales and service channel for **CTT’s revenue growth** in all business units in an increasingly digital economy where convenience and proximity will have an important role in the physical component of this new paradigm.

As the main network for access to postal services, its activity is much more far-reaching. It manages over-the-counter services and direct sales to final customers (private individuals and small enterprises) and is the largest diversified commercial network at a national level with close proximity to the population. The Company has increased the value of this asset, transforming it into a platform of convenience and multi-services (especially financial services and services of general interest to citizens), thereby boosting its sales volume, while fully and strictly complying with the universal service obligations. In 2015, the value of this convenient network was boosted by using it to deliver and collect parcels, thereby providing a wider offer to the e-commerce segment under development and growth in 2016.

Management of business in the Retail Network is based on three fundamental axes:

- Development of the Mail business, promoting operating excellence and better quality of service, as a result of the greater proximity to and knowledge of its customers, ensuring enhanced productivity levels and more complete offer of added value;
- A channel of proximity for the marketing of financial products and services (savings and investment, payment solutions and personal credit among others), standing as an alternative in terms of offer of innovative and competitive financial products to the population. The partnership with Western Union also enables a unique channel of proximity and capillarity for urgent cash transfers to any part of the world in an economy with growing levels of migration. Of great importance in this axis and within the same goal is the role of the Network as a fundamental pillar in the creation of Banco CTT, which is an essential asset in order to provide a wide array of **financial services in a “one stop shop” logic**. Within this offer, current accounts and mortgage loans and other transaction banking services will be fundamental in not only gaining clients in numbers, but also in loyalty.
- Creation and development of businesses and services of convenience for the population, services of general interest, by taking on the vocation of local multi-service assistance, in addition to offering postal services, and operating as a preferred location for services to citizens **(such as in the EDP partnership and the Citizen’s Bureau Areas project)**, in addition to acting as yet another delivery and collection option in the solutions offered for e-commerce in the Express & Parcels unit.

At the end of the first half of 2016, the Retail Network was comprised of 4,239 contact points, with 617 post offices, 1,709 partnership branches (postal agencies) and 1,913 stamp sale points. The offer of services, under self-service and in some cases available 24 hours a day, is complemented by 221 automatic stamp vending machines and 15 automatic postal product vending machines.

During the first half of 2016, with the cost optimisation and rationalisation measures carried out under the Transformation Programme<sup>7</sup>, 26 satellite post offices were integrated into core post offices (a project that entails placing smaller post offices under the management of core post offices), thereby enabling their joint management.

Further under the Retail Network optimisation measures, a Customer Support Line was implemented in December 2015, thereby freeing post offices from daily telephone calls from customers (as contacts were channelled to the call centre). The provision of the service through a specialised line allows a more uniform and consistent message to be disseminated. With this initiative, post offices will be able to organise their time by refocusing on serving clients and commercial activity.

In the 2<sup>nd</sup> semester, a more efficient model for cash flows is expected to be implemented, following a **historical analysis of post offices’** cash needs. This model may result in reduced cash transport expenses.

As established in the Concession Agreement, the objectives for network density were defined in 2014, considering factors such as the distance to be travelled by customers in order to access the closest CTT branch, taking into account whether the area was urban or rural, as well as citizen accessibility to the various mail services and the respective opening hours. Full compliance with the **defined objectives reinforces the Company’s intention to maintain a Retail Network that offers proximity and convenience to its customers and the population in general.**

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<sup>7</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT’s strategy.



In addition to being an important sales channel for products and services from all CTT's business units, principally Mail and Financial Services, the Retail Network has promoted initiatives to stimulate other retail businesses, such as (i) leasing space, establishing partnerships with well-known reference brands in the national market and (ii) sales via catalogue by offering products with potential for cross-selling with credit solutions.

### 2.2.3. Operations

In the first half of 2016, the Transformation Programme<sup>8</sup> was heavily focused on improving operational efficiency not only by continually reorganising the production cycle through a wider set of initiatives aimed at rationalising sorting, transport and delivery, but also by deepening synergies between CTT networks (Mail distribution network and Express & Parcels outsourced network).

#### Sorting

The sorting network is composed of 3 production and logistics centres, 6 logistics support centres and 1 business mail centre. The activities of the production and logistics centres are supported by 44 automated mail sorting machines (of which 24 are mail sequencing machines and one Rest Mail machine) and 78 video encoding posts.

In the first semester of 2016, 2.21 million items (flat letter mail) a day were automatically sorted by postal delivery route. Nearly 1.96 million (88%) were automatically sequenced (door-to-door) for 4,769 postal delivery routes of 249 postal delivery offices (PDO), which represents a weight of 81% of automated volumes of mail delivered daily on those routes.

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

In the 1<sup>st</sup> semester of 2016, the Mailmanager service digitalised 4.6 million images and 2.9 million complete documents, which resulted in a 10.5% year-on-year increase in documents produced for more than 60 clients.

Under the Transformation Programme<sup>8</sup>, we highlight:

- The concluded implementation of the Rest Mail equipment automated sorting project that thereby maximised sorting automation capacity, with a special focus on medium-sized postal items, mostly originating from e-commerce. Until the end of the 1<sup>st</sup> semester of 2016, this equipment sorted nearly 866 thousand items/month, delivering growing levels of sorted items over the first half.
- Implementation of the appropriation model in the logistics line, elimination manual sorting for packets in the Northern Production and Logistics Centre (PLC), reduction of the packets line in 3 PLCs and revision of the delivery model among PLCs. Activities were optimised in the Logistics and Distribution Centres of Vila Real and Évora.

The implementation of a prototype for manual sorting by postal delivery route assisted by OCR (Optical Character Recognition) is also worthy of note. This a measure was developed in partnership with an international supplier and is an innovative manual sorting system by postal delivery route into sorting stations by using recognition and video coding systems.

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<sup>8</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT's strategy.

## Transport

The transport network operates with 259 vehicles, which travel approximately 48 thousand km/day. In the first half of 2016, the national transport network covered a total of nearly 5.9 million km and took advantage of increasingly efficient vehicles purchased with the renewal of the fleet carried out over the last years.

The continuous reorganisation of the national transport network (made up of the "primary", "secondary" and "tertiary" networks), due to internal reorganisations, synergies with the express network and the insourcing of outsourced routes, was among the initiatives carried out. As regards air transport, under the rationalisation/reorganisation activities, special note is made to the flows whose impact by destination was most relevant in: Angola, Russia and USA.

## Delivery

The distribution network is composed of 249 postal delivery offices (PDO), including 71 delivery support offices (DSO) and 2 delivery support services (one in Lisbon and another in Coimbra), and 7 logistics and distribution centres organised into 4,769 delivery routes, which cover around 238 thousand km/day.

The fleet provided for delivery is primarily comprised of light vehicles, motorcycles and bicycles (mostly electric) and has been reinforced with more vehicles (mostly electric) in order to endow routes with greater speed and cargo capacity in response **to the distribution network's** demands.

Under the Transformation Programme<sup>9</sup>, the consolidation of new distribution models that are more efficient and geared toward meeting product service standards, promoting the continued reorganisation and optimisation of PDOs with the intervention/implementation of new more efficient organisations are worthy of note. In the first semester, 68 PDOs were reorganised (44.2% of the interventions planned for the present year).

Also, under the synergies between CTT operations, a new project begun in 2016 is worth highlighting. The Printing Sequencing Delivery project (PSD) began in 2016 and, until the end of the first semester, 30 PDO/DSOs were implemented. Under this project, Mailtec produces sequenced mail for certain customers, while CTT is responsible for its delivery (customers from the Municipal Waters sector), enabling these items to be sorted and printed in an orderly fashion, i.e., according to their street progression on the delivery routes, thereby contributing toward a better optimisation of operations in the entire operational circuit.

Of further note is the implementation, in April 2016, of water meter readings in the Municipality of Bombarral by the PDO of Bombarral, with a total of 7,200 bi-monthly readings. With this new service, the delivery network fosters and reinforces the service proximity with clients.

## 2.3. Express & Parcels

The recurring revenues<sup>10</sup> of **this business unit reached €59.9m** in the first half of 2016. This business unit is comprised of the activities of CTT Expresso in Portugal, Tourline Express in Spain and CORRE in Mozambique.

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<sup>9</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT's strategy.

<sup>10</sup> Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

CTT offers an Iberian portfolio for the express & parcels market, through CTT Expresso and Tourline Express, providing customers with the same delivery solutions in Portugal and Spain and an array of integrated, simplified and competitive services. The Iberian offer does not have integrated Iberian operations given the distinct business models with which CTT operates in each market, thereby hindering relevant economies of scale. Instead, the delivery network in Portugal was integrated **with CTT's mail distribution network given the clear synergies and economies of scale. Following this decision, CTT, S.A. acquired a 100% shareholding in Tourline from CTT Expresso in March 2016.**

With this offer and portfolio of homogenised services, CTT intends to position itself as one of the main operators in this region. Improvements are being developed in the cross-border offer, in order to ensure the same standards of service.

Given e-commerce's growing importance, which is a fundamental lever for the growth of parcels (with a year-on-year growth in delivered volumes - last mile- of 23% in the 1<sup>st</sup> semester of 2016), CTT highlights the following initiatives undertaken to develop this business:

- Completing two market surveys on e-commerce in Portugal, one based on knowledge of **CTT's commercial network – "E-commerce sensors" and another carried out by an external entity** (IMR – Institute of Marketing Research).
- **CTT's launch** of an ETOE (Extra Territorial Office of Exchange) in London and initial operational testing for a linehaul of e-commerce products between China (Hong Kong) and **Brazil, using CTT's ETOE in London.**
- **Launching the basis for offering "Special Cross-Border Solutions", based on linehauls** (end-to-end solutions) for e-sellers that intend to ship items to Portugal, either as a final destination or as a gateway (with or without recourse to ETOE) to other geographies (ex. Brazil).
- Carrying out a study and launching a prototype for dynamic delivery solutions in an urban context that satisfy quick delivery needs in an e-commerce setting.
- Establishing, national and international partnerships, among which the partnership established last December with the Singapore Post to launch a postal virtualisation service in Portugal that allows Portuguese e-buyers to access online shopping on websites located in geographies (e.g. the U.S.A.) where such is only possible for buyers living therein. This service will be launched in the 2<sup>nd</sup> semester of 2016.

Further in this regard, CTT has participated in the development and implementation of the various scheduled activities within the InterConnect programme. In order to improve the quality and ease of delivery services for international parcels, European postal operators are together implementing the Interconnect project, that essentially entails 5 commitments: flexible delivery options; return solutions; expansion of the track and trace system; better service quality for the client; and label harmonisation. The goal of this project is to thereby remove obstacles that dissuade consumers from making online purchases outside their country and, as such, maximise growth potential in cross-border electronic commerce for postal operators.

Given that e-commerce grew nearly 19% annually on a global level over the last few years and that e-commerce will grow on a global level until 2019 at an annual average rate of 20%, thereby coming to represent 12.8% of the total retail market, through Interconnect, European postal operators will make a very relevant contribution toward the development of the Digital Single Market, with e-commerce being one of the important growth drivers.

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

On an operational level and in order to improve profitability of operations in Portugal, we highlight the progress made with the integration of the Mail and Express & Parcels delivery networks (outsourced) that began in 2014.

In 2015, a profound network integration was carried out, with the goal of attaining better use of the network of postmen and women for last-mile delivery of day-definite parcels and packages, using the installed capacity and high capillarity of the network to ensure delivery of EMS 48 and EMS 19 products. This process allowed outsourced delivery to be replaced with resources existing in the company. Furthermore, various initiatives are underway in order to improve delivery efficiency in the post-integration mail delivery network. This may not only generate the previously mentioned benefit, but also a decrease in last mile parcel delivery costs.

In 2016, a new phase in the network optimisation project began, with the goal of gradually **insourcing the delivery of EMS19 Múltiplo in CTT’s mail distribution network in a total of 39 PDOs**. In the first semester, the initiative was implemented in 27 PDOs, while implementation in the remaining PDOs is expected to take place in the upcoming months. This new stage will allow the potential of insourcing the delivery of EMS in the mail distribution network to be grasped. Of note is that nearly 70% of all EMS volumes were delivered by the mail distribution network (compared to 29% in the same period of 2015).

In Spain, there were savings and operational improvements as a result of the human resources restructuring plan carried out at the end of 2015. Personnel costs fell and procedures were simplified, which enabled operational costs to be optimised, without compromising quality of service and even substantially improving value added services.

**Throughout the semester, improvements in Tourline’s franchisee network were implemented**, by replacing its own areas with well-regarded franchisees, new franchisees and delivery partners, which allowed commercial penetration capacity to increase and delivery costs to decrease (last mile).

As regards direct sales, the reorganisation of the commercial network, as well as the optimisation of contractual conditions for Large Accounts, resulted in increased profitability for that channel, during the second quarter of the year, and especially for the Large Accounts segment. The strategy was based on a more careful selection of clients, terminating relationships with clients, even sizeable ones that **negatively contributed to Tourline’s results**. **This move put pressure** on revenues, which suffered a relevant fall, although creating the opportunity to gain new clients. The launch of the innovative modular offer of products and services specifically directed to the e-commerce segment, carried out in the first quarter, will allow the company to reinforce its position, having already grasped client attention. Commercial agreements are being entered into that will generate volumes by the end of the third quarter, with especially significant volumes being expected in the last three months of the year, the time in which a good portion of business volume is traditionally concentrated, namely in the segment related to e-commerce.

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

The company intends to become market leader of the domestic express market and to become one of the most important players in the international Express & Parcels with Mozambique. The company covers most provinces and owns an operations centre, two own branches and an Airport Mail Unit in Maputo. CORRE products and services are also available at all post offices of Correios de Moçambique, thus achieving national coverage, which has contributed to the rapid expansion of the business.

In addition to the sharp depreciation **of the metical, which had an impact on the company's** euro/dollar costs and on the costs of imported raw materials, there is an enormous foreign currency shortage which greatly limits the ability of making payments in foreign currencies abroad.

Despite resumed **peace negotiations, the internal political and military conditions in the country's** central region continue tense, strongly affecting safe transport on the roads of the region which connects the south and north of the country and lengthens the transit time of goods. As a result of increasingly difficult road transport, there is an overload of air transport, operated exclusively by LAM – Linhas Aéreas de Moçambique, with no alternative means of ensuring that all circulation needs of people and goods are met.

Despite these adversities, CORRE continues to consolidate its position as the biggest service provider in the banking sector in Mozambique. Close ties also remain in place with the South African Post Office (SAPO), in order to use the Johannesburg transit hub, thereby enabling international routes with the various countries that are linked to this hub, as well as with CTT - Correios de Portugal that handles transit operations to European destinations.

## 2.4. Financial Services

The recurring revenues<sup>11</sup> of **this business unit reached €32.2m** in the first half of 2016. This business unit includes the retail-focused financial services provided by CTT, S.A. and corporate-focused payment activities, both through the retail network and PayShop, with its vast network of agents.

Savings subscriptions reached 2 billion euros, the vast majority of which in the form of Public Debt Certificates, which made up nearly 95% of that amount. The placement of Poupança Mais Treasury Certificates (CTPM), which continue to stand out in the national market as an important savings product. Throughout the semester, CTT continued to sell capitalisation insurance and retirement savings plans, in line with the diversification strategy that has been consistently pursued over the last years. Notwithstanding, at present, the competitiveness of this type of product is low. Together with the issuer of public debt (Agência de Gestão da Tesouraria e da Dívida Pública - IGCP, E.P.E.), CTT began a campaign to inform the public on the appealing conditions of the CTPMs, in order to expand the client base for this product, namely among the population with higher usage of banking services, which still concentrate their savings in banks.

The Service Payments business had a year-on-year decrease of 17%, a situation explained by both the fall in average prices practiced (due to the implementation of SEPA and the new payment card directive) and the fall in the number of operations processed for mobile phone top-ups due to a

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<sup>11</sup> Including internal services and intra-group transactions which are eliminated for the purpose of consolidation.

migration by the major national mobile service providers to 4P (quadruple play) packages, in which mobile services become post-paid. Notwithstanding, the toll payment segment grew, as did the number of tax payments made through the PayShop network. CTT is currently developing various **initiatives to enhance CTT's payments** business, outside of the banking universe, through the PayShop network. A set of growth opportunities were defined for this business, which are being analysed in depth and/or implemented. This therefore positions this segment as a future growth vector. In this regard, it is also worth noting the consistent rise, by more than a hundred, in the number of PayShop agents. This has gradually allowed CTT to offer greater proximity and convenience to final users of payment services made available by CTT.

The Money Orders and Transfers business evolved in line with its main service, Pension Payments, which fell by 7% in this first semester. The International Transfers business, despite having similar year-on-year transaction volumes, showed a fall in revenues due to a drop in prices throughout 2015. A partnership with Western Union is in its final stages in order to also expand this service to postal agencies and some PayShop agents, thereby increasing capillarity and proximity with some ethnic groups.

The remaining businesses, Consumer Credit and Property Insurance, although smaller than the aforementioned businesses, show the capacity and potential of the CTT post office network in broadening the array of financial services made available to customers. It is precisely therein that, throughout the second semester of 2016, the financial services made available by CTT in its retail network will be expanded, namely as regards insurance with the launch of healthcare insurance.

## 2.5. Banco CTT

The recurring revenues<sup>12</sup> of this business unit reached **€174.9** thousand in the first half of 2016, a **period in which the organisation's focus is on opening accounts and gaining clients**. The results obtained until now prove Banco CTT was a project the market was anxious for and is already a brand widely recognised by the Portuguese. Until the end of June, more than 20 thousand accounts of nearly 25 thousand clients were opened in Banco CTT, through which the Bank attained more than 50 million euros in resources.

The first half of 2016 was marked by the opening of Banco CTT to the general public. The launch took place on 18 March with operations kicking off in 51 post offices within the CTT Network and at the Head Branch, making Banco CTT present in all district capitals, as well as the Islands - the largest opening on a single day ever in Portugal. Following the initial opening, the Bank has followed the stipulated opening plan, having kicked off operations of 14 more branches in June. Until the year end, 200 more branches are expected to open to the public, although the incremental contribution of the new branches opened will be continuously assessed in order to evaluate timing and network size. **As referenced in Banco CTT's strategy, openings may encompass the entire Retail Network. That need will be assessed in light of the bank's coverage vis-à-vis the addressable market and market conditions, namely network size of the main banks.**

Staff training and IT system preparation needed to take place in a controlled environment to enable the Bank's **implementation** in post offices in the CTT Network. To support the opening of branches, a media campaign was carried out for Banco CTT launch, namely via television, radio and printed and digital press. The goal of this campaign was to **make people aware of the Bank's existence by letting** them know that a trustworthy bank was born based on a simple offer, transparency and proximity that wants to grow and position itself in the market as a competitive bank for day-to-day solutions.

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<sup>12</sup> Including internal services and intra-group transactions which are eliminated for consolidation purposes.

Developments in financial markets, namely the present scenario of low interest rates, place additional challenges to Banco CTT, as well as to the entire sector, in terms of profitability. At the end of the first quarter of 2016, the European Central Bank (ECB) again reduced interest rates on deposits to -0.40%, as well as reference and refinancing rates to 0% and 0.25%, respectively. In addition, the ECB further announced that the quantitative easing programme would be reinforced and that corporate bonds would fall within its scope. New long-term loans would be made available to banks on condition of their financing the economy (TLTROs).

**In the second semester of 2016, the bank's goal entails a roll-out** of branches and continued focus on gaining clients and resources, expanding the products it offers, meeting evermore the needs of its current clients while capturing a larger share of wallet thereof, namely by making consumer credit and mortgage loans available. Continued stringent cost discipline, adjusting the structure and expenditure to income generation, will continue to be a priority, in order to enable Banco CTT to benefit from this framework vis-à-vis its competitors.



### 3. ECONOMIC AND FINANCIAL REVIEW AND CTT SHARE PERFORMANCE

#### 3.1. Economic and financial review

This section summarises the consolidated results achieved by CTT and the consolidated assets, liabilities and financial position of the company as at 30 June 2016. This section should be read in conjunction with the interim condensed consolidated financial statements and the accompanying notes. The present analysis includes the consolidation of the activities of the parent company and its subsidiaries as included in note 7 of the interim condensed consolidated financial statements.

It should be noted that during the first half of 2016:

- Banco CTT opened up to the public in 65 CTT post offices and a head branch since 18 March 2016. During this period over 20 thousand accounts were opened for 25 thousand clients, having been captured over **€50m in deposits. The share capital in June was €60m.**
- **The company recognised revenues of €5.0m regarding the memorandum of understanding with Altice in June 2015.**
- CTT Espresso sold to CTT, S.A. 100% of its participation in the subsidiary Tourline. This transaction had no impact on the consolidation perimeter.
- During the six-month period ended 30 June 2016, was conducted, with the support of an independent expert, a historical analysis of the average costs per beneficiary and the number of beneficiaries regarding the benefit Telephone subscription fee, having CTT recognised a liability **reduction of €1.8m which was recorded under staff costs since it regards to long-term employee benefits.**
- The resolution of the long-term lease contract of a vacant building (Conde Redondo) took place, **generating a net impact on net income of +€3.3m.**
- The improvements made in the direct allocation method (VAT deduction) had a positive impact of **€2.0m in other operating revenues (€1.3m in the Mail segment and €0.7m in the Financial Services segment).**

**In the first half of 2016, CTT achieved a consolidated net profit of €31.7m, -19.1% (-€7.5m) compared to the first half of 2015, corresponding to a consolidated net profit per share of €0.21, (vs. €0.26 in the same period of the previous year).**

The Banco CTT project impacted the first half of 2016 result by **-€10.2m and by -€2.6m in the same period of the previous year**, therefore excluding the Banco CTT project the consolidated net profit of CTT would have been **€41.8m, corresponding to a growth of €0.1m (+0.2%) in relation to the first half of 2015.**

The operating activity generated earnings before non-recurring items, interest, taxes, impairments, **depreciation and amortisation (recurring EBITDA) of €62.5m, -17.3% (-€13.0m) below that obtained in the same period of the previous year**, with an EBITDA margin of 17.9% compared to 20.6% in the first half of 2015.



These results reflect a decrease of 4.8% (-€17.7m) in the recurring revenues, amount that was not offset by the decrease of 1.6% (-€4.7m) in recurring operating costs (excluding impairments, provisions, depreciation/amortisation and non-recurring costs), as a result of Banco CTT costs and by the earnings generated by the placement of the Public Debt Certificates in January 2015 that achieved 56% of the total amounts placed in 2015.

The recurring EBITDA in the first half of 2016, excluding the recurring expenses incurred with Banco CTT and the expenses at CTT, S.A. associated with Banco CTT, amounted to €70.5m, -€6.2m (-8.1%) regarding the same adjusted period of the previous year.

In the first half of 2016 the non-recurring results affecting CTT results were -€2.0m. This amount results mainly from costs associated with studies and strategic projects, especially those related to the launch of Banco CTT, the resolution of the long-term lease contract of Conde Redondo's building, as well as the continuation of the compensations resulting from the 2015 Company Agreement.

The reported earnings before interest and taxes reached €47.4m, €12.4m (-20.8%) below those recorded in the same period of the previous year. Excluding the effect of Banco CTT project this result would have reached €60.3m, i.e. a decrease of €3.0m (-4.7%) regarding the same adjusted period of the previous year.

The financial results amounted to -€2.5m, which represents an improvement of 1.4% (+€0.03m) vs. those of the same period of the previous year. Financial costs incurred reached €3.2m, resulting mainly from financial costs with employee benefits, which represented 98.8% of the total. Interest income decreased by 48.0% (-€0.4m) regarding the first half of 2015, as it was affected by the decline in the rates of return on term deposits and by CTT maintaining a very conservative liquidity management policy.

Earnings before taxes and non-controlling interests (EBT) reached €44.9m, 21.6% lower than in the first half of 2015. Excluding the effect of Banco CTT project, this result would have been €57.8m, representing a decrease of 4.9% (-€2.9m) related to the same adjusted period of the previous year.

In the first half of 2016 the effective income tax rate was 29.77%, vs. 31.65% in the first half of 2015, despite the impact of over €1.3m in the Corporate Income Tax ("IRC") following the resolution of the Conde Redondo's building lease contract.

## Interim condensed consolidated income statement

Thousand Euros	1H2016	1H2015	Δ% 16/15	1H2016 Excluding Banco CTT project*	1H2015 Excluding Banco CTT project*	Δ% 16/15
Revenues	349,358	367,054	-4.8	349,179	367,054	-4.9
Sales and services rendered	336,187	360,201	-6.7	336,187	360,201	-6.7
Sales	9,305	10,866	-14.4	9,305	10,866	-14.4
Services rendered	326,883	349,335	-6.4	326,883	349,335	-6.4
Financial margin	16	0	n.a.			
Other operating income	13,155	6,854	91.9	12,992	6,853	89.6
Operating costs excluding impairments, provisions, depreciation/amortisation and non-recurring costs	286,896	291,546	-1.6	278,698	290,401	-4.0
Cost of sales	6,781	7,567	-10.4	6,781	7,567	-10.4
External supplies and services	109,673	108,471	1.1	105,299	107,724	-2.3
Staff costs	164,815	169,030	-2.5	161,091	168,634	-4.5
Other operating costs	5,627	6,479	-13.2	5,527	6,476	-14.7
Earnings before depreciation/amortisation, impairments and provisions, non-recurring results, interest and taxes (recurring EBITDA)	62,462	75,509	-17.3	70,481	76,653	-8.1
Impairment of accounts receivable, net	23	(147)	-115.6	23	(147)	-115.6
Provisions, net	(147)	(95)	54.7	(147)	(95)	54.7
Impairment of non-depreciable assets	-	-	n.a.	-	-	n.a.
Depreciation/amortisation and impairment of investments, net	(12,877)	(10,642)	21.0	(12,333)	(10,628)	16.0
Earnings before non-recurring results, financial income and taxes (recurring EBIT)	49,461	64,625	-23.5	58,023	65,783	-11.8
Company restructuring	(2,541)	(2,272)	11.8	(2,541)	(2,272)	11.8
Costs associated to studies and advice services for strategic projects	(5,017)	(2,689)	86.6	(700)	(413)	69.5
Other non-recurring income and costs	5,530	200	2,665.0	5,530	200	2,665.0
Earnings before interest and taxes	47,433	59,864	-20.8	60,313	63,299	-4.7
Financial results, net	(2,739)	(2,571)	-6.5	(2,739)	(2,576)	-6.3
Gains/losses in associated companies	230	28	721.4	230	28	721.4
Earnings before taxes (EBT)	44,925	57,321	-21.6	57,804	60,751	-4.9
Income tax for the period	(13,375)	(18,143)	-26.3	(16,091)	(18,998)	-15.3
Net profit before non-controlling interests	31,550	39,178	-19.5	41,713	41,752	-0.1
Net profit attributable to non-controlling interests	(127)	13	1,076.9	(127)	13	1,076.9
Net profit for the period attributable to equity holders	31,677	39,165	-19.1	41,840	41,740	0.2

Note: Operational revenues exclude non-recurring values.

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

### 3.1.1. Revenues

Thousand Euros	1H2016	1H2015	Δ% 16/15	1H2016 Excluding Banco CTT project*	1H2015 Excluding Banco CTT project*	Δ% 16/15
Sales and services rendered	336,187	360,201	-6.7	336,187	360,201	-6.7
Sales	9,305	10,866	-14.4	9,305	10,866	-14.4
Services rendered	326,883	349,335	-6.4	326,883	349,335	-6.4
Financial margin	16	0	n.a.	0	0	n.a.
Other operating income	13,155	6,854	91.9	12,992	6,853	89.6
Revenues	349,358	367,054	-4.8	349,179	367,054	-4.9

Note: Revenues exclude non-recurring items.

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

The business of CTT is organised in the following segments:

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

#### 1H2016 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Revenues
Sales and services rendered	250,645	57,510	29,564	-	(0)	(1,533)	336,187
Sales	8,907	398	-	-	-	-	9,305
Services rendered	241,739	57,112	29,564	-	(0)	(1,533)	326,883
Financial Margin	-	-	-	16	-	-	16
Other operating revenues	21,308	2,349	2,606	159	28,900	(42,167)	13,155
Allocation to CTT central structure	-	-	-	-	21,518	(21,518)	-
Revenues	271,953	59,859	32,171	175	50,418	(65,218)	349,358

Note: Revenues exclude non-recurring items.

#### 1H2015 - Revenues by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup eliminations	Revenues
Sales and services rendered	258,829	62,477	41,309	-	(2,413)	360,201
Sales	10,393	473	-	-	-	10,866
Services rendered	248,436	62,004	41,309	-	(2,413)	349,335
Other operating revenues	19,754	1,347	563	35,874	(50,684)	6,854
Allocation to CTT central structure	-	-	-	19,910	(19,910)	-
Revenues	278,582	63,824	41,871	55,784	(73,007)	367,054

Note: Revenues exclude non-recurring items.

The Mail segment, which includes the core mail business revenues of CTT, represents the greatest weight in terms of revenues amounting to €272.0m, with a decrease of 2.4% (-€6.6m) in the first half of 2016 in comparison to the previous year.

Sales decreased €1.5m, mainly due to the decrease in sales of philatelic products -€0.9m (-22.7%).

Services rendered decreased by 2.7% (-€6.7m), as a result of the decrease in the addressed mail by €4.0m (-1.7%) affected by the 2.3% fall in volumes (nonetheless the increase of 1.9% in the average of the USO services in the first half of 2016). It is also worth noticing the reduction of the

registered mail and the addressed advertising mail and the growth of contract mail and foreign operators. Additionally, business solutions of printing & finishing **decreased by €1.4m**.

The other operating revenues of the Mail segment increased by **€1.6m (+7.9%)**, mainly from the earnings resulting from the memorandum of understanding with Altice<sup>13</sup> by **+€1.5m** in comparison with the same period of the previous year and from the improvements made in the direct allocation method (VAT deduction) which had a positive impact of **€1.3m** in other operating revenues in the Mail segment.

Inversely, a reduction of **€1.4m (-76.0%)** in the exchange rate differences of DTS (Droits de Tirage Spéciaux) was observed, reflecting some exchange rate stability in the first half on 2016 (-1.0%), which contrasts with the appreciation of DTS when compared to the same period of the previous year (+5.3%). This situation also impacts the decrease of other costs.

The Express & Parcels segment with **€59.9m of revenues** showed a decrease of **6.2% (-€4.0m)** in comparison to the same period of the previous year, resulting mainly from the reduction in revenues in Spain by **€2.9m (-12.2%)** and in Portugal by **€1.6m (-4.5%)**, with a volume decrease of 8.9% and 1.8%, respectively. Additionally, it is important to mention the positive impact on revenues due to the memorandum of understanding with Altice of **+€1.5m** in comparison to the same period of the previous year.

The Financial Services segment with **€32.2m of revenues** registered a **23.2% (-€9.7m)** decrease when compared to the same period of 2015. Services rendered decreased by **€11.7m (-28.4%)** influenced by the extraordinary effect of the placement of Public Debt Certificates in January 2015 (56% of the total placed in 2015) and the decrease in mobile phone top-ups, due to the increased penetration of 4 Play offer by telecom providers.

It should be also noted the increase in other operating income by **€2.0m (+363.3%)**, justified by the recognised earnings resulting from the memorandum of understanding with Altice of **+€1.5m** regarding the same period of last year and by the improvements made in the direct allocation method (VAT deduction) with a positive impact of **€0.7m**.

In CTT Central Structure there was a decline of **€7.0m (-19.4%)** in other operating revenues, due to the decrease of internal services of human resources by **€6.5m** and of IT systems by **€1.0m**.

### 3.1.2. Operating costs <sup>14</sup>

Thousand Euros	1H2016	1H2015	Δ% 16/15	1H2016 Excluding Banco CTT project*	1H2015 Excluding Banco CTT project*	Δ% 16/15
Cost of sales	6,781	7,567	-10.4	6,781	7,567	-10.4
External supplies and services	109,673	108,471	1.1	105,299	107,724	-2.3
Staff costs	164,815	169,030	-2.5	161,091	168,634	-4.5
Other operating costs	5,627	6,479	-13.2	5,527	6,476	-14.7
Operating costs	286,896	291,546	-1.6	278,698	290,401	-4.0

Note: Excluding non-recurring items.

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

<sup>13</sup> The memorandum of understanding with Altice affected three segments (mail, Express & Parcels and Financial Services).

<sup>14</sup> Cost of sales + ES&S + Staff costs + other operating costs (excludes non-recurring items).

The recurring operating costs amounted to €286.9m, 1.6% (-€4.7m) lower than those in the first half of 2015, despite the €8.2m recurring costs from Banco CTT and Banco CTT project recorded in CTT, S.A., highlighting:

- a) The recurring external supplies and services costs increased by 1.1% (+€1.2m) when compared to the same period of the previous year. In the first half of 2016 should be noted the recurring external supplies and services of the project Banco CTT amounted to €4.4m, which were absorbed by favourable deviations from the optimisation and rationalisation initiatives of operations and the distribution networks integration, especially the subcontracting of EMS delivery in the Express & Parcels segment with a decline of €1.9m (-44.3%).
- b) The recurring staff costs reached €164.8m, decreasing €4.2m (-2.5%) when compared to the same period of the previous year, mainly due to the following reductions:
  - (i) -€5.4m resulting from the remuneration policy, emphasising the variable component;
  - (ii) -€1.8m in the benefit "telephone subscription fee" resulting from the analysis of the historical average costs per beneficiary as well as the number of associated beneficiaries regarding this benefit;
  - (iii) -€1.9m in staff costs of Tourline, as a result of the restructuring measures implemented in 2015.

These favourable changes were partly absorbed by the increase of Banco CTT's staff costs (+€3.9m) and by the extension of the coverage of work accidents insurance to the "Caixa Geral de Aposentações" workers (+€0.6m).

- c) The other costs decreased €0.9m (-13.2%) due to the reduction of €1.4m (-68.0%) in the exchange rate differences of DTS, as mentioned above.

The operating costs by segment are as follows:

#### 1H2016 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Operating costs
External supplies and services	49,571	45,766	4,962	4,316	20,225	(15,165)	109,673
Staff costs	121,043	10,954	2,216	3,864	26,740	(2)	164,815
Other costs	27,206	1,233	8,949	100	3,453	(28,532)	12,408
Allocation to CTT central structure	21,367	-	150	-	-	(21,518)	-
Operating costs	219,187	57,953	16,277	8,280	50,418	(65,218)	286,896

Note: excludes non-recurring items.

#### 1H2015 - Operating costs by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup eliminations	Operating costs
External supplies and services	50,291	48,419	5,958	19,974	(16,171)	108,471
Staff costs	121,096	12,850	2,179	32,904	-	169,030
Other costs	37,308	1,522	9,235	2,906	(36,926)	14,046
Allocation to CTT central structure	19,750	-	160	-	(19,910)	-
Operating costs	228,445	62,791	17,533	55,784	(73,007)	291,546

Note: Excluding non-recurring items.

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

In the first half of 2016 the Mail segment booked €219.2m of recurring operating costs, a reduction of €9.3m (-4.1%) relative to the previous year, essentially in the exchange rate differences and in internal services (human resources and IT).

The Express & Parcels segment recorded a decrease of €4.8m (-7.7%) of its recurring operating costs, of which it is worth mentioning the reduction in Spain of Tourline's staff costs as a result of the restructuring measures and, in Portugal, the decline in the EMS delivery subcontracting costs due to the ongoing process of services insourcing, as mentioned above.

The Financial Services segment reported a decrease of €1.3m (-7.2%) in recurring operating costs, mainly due to the fact that the recurring expenses of Banco CTT project (€1.1m), which in the first half of 2015, were registered in this segment.

Banco CTT had €8.3m of recurring costs in the first half of 2016, namely staff costs (€3.9m) and external supplies and services costs (€4.3m), the latter mainly IT costs.

The Central Structure shows a favourable variance of €5.4m (-9.6%), to which contributed the decrease in staff costs by €6.2m (-18.7%), of which -€5.4m resulted from the remuneration policy that emphasises the variable component and -€1.8m from the adjustment to employees benefit "telephone subscription fee".

### 3.1.3. Recurring EBITDA

The recurring EBITDA<sup>15</sup> amounted to €62.5m, 17.3% (-€13.0m) lower than the first half of 2015 value, as a result of the decline in revenue (-4.8%) that exceeded the decline in operating recurring costs (-1.6%).

The recurring EBITDA in the first half of 2016, excluding the recurring revenues and expenses with Banco CTT project (both in Banco CTT and CTT, S.A.) amounted to €70.5m, -€6.2m (-8.1%) in comparison to the same period of the previous year.

Thousand Euros	1H2016	1H2015	Δ% 16/15	1H2016 Excluding Banco CTT project*	1H2015 Excluding Banco CTT project*	Δ% 16/15
Recurring revenues	349,358	367,054	-4.8	349,179	367,054	-4.9
Operating costs excluding impairments, provisions, depreciation and non-recurring costs	286,896	291,546	-1.6	278,698	290,401	-4.0
Recurring EBITDA	62,462	75,509	-17.3	70,481	76,653	-8.1
Recurring EBITDA margin	17.9%	20.6%	-2.7 p.p.	20.2%	20.9%	-0.7 p.p.

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

<sup>15</sup> Recurring EBITDA = Operating results + amortisation and depreciation + net change of provisions and impairment losses (does not include non-recurring revenues and expenses, as company restructuring, impairment of investment properties, provisions for onerous contracts and labour contingencies).

#### 1H2016 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT
Revenues	271,953	59,859	32,171	175
Operating costs	219,187	57,953	16,277	8,280
Recurring EBITDA	52,767	1,907	15,893	(8,105)
Recurring EBITDA margin	19.4%	3.2%	49.4%	n.a.

#### 1H2015 - Recurring EBITDA by segment

Thousand Euros	Mail	Express & Parcels	Financial Services
Revenues	278,582	63,824	41,871
Operating costs	228,445	62,791	17,533
Recurring EBITDA	50,137	1,033	24,338
Recurring EBITDA margin	18.0%	1.6%	58.1%

### 3.1.4. Non-recurring results

In the first half of 2016, CTT recorded negative non-recurring results of €2.0m, which include:

- (i) Other operating income:
  - **+€1.7m regarding the recognition of deferred gains related to Conde Redondo's building lease contract resolution.**
- (ii) External supplies and services:
  - **-€4.9m of costs associated with studies and strategic projects especially related to the launch of Banco CTT project (€4.2m) and also with the management information improvement plan.**
- (iii) Staff costs:
  - **-€2.3m of staff costs including: -€0.5m as a result of the termination of employment contracts by mutual agreement in the scope of the Transformation Programme<sup>16</sup> and - €1.7m concerning compensations following the 2015 Company Agreement.**
- (iv) Net depreciations/amortisations, impairments and provisions, **with a net reversal of €3.4m**, as follows:
  - **-€0.3m increase in expenses regarding net impairments recorded in the scope of the restructuring of the Express & Parcels segment, which includes the optimisation of the Tourline network.**
  - **+€3.8m in provisions reversals, from which +€3.0m are related with the reversal of the provision for onerous contracts and the net reversal of the provision for labour contingencies by +€0.8m.**
  - **-€0.1m in depreciations/amortisations regarding the Banco CTT project.**

<sup>16</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT's strategy.

### 1H2016 Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	1,726	-	-	1,726
External supplies and services	(883)	-	-	(3,282)	(700)	-	-	(4,865)
Staff Costs	(2,211)	(45)	(0.1)	-	(3)	-	-	(2,259)
Other costs	(43)	-	-	-	-	-	-	(43)
Non-recurring results that affect EBITDA	(3,137)	(45)	(0.1)	(3,282)	1,023	-	-	(5,441)
Depreciation/amortisation and impairment of investments, net	(110)	-	-	-	-	-	-	(110)
Impairment of accounts receivable, net	-	(282)	-	-	-	-	-	(282)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	6	95	-	-	3,703	-	-	3,805
Non-recurring results that affect EBIT	(3,240)	(232)	(0.1)	(3,282)	4,726	-	-	(2,028)

### 1H2015 Non-recurring results

Thousand Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Other operating revenues	-	-	-	-	-	-	-
External supplies and services	(128)	(54)	(2,277)	(359)	-	-	(2,817)
Staff Costs	(1,459)	(2,272)	(58)	2,474	-	-	(1,315)
Other costs	-	(973)	-	-	-	-	(973)
Non-recurring results that affect EBITDA	(1,587)	(3,299)	(2,335)	2,115	-	-	(5,105)
Depreciation/amortisation and impairment of investments, net	-	-	-	-	-	-	-
Impairment of accounts receivable, net	-	144	-	-	-	-	144
Impairment of non-depreciable assets	-	-	-	-	-	-	-
Provisions net	-	-	-	200	-	-	200
Non-recurring results that affect EBIT	(1,587)	(3,155)	(2,335)	2,315	-	-	(4,761)

### 3.1.5. Financial results

The consolidated financial results reached a negative amount of €2.5m, representing an improvement of 1.4% (+€0.03m) in relation to the first half of 2015.

The interest income and financial revenues decreased by 48.0 % (-€0.4m) when compared to the same period of the previous year, directly influenced by the decline in interest rates offered on term deposits and by the maintenance of a very conservative policy regarding liquidity applications by CTT.

Interest expenses incurred reached €3.2m, which include costs associated with employee benefits of €3.16m and interest related to financial leases and bank loans (€0.04m).



### Financial results

Thousand Euros	1H2016	1H2015	Δ% 16/15
Interest income	463	891	-48.0
Interest expenses	(3,201)	(3,461)	-7.5
Interest expenses (financial)	(40)	(100)	-60.0
Interest costs with employee benefits (accounting)	(3,161)	(3,362)	-6.0
Gains/losses in associated companies	230	28	721.4
Financial results	(2,508)	(2,543)	1.4

### 3.1.6. Net profit

In the first half on 2016 CTT achieved a consolidated net profit attributable to equity holders of **€31.7m, 19.1% lower than the one obtained in the same period of the last year, corresponding to consolidated earnings of €0.21 per share and a net margin of 9.1% (10.7% in the first half of 2015)**. If the non-recurring effects in both years were excluded, the net profit would have decreased by 23.6%.

The reported and recurring interim condensed consolidated income statement for the first half of 2016 and 2015 is summarised below:

Thousand Euros	Reported			Recurring*		
	1H2016	1H2015	Δ% 16/15	1H2016	1H2015	Δ% 16/15
Revenues	351,084	367,054	-4.4	349,358	367,054	-4.8
Operating costs	294,063	296,651	-0.9	286,896	291,546	-1.6
EBITDA	57,021	70,403	-19.0	62,462	75,509	-17.3
EBITDA margin	16.2%	19.2%	-3.0 p.p.	17.9%	20.6%	-2.7 p.p.
EBIT	47,433	59,864	-20.8	49,461	64,625	-23.5
EBIT margin	13.5%	16.3%	-2.8 p.p.	14.2%	17.6%	-3.4 p.p.
Earnings Before taxes	44,925	57,321	-21.6	46,953	62,082	-24.4
Income tax for the period	13,375	18,143	-26.3	12,956	17,419	-25.6
Losses (gains) attributable to non-controlling interest	(127)	13	1,076.9	(127)	13	1,076.9
Net profit for the period	31,677	39,165	-19.1	34,123	44,650	-0.2

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

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

### 3.1.7. Capex

Capex amounted to **€12.5m, 14.4% (+€1.6m) above the one in the same period of last year, mainly due to the launch of Banco CTT (€9.0m) specifically in IT systems and renovation work in order to adapt the post offices.**

### 3.1.8. Financial position and Cash flow

Interim condensed consolidated statement of financial position			
Thousand Euros	30.06.2016	31.12.2015	Δ% 16/15
Non-current assets	356,841	354,906	0.5
Current assets	864,468	764,566	13.1
Total assets	1,221,309	1,119,472	9.1
Equity	211,406	251,835	-16.1
Total liabilities	1,009,902	867,637	16.4
Non-current liabilities	273,313	292,668	-6.6
Current liabilities	736,589	574,970	28.1
Total equity and liabilities	1,221,309	1,119,472	9.1

Total assets recorded an increase of €101.8m (+9.1%) vs. 31 Dec. 2015, reflecting the increase of:

- €1.9m in non-current assets, including the financial assets of €11.4m held by Banco CTT of which 77.6% relate to public issuers certificates and €5.4m of deferred tax assets reduction (of which €3.0m relating to Conde de Redondo's building lease contract resolution);
- €99.9m in current assets, which resulted from the increase of €40.8m (+6.8%) in cash and cash equivalents, of €20.0m in the financial assets held by Banco CTT of which 70.1% refer to public issuers certificates and of €29.7m in the investments in credit institutions held by Banco CTT.

Equity decreased by €40.4m (-16.1%) following the dividend distribution for the year 2015 (€70.5m), which occurred in May 2016, which has not yet been fully offset by the results of the current period (€31.7m). Additionally, the purchase of own shares (300,265 shares) for the amount of €2.5m took place in the first half of 2016. The total number of own shares held as at 30 June 2016 was 500,442.

The liabilities increased by €142.3m (+16.4%), with the following changes:

- Increase of financial services payables in the amount of €124.9m (+38.5%). The increase in this caption is mainly due to the payment of the holiday pay to the pensioners that occurs in the month of June;
- Deposits from Banco CTT clients of €56.0m;
- Increase in current funding obtained by Tourline via cash pooling of €2.8m;
- Decrease in €5.7m of current deferrals, reflecting the amount booked in the first half of 2016 results concerning the agreement with Altice (€5.0m);
- Reduction in non-current deferrals by €2.8m, of which €1.7m refer to the recognition of deferred capital gains of Conde de Redondo's building lease contract resolution;
- Reduction of provisions in €12.4m, of which €9.0m refer to the termination of the Conde de Redondo building lease contract.

The employee benefits liabilities in the first half of 2016 amounted to €259.4m, a decrease of 1.3% when compared to December 2015. It stands out the liability decrease related to the benefit "telephone subscription fee" by €1.8m.

Liabilities with post-retirement employee benefits			
Thousand Euros	30.06.2016	31.12.2015	Δ% 16/15
Liabilities	259,394	262,832	-1.3
Healthcare	236,381	236,806	-0.2
Staff (suspension agreements)	6,448	8,234	-21.7
Other benefits	12,831	14,805	-13.3
Share plan	3,734	2,987	25.0

The net change in cash and cash equivalents amounted to **€40.8m**. In the first half of 2016, corresponding to a favourable change of **€30.9m**, regarding the same period of last year, which it's mainly the result of:

- **+€124.9** change in creditors/debtors of financial services;
- **-€21.0m** in payments concerning investments in tangible fixed assets and intangible assets;
- **-€70.3m** in payment of dividends (excluding own shares);
- **+€63.0m** in cash flows from operating activities (excluding financial services flows);
- **-€61.1m** in financial assets from Banco CTT.

Excluding the changes in the financial services receivables/payables (**€124.9m**), the CTT change in cash was **-€84.1m**.

Cash flow						
Thousand Euros	Reported			Adjusted*		
	1H2016	1H2015	Δ% 16/15	1H2016	1H2015	Δ% 16/15
Cash flow from operating activities	187,915	95,848	96.1	62,967	37,802	66.6
Cash flow from investment activities	(76,473)	(16,158)	-373.3	(76,473)	(16,158)	-373.3
Capex	(21,034)	(17,852)	-17.8	(21,034)	(17,852)	-17.8
Financial assets**	(61,058)	-	-100.0	(61,058)	-	-100.0
Other	5,619	1,693	231.9	5,619	1,693	231.9
Operating free cash flow	111,442	79,690	39.8	(13,506)	21,644	-162.4
Cash flow from financing activities	(70,593)	(69,775)	-1.2	(70,593)	(69,775)	-1.2
Dividends	(70,265)	(69,750)	-0.7	(70,265)	(69,750)	-0.7
Change in consolidation perimeter	-	-	n.a.	-	-	n.a.
Net change in cash and cash equivalents	40,849	9,915	312.0	(84,099)	(48,131)	-74.7

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

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

### 3.1.9. Financing

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

Net cash amounted to **-€1.5m in the first half of 2016**, after net financial debt and net liabilities with employee benefits.

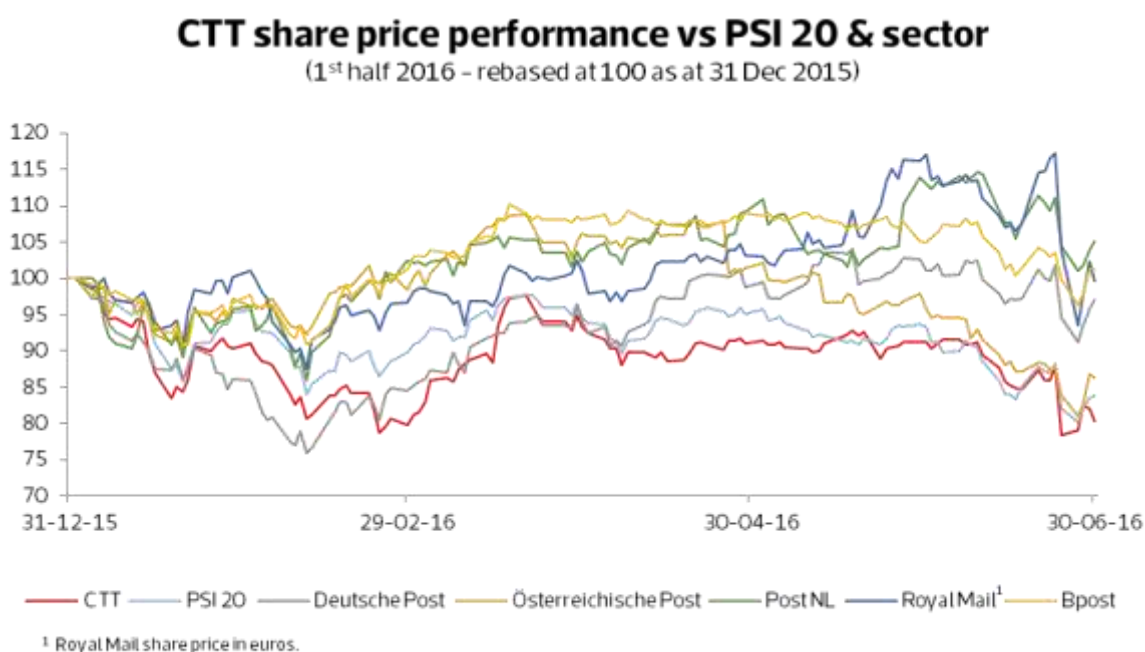
Net debt			
Thousand Euros	30.06.2016	31.12.2015	$\Delta\%$ 16/15
Financial debt	10,537	8,114	29.9
Bank loans and other loans	9,047	6,123	47.8
Financial leasings	1,490	1,990	-25.1
Net cash	194,900	278,999	-30.1
Net financial debt	(184,364)	(270,885)	-31.9
Liabilities with employee benefits *	259,394	262,832	-1.3
Deferred tax assets related to employee benefits	(73,564)	(74,537)	-1.3
Net debt (incl. Liabilities with employee benefits)	1,466	(82,590)	-101.8

\*Includes share plan recorded in equity.

Net cash			
Thousand Euros	30.06.2016	31.12.2015	$\Delta\%$ 16/15
Net cash			
(+) Cash and cash equivalents	644,499	603,650	6.8
(-) Net Financial Services payables	(449,598)	(324,651)	38.5
Net cash	194,900	278,999	-30.1

### 3.2. CTT share performance

In the first half of 2016 CTT shares depreciated by 19.65%, a performance which is close to that of the Portuguese PSI 20 index, which dropped by 16.18%. **CTT's dividend yield above the index** mostly explains the differential in price performance. The performance of the shares of other European postal companies in euros fluctuated between a decrease of 13.75% (Austrian Post) and an increase of 5.17% (Post NL).



In the month of May 2016, CTT paid a dividend of €0.47 per share, contributing to a total shareholder return (share price gain + dividend, calculated on the basis of the share price as at 31 December 2015) of -14.86% in the period. In terms of total shareholder return, the CTT share performance was close to that of the PSI 20 index, which presented a negative 13.69% total return.

During the 1<sup>st</sup> half of 2016, 60.0 million CTT shares were traded at Euronext Lisbon, corresponding to a daily average of 470 thousand shares, which translates into an annualised turnover ratio of 80% of the share capital. On 30 June 2016, the CTT share price closed at €7.114. On that date, the average target price of the 16 analysts who covered the share was €8.350 and circa 63% of analysts (10) held positive recommendations on the share while circa 25% (4) held neutral recommendations. Two analysts (~13%) held a negative recommendation.

In this period, CTT spent 15 days in external meetings with investors, 8 of which in 8 conferences (organised by 7 brokers in 4 cities) and 7 days in 8 roadshows (organised by 7 brokers in 9 cities). The Chairman and CEO of the Company spent 5 days abroad on activities involving Investor Relations, the CFO spent 10 days, and the CEO of Banco CTT spent 1 day on similar activities. Over the course of the semester, the Company met with 157 investors.

#### 4. HUMAN RESOURCES

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

##### Current activity

As a result of the necessary adjustment to business developments and volumes, on 30 June 2016, CTT headcount (permanent staff and employees on fixed-term contracts) consisted of 12,722 employees, 65 (-1.3%) less than the same period in 2015. This reduction when measured as a full time equivalent was -108 (-0.9%).

This overall reduction of permanent staff and employees on fixed-term contracts had a particular effect on the Express & Parcels business unit, as a result of the delivery networks integration process, the optimisation measures for the integrated networks and the collective redundancy carried out in Tourline (ERE - Expediente de Regulación de Empleo) during the 2<sup>nd</sup> half of 2015 within the overall business restructuring process underway.

##### No. of Employees

	30.06.2016	30.06.2015	Δ 2016/2015	
Mail	10,260	10,290	-30	-0.3%
Express & Parcels	1,085	1,317	-232	-17.6%
Financial Services	96	102	-6	-5.9%
BancoCTT	136	22	114	»
Other	1,145	1,156	-11	-1.0%
Total, of which:	12,722	12,887	-165	-1.3%
Permanent	11,348	11,525	-177	-1.5%
Fixed-term contracts	1,374	1,362	12	0.9%
Total in Portugal	12,275	12,280	-5	0.0%

The number of employees includes 7,133 employees in the areas of operations and mail delivery (including 4,699 delivery postmen / postwomen) and 2,781 employees in the Retail Network.

In the first half of 2016, 102 employees were hired (72 in Portugal, 43 of which in Banco CTT, and 30 abroad), while 119 left the company. Of these, 35 employees retired, 75 terminated their contracts or were on unpaid leave and 9 deceased.

During the 1<sup>st</sup> semester, on 23 March 2016, effective January 2016, a Revision Agreement for **CTT's 2015 Company Agreement** was signed with ten Trade Unions. Under it, the parties agreed to review fixed remunerations up to €2,753 in 2016. This revision was extended to subsidiary employees. This Revision Agreement takes into account the importance of an environment of social stability and peace within the Company, which is a goal of both CTT and the signing Trade Unions. The agreement stipulates an increase in monthly basic pay for employees that are members of the signing trade unions and also seeks to value work, substantially via the variable remuneration policy

indexed to performance. Notwithstanding, this revision of fixed remuneration represents an important adjustment to lower remuneration levels.

#### Development of human capital

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

In this regard, the selection process for the 2<sup>nd</sup> edition of the Trainee Programme was launched with a view to attract and retain young people of high-potential, promote their development within a structured overall programme, contribute to the rejuvenation of staff, foster a mobility culture and **position CTT as an "employer of first choice"**.

Performance assessment regarding performance in 2015 was carried out for the first time based on a new performance management model that is aligned with the management cycle and based on the assessment of behaviour and goals, established for all employees and taking into account the various activities and functional groups. The definition and disclosure of these expectations to employees took place in the first months of 2015. In this scope, as one of the pillars of the remuneration policy and for the **second year since CTT's privatisation**, annual variable remuneration **was granted in light of the company's results and performance in the 2015 financial year**. This extraordinary bonus was allocated on a differentiated individual basis, in light of merit, performance and attendance levels and encompassed more than 8,000 employees totalling nearly 7.5 million euros.

Throughout the 1<sup>st</sup> semester, policies for the development of human capital were pursued with reinforced training, where 165 thousand hours of training were held involving 10 thousand employees.

Of particular note for this period is the demanding preparation – a course run in partnership with the Institute of Banking Training (Instituto de Formação Bancária) – of the teams from the 66 post offices that started working with Banco CTT during the 1<sup>st</sup> semester and from the additional 34 post offices where the same process will be carried out in the 3<sup>rd</sup> quarter. Because of their importance, we also highlight the **initiatives carried out regarding changes in CTT's offer (namely the new price list for 2016, registered mail and the creation of a new offer for express mail)** and the new Rest Mail automated sorting model, which jointly encompassed more than 46% of permanent employees (commercial and operational population) and entailed close to 20 thousand hours of training.

Significant efficiency gains were obtained through sharp growth in e-learning training, which already represents more than 20% of the total hours of training carried out.

#### Culture and Values. Talent Management Plan. Recognition and Reward

Talent Management creates value for the organisation and for its employees as a source of future organisational development. CTT is integrating the values **in the company's everyday routines** and developing systems and policies to transform the organisation by: (i) developing **its employees' skills**; (ii) holding leadership responsible; (iii) engaging the structure **in the company's goals**; and (iv) recognising and rewarding individual and collective contributions and performances (of the teams and the businesses).

The goals of the implemented Talent Management Plan are:

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

The plan integrates the five axes of the Talent Management Cycle:

- Attract new employees;
- Clarify their responsibilities, expectations, opportunities and modus operandi in CTT;
- Engage employees with business, team and individual objectives and results;
- Empower employees for current challenges and prepare them for the future;
- Make employees Grow and thus make CTT Grow.

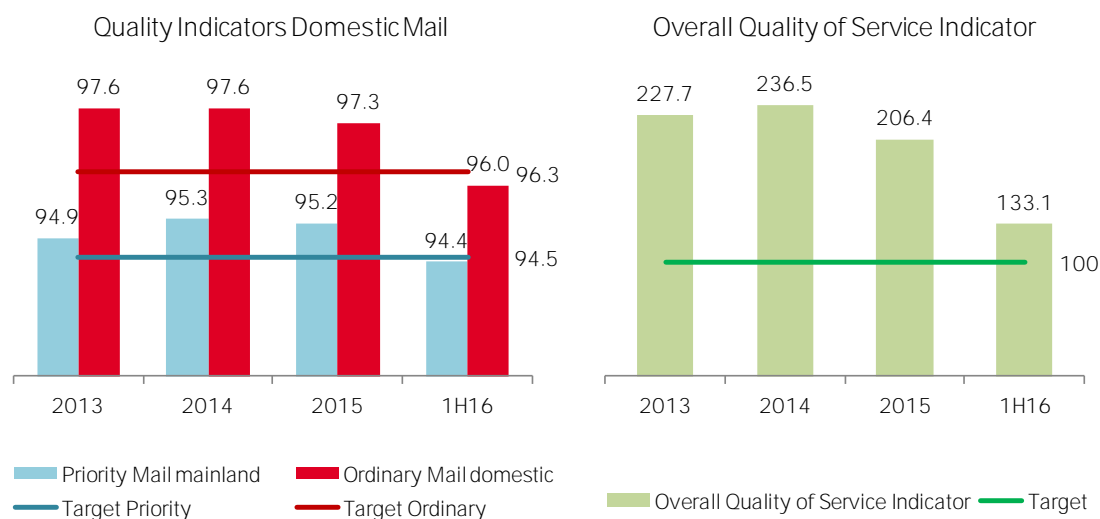
Actions were identified at various time horizons for each of these axes, with systematisation of priorities and the corresponding implementation plan.



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

### 5.1. Quality of Service

In the first half of 2016, CTT achieved good levels of operational performance, with the OQSI – Overall Quality of Service Indicator – registering 133.1 points, compared to a target of 100.



In the first semester of 2016, all quality indicators for the Universal Postal Service performed above the stipulated minimum targets:

Quality levels	Minimum	Target	Score
<b>Priority Mail</b>			
% Delivered on the following day (Mainland)	93.50	94.50	94.40
% Delivered within two days (Azores and Madeira)	84.00	87.00	90.00
% Delivered within ten days	99.75	99.85	99.92
<b>Ordinary Mail</b>			
% Delivered within three days	95.50	96.30	96.00
% Delivered within fifteen days	99.77	99.86	99.88
<b>Newspapers and Periodicals</b>			
% Delivered within three days	95.50	96.30	98.10
<b>International Mail</b>			
% Delivered within three days	85.00	88.00	87.30
% Delivered within five days	95.00	97.00	97.10
<b>Parcels</b>			
% Delivered within three days	90.50	92.00	91.10
<b>Waiting time at post offices</b>			
% Customers assisted within 10 minutes	75.00	85.00	91.40
<b>Registered Mail</b>			
% Delivered on the following day	89.00	91.00	92.10

In the 1<sup>st</sup> half of 2016, quality of service results (OQSI of 133.1) showed a positive trajectory relative to the results disclosed at the end of the 1<sup>st</sup> quarter (OQSI of 89.9) as a result of the improvements carried out during the 2<sup>nd</sup> quarter. It is very important **to note that the Regulator's decision to change the OQSI indicators in 2016 and introduce new indicators as well as change the percentage weights, makes the 2016 OQSI not comparable with those of previous years.** However, regardless of this fact, the comparison with indexes from previous years, still suffers from the effects of operational constraints that influenced the quality of service in the 1<sup>st</sup> quarter of the year (changes to the operation of some operational units in the Lisbon Production and Logistics Centre due to technological upgrades and the convening of various national worker plenary assemblies). The careful monitoring of these indicators and the detailed and timely management of the work environment in the various operational units made recovery to the present levels possible.

**CTT customers continue to have a good perception of CTT's quality of service:** 87.1% of customers say that CTT's overall quality of service is good or very good (source: customer satisfaction surveys).

In the period under analysis, there were continued efforts to maintain all management systems certified. In February 2016, a successful external audit was carried out to maintain the Control Systems Quality Certification for the assessment of the Quality of Service Indicators. The external audit to maintain CTT Expresso and Mailtec's certification took place in April with positive results.

The Service Certification process was maintained in all post offices, postal delivery offices and in 100 postal agencies. This project will be expanded to 100 additional units in the current year.

**In terms of the quality of the Universal Postal Service, as referenced in the section "Regulatory Framework" and in the aftermath of the new Postal Law, a new quality measurement and control system is being implemented and will be carried out by an independent external entity during the 2<sup>nd</sup> half of 2016.**

#### Contact Centre

During the 1<sup>st</sup> semester of 2016, customer services received nearly one million contacts by telephone and email, a year-on-year increase of 20% mainly driven by email, which is associated to the need of the customers to obtain various forms of proof or scanned documents, particularly with regard to the customs clearance of items, toll payments and activation of ViaCTT.

Although the telephone (56%) continues to be the **customers'** preferred means to contact the company, clients have tended to use this option less in favour of email (44%).

#### CTT App

The CTT application (CTT App) **for smartphones facilitates customer contact with CTT's offer of postal services, payments and other services.** It allows users to locate the closest point of access, **search and pay tolls through the vehicle's license plate and monitor the delivery of parcels,** all in a simple and intuitive format. In the first semester of 2016, the CTT App was accessed 11.1 million times, a monthly average of 1.9 million.

## 5.2. Innovation and development

**CTT's mission and values** deem innovation both a guarantee for the fulfilment of that mission and a focus on the continuous exploration of new ideas, procedures and solutions that contribute to CTT's

present and future growth. It is one of the cornerstones of the company's development in a sector in transformation where the digital economy emerges as an opportunity to be captured via innovation in the offer, solutions and processes, boosting CTT revenues and overall efficiency.

Thus, in the context of I&D, the highlights in the first half of 2016 are:

#### Development of solutions, products and services

- Growth of the CTT Espresso business, by creating a knowledge management system to ensure a higher delivery rate, more information and interaction with the customer and flexible delivery, as well as better processing of parcels, through the following initiatives:
  - Offering to selected customers a pilot of the new CTT Espresso Portal, designed to support contractual dispatches;
  - Consolidating the new international offer of Premium, Standard and Economy products **in the Interconnect Project, under CTT Espresso's new modular offer;**
  - Developing (operational and commercial) technological and structural supports for a new offer to be launched in the 2<sup>nd</sup> semester.
- Regarding e-commerce, as a lever of the Express & Parcels business, we highlight:
  - **drafting of a document on the "Internationalisation strategy for e-commerce" that stipulates CTT's position and action plan, based on the benchmarking of the main strategic moves that postal operators and integrators are carrying out in the cross-border context. Based on this document, the following took place:**
    - **CTT's launch of an ETOE (Extra Territorial Office of Exchange) in London** and initial operational testing for a linehaul of e-commerce products between China (Hong Kong) and Brazil, using CTT's ETOE.
    - **Launching the basis for offering "Special Cross-Border Solutions", based on linehauls for e-sellers that wish to ship items to Portugal, either as a final destination or as a gateway (with or without recourse to the ETOE) to other geographies (e.g. Brazil).**
- Reinforcement of the Mail business, by designing solutions and/or pursuing developments that, in particular, seek to expand the features of ViaCTT services (creating a new feature that allows new shipping clients to join, in the occasional segment, and conclusion of the automated sorting project for Rest Mail items. The Rest Mail machine, the only one in Europe that allows 6,000 non-standardised items between 10g and 12kg to be automatically sorted per hour, a significant milestone among the Transformation Programme<sup>17</sup> initiatives.

#### Corporate initiatives

- Carrying on activities under several of the pillars that make-up the **"Innovation by CTT" – Innovation & Development Management System** –, namely in the fields of:
  - Idea management, the start, **in March, of "Inov + by CTT", a web platform that more than 900 company employees have accessed since its launch to submit and debate ideas in response to the 1<sup>st</sup> cycle of challenges loaded thereon;**
  - **CTT's External Observatory, greater contact with previously referenced start-ups (that are aligned with CTT's goals and strategies) and selection of new start-ups that will also be analysed as to their interest and timeliness of partnerships;**

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<sup>17</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT's strategy.

- Exploratory Innovation, **carrying out workshops with employees from the company's** various areas to analyse solutions and trends that may directly or indirectly influence the postal business and the financial services business.
- **Production of the “new Postal 360” (monthly)** newsletter for internal circulation with information on the latest technological advances in strictly postal technologies or other ICT which, by influencing the postal activity in the broad sense, may constitute opportunities for new solutions and business for CTT and the main merger & acquisition events for postal / logistic / delivery companies, in the entire world, whose monitoring is of interest to CTT.

### 5.3. Sustainability

CTT continued to implement its sustainability policy in the first half of 2016 by involving all stakeholders.

#### Customers

Quality attained 133.1 points, relative to the 100-point goal set with the Regulator. This represented a drop in relation to the previous year and was due to the change in the criteria underlying the measurement carried out by the Regulator and to operational constraints, and 87.1% of customers claimed to be satisfied or very satisfied with the services rendered. The weight of ecological purchases was the highest ever, 99.3% of the total.

With regard to the offer of financial products and services, Banco CTT opened for business with 52 branches within various post offices, an important **milestone in the company's history**. Currently, 100 branches are opened (as at the end of July) and have captured circa 25 thousand clients, proving the strong take-up of the bank's offer and positioning.

#### Employees and Social Responsibility

Together with 39 of the largest national companies, CTT renewed its membership to Forum of Companies for Equality (IGEN – Fórum Empresas para a Igualdade), undertaking commitments regarding the Plan for Equality, e-learning training on Equal Opportunity and Non-Discrimination, assessment of the parental benefits policy and analysis of wage discrepancies.

Training provided was 2% higher than the past year, with 165 thousand hours. As regards work safety, there were 469 work related accidents (none mortal), a year-on-year growth of 4%. The level of absenteeism was at 6.3%.

Employees and their relatives were encouraged to participate in various sport, environmental and cultural activities sponsored by the company, thereby reconciling work and family. Of note are **Mother's Day at Kidzania, Children's Day at the Zoo, the Women's Race and Médis Race**. Among other social and environmental initiatives, CTT sponsored the 26<sup>th</sup> Lisbon wheel chair Half Marathon, **the Women's Race**, Associação Salvador, Call to Action and the Projeto Abrigo (Shelter Project) of Cais.

More than 60 CTT volunteers and their relatives contributed to activities with reference partners, such as Banco Alimentar contra a Fome, Quercus and Biodiversity4All. Under the partnership with EPIS, CTT mentors continued to support 10 students facing educational underachievement, along with 8 young trainees, under an in-house volunteer project geared toward this population (another 4 are in charge of other volunteering initiatives).

## Environment and Energy Efficiency

The 2<sup>nd</sup> **edition of the Driver's Challenge** took place, a system for the assessment and recognition of eco-efficiency performance that encompasses 4,700 company drivers, and a savings potential of circa 8% (fuel and emissions) was identified.

One of the environmental highlights for the semester was the purchase of green electricity for **100% of 2015's consumption and 2016's future consumption. Electricity amounts to nearly 40% of CTT's energy consumption and significantly contributes to the company's carbon footprint.** CTT's headquarters was already fuelled by green energy (5% of the total), a fact that has now been expanded to all of CTT, S.A.. This option caused scope 1 and 2 emissions for 2015 to fall by nearly 5 kton of CO<sub>2</sub> (-23%).

The reduction in electricity, gas and air conditioning consumption enabled the overall increase to be contained to +0.5%.

**The continued insourcing of outsourced routes resulted in an increase in activity of CTT's own fleet,** with the corresponding rise in consumption (+6%) and emissions (+3.5%). Renovation of the thermal motor fleet continued, as did the expansion of the electric fleet, with 41 new electric vehicles (bicycles, tricycles, quadricycles and light commercial vehicles) that contributed to the annual fall of more than 50 tons of CO<sub>2</sub> emissions and consumption of 22,700 litres of fossil fuels. Currently, CTT **operates the largest national fleet of electric vehicles, with 319 ecological vehicles.** The company's efforts regarding mobility have **been distinguished with the "2016 bicycle-friendly company" merit badge.** CTT was also distinguished, for the third consecutive year, as an **"Environmentally Trusted Brand",** by the Reader's Digest Selections in the **"Public Service" category.**

Under the transition from sustainability reporting to version 4 of the GRI Directive, the analysis of materiality was updated and reviewed, by mapping Stakeholders and issues critical to the company in consultation with stakeholders.

## 6. MAIN RISKS

### 6.1. Risks faced by CTT

Considering CTT's strategic objectives, the following top risks have been identified which could compromise the achievement of the organisation's sustainable growth, thus establishing CTT's risk profile:

**Markets and competition:** The expansion of digital communications has resulted, and is expected to **continue to result, in a decrease in postal volumes and is the main market CTT's core business** competes with. Besides this effect, the liberalisation of the sector leads to the intensification of the competition to date focused mainly on other business segments (e.g., Express & Parcels and Financial Services). In this competitive environment it is crucial to be prepared to respond promptly to market changes. Management of this risk is entrusted to the business units and the Regulation and Competition unit.

**Innovation and development:** Innovation in postal activity is crucial to leverage present and future development of new solutions, services and products that mitigate the substitution effect and introduce **competitive advantages to strengthen CTT's leadership. The absence of an effective and** efficient innovation strategy may result in a loss of competitiveness. This risk management is the responsibility of the Strategy and Development unit.

**Obligation to provide Universal Service:** As the Universal Service **provider until 2020, CTT's** obligations - namely to ensure a supply of postal products and services throughout the country (according to quality standards and prices approved by the regulator) and to provide other operators access to its postal infrastructure – involve significant costs that cannot be sufficiently reduced or set off to cover the decrease in operational revenues resulting from the decline in postal traffic. The management of this risk is entrusted to the Regulation and Competition and to the Strategy and Development units.

**Customer focus and loyalty:** Changes in consumer preferences, the customer consumption behaviour or failure in providing products and high quality services may adversely affect CTT. Furthermore, a significant percentage of the operational revenues derives from the postal business and a relatively concentrated customer base. Managing this risk is a concern of the business units and commercial networks.

**Human resource management:** The ability to recruit and retain skilled workers and experienced managers, the implementation of management performance and talent plans as well as the managing of the relationship with the representative structures of the workers are critical and essential factors for the success of CTT. Management of this risk is entrusted to the Human Resources and Organisation and to the Labour Legal units.

**Partnerships:** CTT's activity depends on partnerships and other similar agreements, either at the level of the business units, or of the key suppliers and service providers in some operational activities. Non-compliance with these commitments, termination of agreements or any interruption of the services provided could upset operations and adversely affect CTT's business. The management of this risk cuts across all units of the organisation.

**Information management:** It is crucial for the implementation and management of the business strategy of CTT that the analysis, the decision-making and communication duties towards shareholders, regulators and the market in general be based on rigorous, relevant, reliable and consistent information. It is also a legal, ethical and essential duty to ensure the confidentiality,

integrity and availability of business information, whether the property of CTT, customers or other parties. This risk management is entrusted to the Information Technologies, the Management Planning and Control and Investor Relations units.

**Information technologies:** The everyday management of CTT's operations depends heavily on its IT infrastructure and communications systems. Any operational failure and slow return to normal functioning could compromise the Company's ability to provide products and services (lower revenues) with consequences for its reputation and image with stakeholders. Management of this risk is entrusted to the Information Technologies unit.

**Strategic alignment:** Management of strategic risks involves monitoring the evolution of social, political and macroeconomic vectors, and alignment of **CTT's business portfolios with market trends**, with a view to innovation and sustained value creation. The Strategy and Development unit is responsible for managing this risk.

**Profitability analysis:** CTT is subject to multiple financial risks, particularly credit, interest and exchange rates and liquidity risks. Mitigation of these risks in order to maximise profitability is crucial for the Company's sustained growth. Management of these risks is entrusted to the Accounting and Treasury and the Finance and Risk units. In this context it is also important to note the powers and activities of the Credit Committee and the Investment Committee.

Given external changes, the challenges of the privatisation and the creation of Banco CTT, a project began at the end of 2015 and continued throughout the 1<sup>st</sup> half of 2016 to restructure and reassess the main risks to which CTT is exposed in its activities. This will result in an update of the risk profile and respective risk management plan, which will be made up of concrete mitigation measures to be implemented in the short/medium-term. This process has entailed holding themed focus groups. On the one hand, the goal is to jointly reflect, discuss as well as clearly identify and characterise the main risks CTT faces and, on the other, to develop adequate risk indicators that allow an efficient link **to the organisation's decision-making procedures** (probability and potential expected loss). The entire process is expected to be concluded at the end of 2016.

## 6.2. Risk management and internal control system

The Board of Directors is first in line in terms of responsibility for the risk management and internal control system and is entrusted with defining, implementing and periodically reviewing the risk management model, as well as, in coordination with the **various senior officers of the organisation's units**, ensuring an internal control system that allows the Company to achieve its goals, while ensuring that those in charge of control enjoy a level of structural independence that allows them to adequately exercise their duties.

The risk management model is supported by a set of concepts, principles and standards that are in accordance with the regulatory framework. Policies and procedures to identify, assess, monitor and control the top risks to which the CTT Group is exposed are in place.

The following bodies have an important role in identifying and addressing risk events:

- Risk Management, entrusted with the centralised and independent management of the process within CTT, in its various strategic, tactical and operational levels and ensuring risks with potential short or medium-term relevance are mitigated or minimised.
- Internal Audit, by systematically ensuring an objective assessment of the internal control system and that the above-mentioned material risks are addressed by the company in an adequate and appropriate fashion.



In terms of internal control, procedures have been implemented to ensure the prudent management of the risks CTT is exposed to, by ensuring the business is sustainable in the medium and long-term and the existence of timely, complete and trustworthy financial and management information and independent reporting mechanisms of that information to the management and supervisory bodies.

The internal control system is based on information and communication systems that monitor the alignment with both the strategic vision and the organisational culture across the company, by integrating the following components:

- Environment of control – the basis of the internal control system to the extent that it reflects **the management bodies' and other employees' commitment thereto, namely as regards** adopting the ethical values set out in the Code of Conduct.
- Information and communication – formal and informal communication channels that monitor corporate activity, which is pivotal for controls to be understood and carried out by the organisation.
- Information management – activities that continuously and cyclically allow the identification, assessment, mitigation, monitoring, control and reporting of risk.
- Human resources – **the organisation's basis of** operation aligned with internal benchmarks that influences behaviour at the remaining levels.
- Organisational structure – relationship matrix for missions, duties and powers.
- Knowledge management – activities to identify potential risk exposures, in order to ensure adequate response.
- Assurance – a supervisory activity entrusted by the Audit Committee to the Statutory Auditor, pursuant to the applicable legal provisions and Articles of Association. This component is supplemented by work carried out by the Business Assurance and Optimisation unit that supports the various businesses in identifying events/procedures or activities that generate revenue loss or inefficiencies.



## 7. SUBSEQUENT EVENTS AND FUTURE PERSPECTIVES

### Subsequent events

#### Post-employment healthcare fund

On 4 August 2016, the Board of Directors of CTT decided to submit to the Supervisory Authority for Insurance and Pension Funds (“Autoridade de Supervisão de Seguros e Fundos de Pensões” - “ASF”) an application for authorisation to establish the fund (within the pension fund system) with aim of financing and managing the responsibilities of CTT with post-employment healthcare benefits, pursuant to the CTT Social Works Regulation and covering the post-employment liabilities, on a first stage only for active, retired and pre-retired workers (“CTT Fund - Post-employment Healthcare Benefits” or “Fund”). **These liabilities amount to 158 million Euros as at 31 December 2015.**

The establishment of the Fund is subject to: (i) the definition of its final terms and conditions between CTT and the Fund managing entity (in particular with regard to the financing plan, as well as the investment policy, including the real estate to be transferred to the Fund); and (ii) the necessary internal approvals and compliance with the requisite formalities and the applicable authorisations, specifically the authorisation from the ASF for the establishment of the Fund.

#### Expanding the Fidelidade offer

In July 2016, CTT agreed with Fidelidade insurance company, under a three-party agreement (CTT, Banco CTT and Fidelidade), to expand its insurance offer in the 2<sup>nd</sup> semester of 2016, by launching healthcare insurance in partnership with Fidelidade based on Multicare products. **This shall be made available by CTT and Banco CTT under the single “Multicare CTT” brand.**

### Future perspectives

The improvement of the macroeconomic scenario, along with the Transformation Programme<sup>18</sup> initiatives implemented between 2013 and 2015, enable CTT to face 2016 with strong expectations of fulfilling the set out strategy.

The growth of GDP in Portugal has been so far heavily influenced by the acceleration in private **consumption, the main consumer driver for CTT’s products and services, mainly in the Mail business.** Due to the growth strategy set out by the current government, this trend is expected to continue following the various **measures implemented with a view to increase the households’ disposable income.** In this framework, the drop in demand for mail will continue to be affected not only by the structural tendency toward electronic substitution, but also by macroeconomic factors. This was the reason for the good performance of the 2<sup>nd</sup> quarter of 2016 driven by the acceleration of private consumption and it will probably closely follow the natural long-term trend.

Taking into account these perspectives that the advertising market is and will continue to be more dynamic, CTT intends to capture an increasingly relevant share of this market via the development of the new advertising mail offer platform mentioned above, as well as of a closer and more collaborative relationship with the advertising and media agencies.

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<sup>18</sup> Transformation Programme: a set of projects selected annually as fundamental to implement CTT’s strategy.

The behaviour of the economy, but more specifically in this case of the companies, promotes the parcels market growth for the B2B segment (business-to-business) both in Portugal and in Spain. Hence, at a national level the economy has grown, mainly in the non-tradable goods sectors linked to internal consumption, whereas in the exporting sector and the remaining industrial fabric there has been some contention.

Growth in e-commerce will continue to be the main driver of growth in the parcels business for the B2C segment (business-to-consumer) due to the growing adoption by Iberian retailers of the online sales channel to supplement or replace physical channels. The main engine of this move is the quick change in consumer behaviour, as e-commerce has become a part of their consumption habits. During the 1<sup>st</sup> half of 2016, CTT has carried out an important initiative to be the leader in logistics solutions for the e-commerce market by developing a new technological platform for the launch, at the end of the 3<sup>rd</sup> quarter, of a modular offer tailored for this segment, with various service levels, features and flexibility.

Also in this market, the integration and now optimisation of the delivery networks in Portugal as well as in Spain allows for greater competitiveness in the modular offer where capillarity and convenience are key factors.

In Financial Services, the year of 2016 will entail the consolidation of the relevant position as a savings product placer along with the launch of new products and services, especially focused on **Banco CTT's offer of banking services**. CTT's Financial Services business unit will focus on savings products for the retail market and on the offer of payment solutions for corporate clients while Banco CTT will focus on the private segment, covering the entire market with financial solutions **leveraged on CTT's unique skills and assets**.

As regards Financial Services, the high profitability of the public debt savings solutions sold by CTT and the communication campaign started in July allow CTT to envisage the continuity of the good performance of the 1<sup>st</sup> half of 2016, making it possible for the year to end in line with the 2 last years, consolidating these products within the wide range of investment solutions in Portugal. For the corporate segment, CTT created a new division focused on payments, where Payshop is the benchmark brand, and aiming at addressing the new trends in this industry. Several initiatives will be carried out to maximise (i) the vast portfolio of clients that covers almost all service providers and (ii) the network of nearly 6,500 outlets spread throughout the country, either in the CTT post offices or postal agencies or in the network of PayShop agents.

Banco CTT opened for business to the general public on 18 March, with the opening of 52 branches, which have already increased to 100 covering the whole national territory, and focused on the markets with the greatest potential. Its positioning of a simple offer based on its substantial solidity **and people's trust in CTT** has allowed for a quick capture of clients. The main goal in this first year is to gain clients swiftly through the opening of current accounts or deposit accounts, thereby creating an important source of resources, and to expand the offer by the end of the year to mortgage loan contracts. The current macroeconomic and sectoral framework puts pressure on the capacity to increase the profitability of the balance sheet resources, which in the past was a source of high revenues for the postal banks, while the credit offer will be important to leverage the financial margin as from 2017, as well as the consumer credit offer, namely through the partnership with BNPP Personal Finance.

**CTT's medium/long-term objective is to achieve reasonably growing and sustainable revenues and the 1<sup>st</sup> half of 2016 shows that only through a growing diversification of the products and services portfolio that offsets the fall in mail volumes can this structural vector of the company's strategy be met.** As this goal is based on the expectation that the growing businesses (Financial Services/Banco CTT and Express & Parcels) will offset the anticipated drop in revenues from Mail (drop in volumes

that is not fully offset by the price policy), CTT has been investing human resources and capital in the development of these businesses, with expected return in the coming years. The Express & Parcels modular offer and the launch of Banco CTT are clear examples of this vision and the results are expected in the medium term due to the market and competition dynamics.

The balance sheet optimisation measures will proceed, such as the optimisation of working capital and the optimisation of the use of vacant buildings. CTT started a process aiming at the creation of a fund to finance and manage the responsibilities with post-employment healthcare with a view to an **increase of the company's liquidity at several levels, the first results of which are expected to be obtained at the end of 2016.**



## 8. DECLARATION OF CONFORMITY

Pursuant to article 246 of the Portuguese Securities Code, the members of the Board of Directors and the members of the Audit Committee of CTT identified below hereby state that, to the best of their knowledge, the interim condensed consolidated accounts relative to the first half of 2016 were prepared in accordance with the applicable accounting rules, providing a true and appropriate reflection of the assets and liabilities, the financial situation and the net profit of CTT and the companies included in its consolidation perimeter, and that the interim report faithfully presents the important events which occurred in the first half of 2016 and their impact on the interim condensed consolidated accounts, as well as the main risks and uncertainties for the second half of this year.

Lisbon, 4 August 2016

The Board of Directors

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Francisco José Queiroz de Barros de Lacerda  
Chairman of the Board of Directors  
CEO

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António Sarmento Gomes Mota  
Vice-Chairman of the Board of Directors  
Chairman of the Audit Committee

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Manuel Cabral de Abreu Castelo-Branco  
Vice-Chairman of the Board of Directors  
Executive Director

---

André Manuel Pereira Gorjão de Andrade Costa  
Executive Director

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Dionizia Maria Ribeiro Farinha Ferreira  
Executive Director

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Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo  
Executive Director

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Nuno de Carvalho Fernandes Thomaz  
Non-Executive Director  
Member of the Audit Committee

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Diogo José Paredes Leite de Campos  
Non-Executive Director  
Member of the Audit Committee

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Rui Miguel de Oliveira Horta e Costa  
Non-Executive Director

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José Manuel Baptista Fino  
Non-Executive Director

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Manuel Carlos de Melo Champalimaud  
Non-Executive Director

## PART II - FINANCIAL STATEMENTS

### Interim condensed consolidated financial statements

CTT-CORREIOS DE PORTUGAL, S.A.

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

Euros

	NOTES	Unaudited 30.06.2016	31.12.2015
<b>ASSETS</b>			
Non-current assets			
Tangible fixed assets	4	203,380,955	209,940,886
Investment properties	6	15,992,997	19,783,095
Intangible assets	5	33,438,365	27,624,015
Goodwill		8,058,656	8,058,656
Investments in associated companies		296,260	255,695
Other investments		1,106,812	1,106,812
Investments held to maturity	20	8,358,753	-
Other non-current assets		1089,773	601,103
Financial assets available for sale	21	3,016,582	-
Deferred tax assets	25	82,101,793	87,535,941
Total non-current assets		356,840,946	354,906,203
Current assets			
Inventories		5,753,209	5,455,115
Accounts receivable		125,027,579	124,355,641
Deferrals	8	7,756,110	8,168,589
Investments held to maturity	20	20,000,015	-
Other current assets		30,657,312	22,936,943
Other banking financial assets	22	30,774,793	-
Cash and cash equivalents		644,498,793	603,649,717
Total current assets		864,467,810	764,566,005
Total assets		1,221,308,756	1,119,472,208
<b>EQUITY AND LIABILITIES</b>			
Equity			
Share capital	10	75,000,000	75,000,000
Own shares	11	(4,407,482)	(1,873,125)
Reserves	11	34,137,406	33,384,112
Retained earnings	11	93,588,201	91,727,994
Other changes in equity	11	(18,644,832)	(18,644,832)
Net profit attributable to equity holders of parent company		316,76,537	72,065,283
Non-controlling interests		56,497	175,322
Total equity		211,406,327	251,834,754
Liabilities			
Non-current liabilities			
Medium and long term debt		634,635	1,035,522
Employee benefits	14	237,666,551	241,306,773
Provisions	15	28,356,899	40,732,332
Deferrals	8	2,223,676	5,016,576
Deferred tax liabilities	25	4,431,604	4,576,598
Total non-current liabilities		273,313,365	292,667,801
Current liabilities			
Accounts payable	16	536,341,501	435,891,677
Banking client deposits and other loans	17	55,966,552	-
Employee benefits	14	17,993,417	18,538,572
Income taxes payable	18	8,736,666	7,922,942
Short term debt		9,902,053	7,078,155
Deferrals	8	8,049,212	13,745,430
Other current liabilities	19	99,214,629	91,792,877
Other banking financial liabilities		385,034	-
Total current liabilities		736,589,064	574,969,653
Total liabilities		1,009,902,430	867,637,454
Total equity and liabilities		1,221,308,756	1,119,472,208

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

# CTT-CORREIOS DE PORTUGAL S.A.

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015

Euros

	NOTES	Six months ended		Three months ended	
		Unaudited	Unaudited	Unaudited	Unaudited
		30.06.2016	30.06.2015	30.06.2016	30.06.2015
Revenues		351,083,561	367,054,418	171,483,691	175,825,547
Sales and services rendered	3	336,187,306	360,200,906	165,564,125	173,833,688
Financial margin		15,510	-	7,407	-
Other operating income	23	14,880,745	6,853,512	5,912,159	1,991,859
Operating costs		(303,650,751)	(307,190,852)	(155,060,664)	(148,984,354)
Cost of sales		(6,781,770)	(7,567,121)	(3,425,954)	(3,915,945)
External supplies and services		(114,538,260)	(111,287,661)	(59,423,104)	(55,412,591)
Staff costs	24	(167,073,880)	(170,344,528)	(82,926,914)	(82,884,801)
Impairment of accounts receivable, net	9	(259,667)	(2,545)	(234,006)	604,527
Provisions, net	15	3,657,846	105,161	602,284	500,009
Depreciation/amortisation and impairment of investments, net	4, 5, 6	(12,986,278)	(10,642,198)	(6,766,262)	(5,241,224)
Other operating costs		(5,668,742)	(7,451,960)	(2,886,708)	(2,634,329)
Earnings before financial income and taxes		47,432,810	59,863,566	16,423,027	26,841,193
Financial results		(2,508,206)	(2,542,566)	(1,330,093)	(1,347,545)
Interest expenses		(3,201,441)	(3,461,496)	(1,601,219)	(1,660,284)
Interest income		462,895	890,653	230,562	284,462
Gains/losses in associated companies		230,340	28,277	40,564	28,277
Income tax for the period		44,924,604	57,321,000	15,092,934	25,493,648
Earnings before taxes		(13,374,753)	(18,142,732)	(4,170,618)	(8,647,405)
Net profit for the period	25	31,549,851	39,178,268	10,922,316	16,846,243
Net profit for the period attributable to:					
Equity holders of parent company		31,676,537	39,165,406	11,004,572	16,868,371
Non-controlling interests		(126,685)	12,862	(82,255)	(22,128)
Earnings per share of the parent company	13	0.21	0.26	0.07	0.11

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



CTT - CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015

Euros

	NOTES	Six months ended		Three months ended	
		Unaudited 30.06.2016	Unaudited 30.06.2015	Unaudited 30.06.2016	Unaudited 30.06.2015
Net profit for the period		31,549,851	39,178,268	10,922,316	16,846,243
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)		-	335,015	-	-
Changes to fair value reserves		6,521	-	8,058	-
Employee benefits (non re-classifiable adjustment to profit and loss)	14	-	(3,554,908)	(408,277)	(3,492,317)
Deferred tax / Employee benefits (non re-classifiable adjustment to profit and loss)	25	-	1,000,351	115,787	982,738
Other changes in equity		67,576	(151,452)	78,710	(172,072)
Other comprehensive income for the period after taxes		74,098	(2,370,994)	(205,721)	(2,681,651)
Comprehensive income for the period		31,623,949	36,807,274	10,716,595	14,164,592
Attributable to non-controlling interests		(118,825)	367,681	(42,900)	(23,732)
Attributable to shareholders of CTT		31,742,774	36,439,593	10,759,495	14,188,324

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

## CTT - CORREIOS DE PORTUGAL S.A.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 30 JUNE 2016 AND 31 DECEMBER 2015

Euros

	NOTES	Share capital	Own Shares	Reserves	Other changes in equity	Retained earnings	Net profit for the year	Non-controlling interests	Total
Balance on 1 January 2015		75,000,000	-	31,773,967	(18,786,310)	84,374,563	77,171,128	(323,703)	249,209,645
Appropriation of net profit for the year of 2014		-	-	-	-	77,171,128	(77,171,128)	-	-
Dividends	12	-	-	-	-	(69,750,000)	-	-	(69,750,000)
Acquisition of own shares		-	(1873,125)	-	-	-	-	-	(1873,125)
Share plan		-	-	1,610,685	-	-	-	-	1,610,685
		-	(1873,125)	1,610,685	-	7,421,128	(77,171,128)	-	(70,012,440)
Other movements		-	-	-	-	-	-	-	-
Actuarial gains/losses - Health Care, net from deferred taxes	11	-	-	-	-	(177,319)	-	158,658	(18,661)
Changes to fair value reserves		-	-	-	141,478	-	-	-	141,478
Adjustments from the application of the equity method	11	-	-	(540)	-	-	-	-	(540)
Net profit for the period		-	-	-	-	109,622	-	335,015	444,637
Comprehensive income for the period		-	-	-	-	-	72,065,283	5,352	72,070,635
Balance on 31 December 2015		75,000,000	(1873,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Balance on 1 January 2016		75,000,000	(1873,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Appropriation of net profit for the year of 2015		-	-	-	-	72,065,283	(72,065,283)	-	-
Dividends	12	-	-	-	-	(70,264,792)	-	-	(70,264,792)
Acquisition of own shares	11	-	(2,534,357)	-	-	-	-	-	(2,534,357)
Share plan		-	-	746,773	-	-	-	-	746,773
		-	(2,534,357)	746,773	-	1800,491	(72,065,283)	-	(72,052,376)
Other movements		-	-	-	-	-	-	-	-
Changes to fair value reserves		-	-	-	-	59,716	-	7860	67,576
Net profit for the period		-	-	6,521	-	-	-	-	6,521
Comprehensive income for the period		-	-	-	-	-	31,676,537	(126,685)	31,549,851
Balance on 30 June 2016 (unaudited)		75,000,000	(4,407,482)	34,137,406	(18,644,832)	93,588,201	31,676,537	56,497	211,406,327

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

CTT-CORREIOS DE PORTUGAL, S.A.
CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTH PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015

Euro

	NOTES	Unaudited 30.06.2016	Unaudited 30.06.2015
<u>Operating activities</u>			
Collections from customers		329,215,851	334,020,669
Payments to suppliers		(127,512,952)	(117,887,452)
Payments to employees		(154,399,313)	(160,107,948)
Banking customer deposits and other loans		55,897,979	-
Cash flow generated by operations		103,201,565	56,025,270
Payments/receivables of income taxes		(7,994,869)	(7,635,363)
Other receivables/payments		92,707,962	47,458,517
Cash flow from operating activities (1)		187,914,659	95,848,424
<u>Investing activities</u>			
Receivables resulting from:			
Tangible fixed assets		180,064	390,000
Investment properties		4,839,750	-
Financial investments		-	24,870
Interest income		599,292	1,278,386
Payments resulting from:			
Tangible fixed assets		(8,837,226)	(11,157,718)
Intangible assets		(12,196,452)	(6,693,789)
Financial assets available for sale		(3,006,121)	-
Investments held to maturity		(28,343,223)	-
Other banking financial assets		(29,709,033)	-
Cash flow from investing activities (2)		(76,472,948)	(16,158,251)
<u>Financing activities</u>			
Receivables resulting from:			
Loans obtained		4,513,610	2,690,632
Payments resulting from:			
Loans repaid		(1,500,000)	-
Interest expenses		(311,980)	(318,705)
Finance leases		(495,115)	(523,638)
Acquisition of own shares	11	(2,534,357)	(1873,125)
Dividends	12	(70,264,792)	(69,750,000)
Cash flow from financing activities (3)		(70,592,634)	(69,774,836)
Net change in cash and cash equivalents (1+2+3)		40,849,076	9,915,337
Changes in the consolidation perimeter		-	-
Cash and equivalents at the beginning of the period		603,649,717	664,569,744
Cash and cash equivalents at the end of the period		644,498,793	674,485,081

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

## CTT – CORREIOS DE PORTUGAL, S.A.

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

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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 book building 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 emission on 4 August, 2016.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted, including financial risk management policies, are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2015.

However, as a result of the increasing relevance of Banco CTT, the following accounting policies adopted by the Group and not disclosed as at 31 December 2015 are mentioned hereinafter.

#### Investments held to maturity

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

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

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

#### Financial assets available for sale

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

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

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

### 2.1 Basis of presentation

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

### 3. SEGMENT REPORTING

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

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

The business of CTT is organised in the following segments:

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

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

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

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

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

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

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

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

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

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

30.06.2016								
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	271,953,497	59,859,208	32,170,580	174,917	51,120,001	(64,194,641)	-	351,083,561
Sales and services rendered	250,645,480	57,510,444	29,564,116	-	(57)	(1532,676)	-	336,187,306
Sales	8,906,610	398,013	-	-	-	-	-	9,304,623
Services rendered	241,738,870	57,112,431	29,564,116	-	(57)	(1532,676)	-	326,882,684
Financial Margin	-	-	-	15,510	-	-	-	15,510
Operating revenues external customers	13,120,088	2,348,764	2,564,704	159,407	10,334,771	(13,646,989)	-	14,880,745
Internal services rendered	8,187,929	-	41,761	-	20,290,730	(28,520,420)	-	-
Allocation to CTT central structure	-	-	-	-	20,494,557	(20,494,557)	-	-
Operating costs	221,307,105	57,997,876	16,270,287	11,562,025	51,120,001	(64,194,641)	-	294,062,652
External supplies and services	50,454,059	45,765,619	4,961,547	7,598,243	20,924,140	(15,165,348)	-	114,538,260
Staff costs	123,253,531	10,999,361	2,216,021	3,864,185	26,743,139	(2,356)	-	167,073,880
Other costs	7,653,727	1,232,897	540,673	99,596	2,935,580	(11,961)	-	12,450,512
Internal services rendered	19,594,535	-	8,408,742	-	517,143	(28,520,420)	-	-
Allocation to CTT central structure	20,351,253	-	143,304	-	-	(20,494,557)	-	-
EBITDA <sup>(1)</sup>	50,646,392	1,861,331	15,900,294	(11,387,108)	-	-	-	57,020,909
Depreciation/amortisation and impairment of investments, net	(7,484,009)	(1369,975)	(176,226)	(533,879)	(3,143,816)	-	(278,373)	(12,986,278)
Impairment of accounts receivable, net								(259,667)
Provisions net								3,657,846
Interest expenses								(3,201,441)
Interest income								462,895
Gains/losses in associated companies								230,340
Earnings before taxes								44,924,604
Income tax for the period								(13,374,753)
Net profit for the period								31,549,851
Non-controlling interests								(126,685)
Equity holders of parent company								31,676,537

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

30.06.2015							
Euros	Mail	Express & Parcels	Financial Services	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	278,582,247	63,824,123	41,871,126	53,668,840	(70,891,919)	-	367,054,418
Sales and services rendered	258,828,518	62,477,196	41,308,515	-	(2,413,323)	-	360,200,906
Sales	10,392,605	473,315	-	-	-	-	10,865,920
Services rendered	248,435,912	62,003,881	41,308,515	-	(2,413,323)	-	349,334,986
Operating revenues external customers	11,061,340	1,346,927	522,701	7,691,305	(13,768,762)	-	6,853,512
Internal services rendered	8,692,389	-	39,910	28,182,589	(36,914,889)	-	-
Allocation to CTT central structure	-	-	-	17,794,946	(17,794,946)	-	-
Operating costs	227,933,816	66,089,818	19,850,714	53,668,840	(70,891,919)	-	296,651,270
External supplies and services	50,418,468	48,472,773	8,235,072	20,332,693	(16,171,345)	-	111,287,661
Staff costs	122,555,489	15,122,012	2,236,902	30,430,124	-	-	170,344,528
Other costs	9,990,016	2,495,033	200,318	2,344,453	(10,739)	-	15,019,081
Internal services rendered	27,318,272	-	9,035,048	561,569	(36,914,889)	-	-
Allocation to CTT central structure	17,651,571	-	143,374	-	(17,794,946)	-	-
EBITDA <sup>(1)</sup>	50,648,431	(2,265,695)	22,020,411	-	-	-	70,403,148
Depreciation/amortisation and impairment of investments, net	(7,015,669)	(1,358,140)	(296,605)	(1924,834)	-	(46,951)	(10,642,198)
Impairment of inventories and accounts receivable, net							(2,545)
Provisions net							105,161
Interest expenses							(3,461,496)
Interest income							890,653
Gains/losses in associated companies							28,277
Earnings before taxes							57,321,000
Income tax for the period							(18,142,732)
Net profit for the period							39,178,268
Non-controlling interests							12,862
Equity holders of parent company							39,165,406

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



The revenues are detailed as follows:

Thousand Euros	30.06.2016	30.06.2015
Mail	271,953	278,582
Transactional mail	208,539	212,247
Editorial mail	8,279	7,871
Parcels (USO)	2,971	3,224
Advertising mail	14,796	15,700
Retail	8,635	7,943
Philately	3,189	4,127
Business Solutions	4,671	6,111
Other	20,873	21,359
Express & Parcels	59,859	63,824
Financial Services	32,171	41,871
Banco CTT	175	-
CTT Central Structure	51,120	53,669
Intragroup eliminations	(64,195)	(70,892)
	351,084	367,054

The assets by segment are detailed as follows:

Assets (Euros)	30.06.2016						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	
Intangible assets	2,618,083	3,687,258	174,758	16,994,569	7,596,967	2,366,730	33,438,365
Tangible fixed assets	169,972,951	12,655,416	447,434	67,097	17,228,033	3,010,024	203,380,955
Investment properties						15,992,997	15,992,997
Goodwill	7,652,555		406,101				8,058,656
Deferred tax assets						82,101,793	82,101,793
Accounts receivable						125,027,579	125,027,579
Investments held to maturity				28,358,768			28,358,768
Financial assets available for sale				3,016,582			3,016,582
Other banking financial assets				30,774,793			30,774,793
Other assets						46,659,474	46,659,474
Cash and cash equivalents						644,498,793	644,498,793
	180,243,589	16,342,674	1,028,294	79,211,810	24,825,000	919,657,390	1,221,308,756

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

Debt by segment is detailed as follows:

Other information (Euros)	30.06.2016					Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Struture	
Medium and long-term debt	492,812	141,823				634,635
Bank loans	-	92,659				92,659
Leasings	492,812	49,165				541,977
Short-term debt	463,699	9,438,354				9,902,053
Bank loans	-	8,953,938				8,953,938
Leasings	463,699	484,416				948,115
	956,511	9,580,177				10,536,689

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

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

Thousand Euros	30.06.2016	30.06.2015
Revenue - Portugal	298,676	320,188
Revenue - other countries	37,511	40,013
	336,187	360,201

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

	30.06.2016								
	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	-	42,895	715,821	658	733,203	202,326	979,465	615,845	3,290,213
Disposals	(73,365)	-	(423,949)	-	(806)	-	-	-	(498,120)
Transfers and write-offs	-	1424,735	(2,220,664)	(279)	(229,484)	(53,679)	(1424,735)	(343,057)	(2,847,163)
Adjustments	-	(2,179)	(307,033)	(6,041)	(25,611)	(15,549)	-	-	(356,413)
Changes in the consolidation perimeter	-	-	-	-	-	-	-	-	-
Closing balance	37,233,212	339,447,464	135,766,516	3,267,665	55,438,702	23,385,450	1,526,346	1,671,196	597,736,551
Accumulated depreciation									
Opening balance	3,888,322	192,743,987	118,629,681	3,154,422	50,187,217	19,306,750	-	-	387,910,379
Depreciation for the period	-	4,581,976	3,375,729	35,785	1,154,328	475,056	-	-	9,622,875
Disposals	(5,040)	-	(423,949)	-	(806)	-	-	-	(429,795)
Transfers and write-offs	-	-	(2,314,276)	(279)	(447,690)	(113,871)	-	-	(2,876,116)
Adjustments	-	(53)	(87,038)	(3,283)	(11,058)	(5,227)	-	-	(106,659)
Changes in the consolidation perimeter	-	-	-	-	-	-	-	-	-
Closing balance	3,883,282	197,325,910	119,180,147	3,186,645	50,881,992	19,662,708	-	-	394,120,683
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(61,857)	-	-	(61,857)
Closing balance	-	-	-	-	-	234,912	-	-	234,912
Net Tangible fixed assets	33,349,930	142,121,554	16,586,368	810,200	4,556,711	3,487,830	1,526,346	1,671,196	203,380,955

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

During the six-month period ended 30 June 2016, Land and natural resources and Buildings and other constructions include 4,649,018 Euros (4,756,534 Euros as at 31 December 2015), related to land and property in co-ownership with MEO – Serviços de Comunicações e Multimédia, S.A..

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

During the six-month period ended 30 June 2016, 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 and Tourline.

#### Basic equipment:

The amount of acquisitions mainly relates to the purchase of IT equipment worth approximately 516 thousand Euros, pallets and pallet trucks for about 20 thousand Euros, scales for approximately 42 thousand Euros, pallets for Rest Mail for about 40 thousand Euros and strapping machines worth approximately 15 thousand Euros by CTT and the upgrade of parcel sorting machines of about 39 thousand Euros by CTT Expresso.

Office equipment:

The amount of acquisitions relates essentially to the purchase of office equipment, namely safes totalling 155 thousand Euros, various office equipment worth about 194 thousand Euros, medium and large size equipment of about 270 thousand Euros and the acquisition of several micro-computing equipment for approximately 18 thousand Euros by CTT. In addition, Tourline acquired several IT equipment worth approximately 37 thousand Euros.

Other tangible fixed assets:

The amount of acquisitions mainly relates to prevention and safety equipment for approximately 135 thousand Euros.

Tangible fixed assets in progress:

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

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

The depreciation recorded of 9,622,875 Euros (8,902,872 Euros on 30 June 2015), is booked under the heading Depreciation/amortisation and impairment of investments, net.

Contractual commitments related to Tangible fixed assets are as follows:

Servers upgrades	467,400
Safety equipment	416,650
Electric vehicles	384,375
Upgrades to mail sorting machines	285,925
Mail transporter machines	268,080
Hardware firewall networks	230,900
Hardware Secure Web Gateway	36,506
Safes and security doors	33,033
Forklifts	27,306
Orthophotomaps	16,313
	<u>2,166,488</u>

## 5. INTANGIBLE ASSETS

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

	30.06.2016					
	Development projects	Computer Software	Industrial property	Other intangible assets	Intangible assets in progress	Total
Intangible assets						
Opening balance	4,372,922	48,455,024	12,004,296	444,739	12,175,413	77,452,394
Acquisitions	-	5,071,351	4,074	-	4,095,613	9,171,038
Transfers and write-offs	-	11,536,400	1,893	-	(11,569,430)	(31,137)
Adjustments	-	(15,640)	(277,267)	-	-	(292,907)
Closing balance	4,372,922	65,047,135	11,732,996	444,739	4,701,596	86,299,388
Accumulated amortisation						
Opening balance	4,350,412	36,912,898	8,120,329	444,739	-	49,828,379
Amortisation for the period	4,824	2,911,157	169,049	-	-	3,085,030
Transfers and write-offs	-	(2,289)	105	-	-	(2,184)
Adjustments	-	-	(50,202)	-	-	(50,202)
Closing balance	4,355,236	39,821,766	8,239,282	444,739	-	52,861,023
Net intangible assets	17,686	25,225,369	3,493,714	-	4,701,596	33,438,365

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

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

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

The amounts of 317,778 Euros and 150,937 Euros that were capitalised in Computer software or in Intangible assets in progress as at 30 June 2016 and 30 June 2015, respectively, related to the staff costs incurred in the development of these projects.

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

	<u>30.06.2016</u>
SGE - SW Application	1,267,300
CBS - Core banking system	552,024
International (E-CIP)	510,474
NAVE evolution	353,544
OPICS - Treasury mangement	319,800
Mail products evolution	246,635
Payment platform	135,273
Financial consolidation - Software	113,988
Management information - Software	96,515
Audit management - software	83,190
DOL - Treatment and generation of scales	83,182
Extraterritorial virtual mailbox	80,385
CIA - Application Software	71,360
CTT Mobile	69,421
Riposte migration	61,454
Reg Pro - Banking report system	46,296
	<u><u>4,090,841</u></u>

The amortisation for the period of 3,085,030 Euros (1,692,276 Euros as at 30 June 2015) was recorded under Depreciation / amortisation and impairment of investments, net.

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

Contractual commitments relative to Intangible assets are as follows:

CBS - Core Banking System	11,231,780
OPICS - Treasury management	260,000
APP CTT 2.0	93,780
RFP - GEOGIRO	23,365
APP Mobile CTT Espresso	18,401
SIGPOSTAL	3,967
	<u><u>11,631,293</u></u>

## 6. INVESTMENT PROPERTIES

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

	30.06.2016		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,079,434	40,895,220	47,974,654
Additions	-	-	-
Disposals	(870,771)	(7,941,990)	(8,812,761)
Transfers and write-offs	-	-	-
Closing balance	6,208,663	32,953,229	39,161,892
Accumulated depreciation			
Opening balance	239,426	26,669,510	26,908,936
Depreciation for the period	-	343,845	343,845
Disposals	(23,628)	(5,339,266)	(5,362,894)
Transfers and write-offs	-	-	-
Closing balance	215,798	21,674,090	21,889,888
Accumulated impairment			
Opening balance	-	1,282,622	1,282,622
Transfers/Adjustments	-	(3,615)	(3,615)
	-	1,279,007	1,279,007
Net Investment properties	5,992,865	10,000,133	15,992,997
	31.12.2015		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,716,058	45,722,963	53,439,021
Additions	14,500	43,500	58,000
Disposals	(173,376)	(854,186)	(1,027,562)
Transfers and write-offs	(477,748)	(4,017,057)	(4,494,805)
Closing balance	7,079,434	40,895,220	47,974,654
Accumulated depreciation			
Opening balance	259,501	28,399,732	28,659,233
Depreciation for the period	-	752,365	752,365
Disposals	(20,075)	(435,235)	(455,310)
Transfers and write-offs	-	(2,047,352)	(2,047,352)
Closing balance	239,426	26,669,510	26,908,936
Accumulated impairment			
Opening balance	-	1,450,025	1,450,025
Impairments for the period	-	(167,403)	(167,403)
	-	1,282,622	1,282,622
Net Investment properties	6,840,008	12,943,087	19,783,095

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

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

Depreciation for the period of 343,845 Euros (409,531 Euros on 30 June 2015) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals).

## 7. COMPANIES INCLUDED IN THE CONSOLIDATION

### Subsidiary companies

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

Company name	Head office	30.06.2016			31.12.2015		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
<b>Parent company:</b>							
CTT - Correios de Portugal, S.A.	Av. D. João II N.º 13 1999-001Lisboa	-	-	-	-	-	-
<b>Subsidiaries:</b>							
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilha 2664-500 São Julião do Tojal	100	-	100	100	-	100
Paysshop Portugal, S.A. ("Paysshop")	Av. D. João II N.º 13 1999-001Lisboa	100	-	100	100	-	100
CTT Contacto, S.A. <sup>(a)</sup> ("CTT Con")	Av. D. João II N.º 13 1999-001Lisboa	100	-	100	100	-	100
Mailtec Comunicação, S.A. ("Mailtec TI")	Av. D. João II N.º 13 1999-001Lisboa	100	-	100	100	-	100
Tourline Express Mensajería, SLU. ("TourLine")	Calle Pedrosa C, 38-40 Hospitalet de Llobregat (08908)- Barcelona	100	-	100	-	100	100
Correio Expresso de Moçambique, S.A. ("CORRE")	Av. Zedequias Manganhela, 309 Maputo - Mozambique	50	-	50	50	-	50
Escrita Inteligente, S.A. ("RONL")	Av. D. João II N.º 13 1999-001Lisboa	100	-	100	100	-	100
Banco CTT, S.A. ("BancoCTT")	Av. D. João II N.º 11 1999-001Lisboa	100	-	100	100	-	100

<sup>(a)</sup> Previously named CTT Gest, S.A.

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

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

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

### Joint ventures

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

Company name	Head office	30.06.2016			31.12.2015		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
TI-Post Prestação de Serviços informáticos, ACE ("TI-Post")	R. do Mar da China, Lote 107.2.3 Lisboa	49	-	49	49	-	49
NewPost, ACE (a)	Av. Fontes Pereira de Melo, 40 Lisboa	49	-	49	49	-	49
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

<sup>(a)</sup> Previously named Postal Network - Prestação de Serviços de Gestão de Infra- Estruturas de Comunicações, ACE

### Associated companies

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



Company name	Head office	30.06.2016			31.12.2015		
		Percentage of ownership			Percentage of ownership		
		Direct	Indirect	Total	Direct	Indirect	Total
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisboa	20	-	20	20	-	20
Payshop Moçambique, S.A. (a)	R. da Sé, 114-4º. Maputo - Mozambique	-	35	35	-	35	35
Mafelosa, SL (b)	Castellon - Spain	-	25	25	-	25	25
Urpacsur, SL (b)	Málaga - Spain	-	30	30	-	30	30

(a) Company held by Payshop Portugal, S.A., which is currently in termination process

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

### Changes in the consolidation perimeter

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

## 8. DEFERRALS

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

	30.06.2016	31.12.2015
Assets deferrals		
Current		
Rents payable	1,216,647	1,293,761
Meal allowances	1,642,567	1,701,736
Company Agreement - Supplementary agreement compensation	1,096,365	1,457,575
Other	3,800,530	3,715,517
	<u>7,756,109</u>	<u>8,168,589</u>
Liabilities deferrals		
Non-current		
Deferred capital gains	1,071,689	3,677,282
Deferred commissions	800,000	1,000,000
Tangible fixed assets	351,987	339,294
	<u>2,223,676</u>	<u>5,016,576</u>
Current		
Deferred capital gains	2,143,378	2,399,029
Phone-ix top ups	171,260	206,329
Deferred comissions	400,000	400,000
Investment subsidy	11,201	11,201
Altice agreement	4,583,333	9,583,333
Other	740,040	1,145,538
	<u>8,049,212</u>	<u>13,745,430</u>
	<u>10,272,888</u>	<u>18,762,006</u>

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

During the six-month period ended 30 June 2016 and the year ended 31 December 2015, the amounts of 2,481,206 Euros and 1,511,128 Euros, respectively, were recognised under Other operating income in the consolidated income statement, related to the above mentioned gains. The amount recognised in the six-month period ended 30 June 2016 includes the amount of 1,725,642 Euros regarding Conde Redondo's building as a result of the lease contract's termination.

In 2014, CTT signed an agreement with Cetelem, according to which CTT received an amount of 3 million Euros on the signing date. An amount of 1 million Euros, related to an entry fee was recognised at the beginning of the contract and the remaining 2 million Euros, for the non-refundable fees will be recognised over the period of the contract. As at 30 June 2016 an amount of 1,200,000 Euros related to this contract was deferred (1,400,000 Euros as at 31 December 2015).

Following the memorandum of understanding signed with Altice and the acquisition of PT Portugal being completed by Altice, CTT received from Altice the agreed initial payment, which is being recognised in the consolidated income statement over the exclusive period for negotiation of potential partnerships. In the six-month period ended 30 June 2016, the amount of 5,000,000 Euros, was recognised under Other operating income in the consolidated income statement, related to this memorandum.

## 9. ACCUMULATED IMPAIRMENT LOSSES

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

30.06.2016					
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Other non-current assets					
Other non-current assets	1472,836	-	(170,788)	-	1493,901
INESC loan	347,021	-	-	-	-
	<u>1819,857</u>	<u>-</u>	<u>(170,788)</u>	<u>-</u>	<u>1493,901</u>
Accounts receivable and Other current assets					
Accounts receivable	31737,169	1821447	(1006,869)	(1322,783)	31228,964
Other current assets	8,622,168	69,570	(453,693)	(2,616)	8,043,576
INESC loan	49,740	-	-	-	396,761
	<u>40,409,077</u>	<u>1891017</u>	<u>(1460,562)</u>	<u>(1325,399)</u>	<u>39,669,301</u>
Inventories					
Merchandise	1397,098	87,563	(111)	-	1484,550
Raw, subsidiary and consumable	565,513	72,270	-	-	637,783
	<u>1962,611</u>	<u>159,833</u>	<u>(111)</u>	<u>-</u>	<u>2,122,333</u>
	<u>44,191,545</u>	<u>2,050,850</u>	<u>(1631461)</u>	<u>(1325,399)</u>	<u>43,285,535</u>
31.12.2015					
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Other non-current assets					
Other non-current assets	1421001	51835	-	-	1472,836
INESC loan	371891	-	(24,870)	-	347,021
	<u>1792,892</u>	<u>51835</u>	<u>(24,870)</u>	<u>-</u>	<u>1819,857</u>
Accounts receivable and Other current assets					
Accounts receivable	30,498,785	4,625,870	(2,025,960)	(1361526)	31737,169
Other current assets	9,461,922	487,981	(1500,571)	(9,530)	8,622,168
INESC loan	49,740	-	-	-	49,740
	<u>40,010,447</u>	<u>5,113,851</u>	<u>(3,526,531)</u>	<u>(1371056)</u>	<u>40,409,077</u>
Inventories					
Merchandise	1527,827	36,874	(129,402)	(38,201)	1397,098
Raw, subsidiary and consumable	676,836	35,091	(146,414)	-	565,513
	<u>2,204,663</u>	<u>71,965</u>	<u>(275,816)</u>	<u>(38,201)</u>	<u>1962,611</u>
	<u>44,008,002</u>	<u>5,237,651</u>	<u>(3,827,217)</u>	<u>(1409,257)</u>	<u>44,191,545</u>

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

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

## 10. EQUITY

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

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

Shareholder		30.06.2016		
		No. of shares	%	Nominal value
Gestmin SGPS, S.A. <sup>(1)</sup>		10,574,615	7.050%	5,287,308
Manuel Carlos de Melo Champalimaud		284,885	0.190%	142,443
Manuel Carlos de Melo Champalimaud	Total	10,859,500	7.240%	5,429,750
Standard Life Investments Limited <sup>(2)</sup>		9,910,580	6.607%	4,955,290
Ignis Investment Services Limited <sup>(2)</sup>		97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	Total	10,007,653	6.672%	5,003,827
Allianz Global Investors GmbH <sup>(3)</sup>	Total	7,552,637	5.035%	3,776,319
BNP Paribas Investment Partners Belgium S.A. <sup>(4)</sup>			0.833%	625,000
BNP Paribas Investment Partners Luxembourg S.A. <sup>(4)</sup>			2.972%	2,228,765
BNP Paribas Asset Management SAS <sup>(4)</sup>			1.197%	897,450
BNP Paribas Investment Partners S.A.	Total	7,502,430	5.002%	3,751,215
Artemis Fund Managers Limited <sup>(5)</sup>			4.885%	3,664,000
Artemis Investment Management LLP			0.100%	74,856
Artemis Investment Management LLP	Total	7,477,712	4.985%	3,738,856
Kames Capital plc <sup>(6)</sup>		2,045,003	1.363%	1,022,502
Kames Capital Management Limited <sup>(6)</sup>		3,096,134	2.064%	1,548,067
Aegon NV <sup>(6)</sup>	Total	5,141,137	3.427%	2,570,569
Norges Bank	Total	3,143,496	2.096%	1,571,748
F&C Asset Management plc <sup>(7)</sup>		3,124,801	2.083%	1,562,401
Bank of Montreal <sup>(7)</sup>		3,124,801	2.083%	1,562,401
CTT, S.A. (own shares) <sup>(8)</sup>	Total	500,442	0.334%	250,221
Other shareholders	Total	94,690,192	63.127%	47,345,096
Total		150,000,000	100.000%	75,000,000

(1) Shareholding directly and indirectly attributable to Mr. Manuel Carlos de Melo Champalimaud.

(2) Company held by Standard Life Investments (Holdings) Limited.

(3) Previously named: Allianz Global Investors Europe GmbH.

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

(5) Company held by Artemis Investment Management LLP.

(6) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc. This qualified shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

- (7) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.
- (8) The voting rights inherent to own shares held by the Company are suspended pursuant to article no. 324 of the Portuguese Companies Code.

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

(1) Company held by Standard Life Investments (Holdings) Limited.

(2) Shareholding directly and indirectly attributable to Mr. Manuel Carlos de Melo Champalimaud.

(3) Company held by Artemis Investment Management LLP.

(4) Previously named Allianz Global Investors Europe GmbH.

(5) The qualifying holding of BNP Paribas Investment Partners represents 5.025% of CTT share capital and 4.773% of the voting rights (see CTT press release of 18-12-2015). Shareholding held through the following funds managed by BNP Paribas Investment Partners: A.A. -FORTIS-ACTIONS PETITE CAP EUROPE; BNP PARIBAS A FUND European Multi-Asset Income; BNP PARIBAS B PENSION BALANCED; BNP PARIBAS B PENSION GROWTH; BNP PARIBAS B PENSION STABILITY; BNP PARIBAS L1

- MULTI-ASSET INCOME; BNP PARIBAS SMALLCAP EUROLAND; Merck BNP Paribas European Small Cap; METROPOLITAN-RENTASTRO GROWTH; PARVEST EQUITY EUROPE SMALL CAP; PARWORLD TRACK EUROPE SMALL CAP; Stichting Bewaar ANWB - Eur Small Cap; Stichting Pensioenfond Openbare Bibliotheken.
- (6) As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc. This qualified shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.
- (7) This qualified shareholding is imputable to F&C Asset Management plc, as the entity with whom each of F&C Management Limited, F&C Investment Business Limited and F&C Managers Limited are in a dominion relationship. F&C Asset Management plc is under the dominion of BMO Global Asset Management (Europe) Limited which in turn is under the dominion of the Bank of Montreal.
- (8) Henderson Group plc is the parent company of Henderson Global Investors Limited. All voting rights are attributable to Henderson Global Investors Limited. According to a disclosure of 8 January 2016, Henderson Group plc ceased to hold a qualified holding in CTT.
- (9) The voting rights inherent to own shares held by the Company are suspended pursuant to article no. 324 of the Portuguese Companies Code.

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

### Own shares

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

As at 30 June 2016, the company held 500,442 own shares, acquired in June 2015 and in March 2016, which represented 0.334% of the Company's share capital.

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

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

	Quantity	Value	Average price
Balance at 31 December 2015	200,177	1,873,125	9.357
Acquisitions	300,265	2,534,357	8.440
Disposals	-	-	-
Balance at 30 June 2016	500,442	4,407,482	8.807

### Reserves

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

	30.06.2016	31.12.2015
Legal reserves	18,072,559	18,072,559
Own shares reserve (CTT, S.A.)	4,407,482	1,873,125
Other reserves	11,657,365	13,438,428
	34,137,406	33,384,112

### Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not

distributable except in the event of the liquidation of the Company, but may be used to absorb losses after all the other reserves have been depleted, or incorporated in the share capital.

#### Own shares reserve (CTT, S.A.)

As at 30 June 2016, this caption includes the amount of 4,407,482 Euros related to the creation of an unavailable reserve for the same amount of the acquisition price of the own shares held.

#### Other reserves

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

In the six-month period ended 30 June 2016 and the years ended 31 December 2015 and 31 December 2014, it also records the amount recognised in each year related to the Share Plan that constitutes the long-term variable remuneration to be paid to the executive members of the Board of Directors under the new remuneration model of the Statutory Bodies defined by the Remuneration Committee in the amount of 3,733,865 Euros (Note 14).

#### Retained earnings

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

	30.06.2016	31.12.2015
Opening balance	91,727,994	84,374,563
Application of the net profit of the prior year	72,065,283	77,171,128
Distribution of dividends (Note 12)	(70,264,792)	(69,750,000)
Adjustments from the application of the equity method	-	109,622
Other movements	59,716	(177,319)
Closing balance	<u>93,588,201</u>	<u>91,727,994</u>

#### Other changes in equity

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

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

	30.06.2016	31.12.2015
Opening balance	(18,644,832)	(18,786,310)
Actuarial gains/losses - Healthcare	-	114,181
Tax effect - Healthcare	-	27,297
Closing balance	<u>(18,644,832)</u>	<u>(18,644,832)</u>

## 12. DIVIDENDS

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

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

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

### 13. EARNINGS PER SHARE

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

	30.06.2016	30.06.2015
Net income for the year	31,676,537	39,165,406
Average number of ordinary shares	149,627,286	149,967,889
Earnings per share	0.21	0.26
	0.21	0.26

The average number of shares is detailed as follows:

	30.06.2016	30.06.2015
Shares issued at the beginning of the period	150,000,000	150,000,000
Own shares effect	372,714	32,111
Average number of shares during the period	149,627,286	149,967,889

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 June 2016, the number of own shares held by the Group is 500,442 and its average number for the period ended 30 June 2016 is 372,714, reflecting the fact that the acquisition of own shares occurred in June 2015 and in March 2016.

There are no dilutive factors of earnings per share.

### 14. EMPLOYEE BENEFITS

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

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

	30.06.2016			
	Liabilities		Equity	
	Healthcare	Other long-term employee benefits	Total	Other long-term benefits statutory bodies
Opening balance	236,806,000	23,039,345	259,845,345	2,987,092
Movement of the period	(424,691)	(3,760,686)	(4,185,377)	746,773
Closing balance	<u>236,381,309</u>	<u>19,278,659</u>	<u>255,659,968</u>	<u>3,733,865</u>
				<u>259,393,833</u>

	31.12.2015			
	Healthcare	Liabilities Other long-term employee benefits	Total	Equity Other long-term benefits statutory bodies
Opening balance	241,166,000	36,125,547	277,291,547	1376,407
Movement of the period	(4,360,000)	(13,086,203)	(17,446,203)	1610,685
Closing balance	236,806,000	23,039,345	259,845,345	2,987,092
				262,832,437

The heading Other long-term employee benefits essentially refers to the on-going staff reduction programme.

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

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

	30.06.2016	31.12.2015
Equity (Other reserves)	3,733,865	2,987,092
Non-current liabilities	237,666,551	241,306,773
Current liabilities	17,993,417	18,538,572
	259,393,833	262,832,437

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

	30.06.2016	30.06.2015
Costs for the period		
Healthcare	4,884,999	4,971,000
Other long-term employee benefits	(1,545,266)	54,879
Other long-term benefits statutory bodies	746,773	863,912
	4,086,506	5,889,791
Other changes in equity		
Healthcare	-	(3,554,908)
	-	(3,554,908)

### Healthcare

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

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

	30.06.2016	31.12.2015	31.12.2014	31.12.2013	31.12.2012
Liabilities at the end of the period	236,381,309	236,806,000	241,166,000	263,371,000	252,803,000

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



	30.06.2016	31.12.2015
Opening balance	236,806,000	241,166,000
Service cost of the period	1,988,500	4,042,000
Interest cost of the period	2,896,500	5,900,000
Pensioners contributions	2,506,328	5,113,703
(Payment of benefits)	(7,497,519)	(18,654,596)
(Other costs)	(318,500)	(646,926)
Actuarial (gains)/losses	-	(114,181)
Closing balance	236,381,309	236,806,000

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

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

	30.06.2016	30.06.2015
Staff costs/employee benefits (Note 24)	1,670,000	1,682,000
Other costs	318,500	339,000
Interest expenses	2,896,499	2,950,000
	4,884,999	4,971,000

#### Other long-term employee benefits

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

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

	30.06.2016	31.12.2015
Suspension of contracts, redeployment and release of employment		
Opening balance	8,234,231	17,810,243
Interest cost of the period	86,050	379,359
Curtailment	-	(4,782,194)
(Payment of benefits)	(1878,320)	(5,187,776)
Actuarial (gains)/losses	-	14,599
Other changes	5,611	-
Closing balance	6,447,572	8,234,231
Telephone subscription fee		
Opening balance	4,518,270	4,832,775
Interest cost of the period	53,573	114,854
(Payment of benefits)	(86,528)	(216,939)
Actuarial (gains)/losses	(1815,868)	(212,420)
Closing balance	2,669,447	4,518,270
Pension for work accidents		
Opening balance	6,863,591	8,161,400
Interest cost of the period	83,169	198,665
(Payment of benefits)	(203,247)	(472,298)
Actuarial (gains)/losses	-	(1024,176)
Closing balance	6,743,513	6,863,591
Monthly life annuity		
Opening balance	3,423,253	5,282,395
Interest cost of the period	42,199	130,698
(Payment of benefits)	(47,325)	(97,925)
Actuarial (gains)/losses	-	(189,191)
Closing balance	3,418,127	3,423,253
Support for cessation of professional activity		
Opening balance	-	38,734
Interest cost of the period	-	484
(Payment of benefits)	-	(35,284)
Actuarial (gains)/losses	-	(3,934)
Closing balance	-	-
Total closing balances	19,278,659	23,039,345

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

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

	30.06.2016	30.06.2015
Staff costs/employee benefits (Note 24)		
Suspension of contracts, redeployment and release of employment	5,611	(197,567)
Telephone subscription fee	(1815,868)	(130,951)
Pension for work accidents	-	(39,631)
Monthly life annuity	-	(4,678)
Support for cessation of professional activity	-	15,917
subtotal	(1810,257)	(356,910)
Interest expenses	264,991	411,788
	(1545,266)	54,879

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

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

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

#### Other long-term benefits for the statutory bodies

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

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

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

Therefore, for the six-month period ended 30 June 2016, CTT recorded a cost of 746,773 Euros, booked against Other reserves.

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

### Provisions

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

	30.06.2016				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Non-current provisions					
Litigations	9,102,700	1,021,178	(1,314,933)	(888,496)	1,347,842
Onerous contracts	14,358,103	118,243	(3,164,832)	(7,551,657)	-
Other provisions	17,035,233	78,636	(396,138)	(41,138)	(1,347,842)
Investments in associated companies	189,775	-	-	-	(189,775)
	<u>40,685,811</u>	<u>1,218,057</u>	<u>(4,875,903)</u>	<u>(8,481,291)</u>	<u>(189,775)</u>
					<u>28,356,899</u>
Restructuring	46,521	-	-	(46,521)	-
	<u>40,732,332</u>	<u>1,218,057</u>	<u>(4,875,903)</u>	<u>(8,527,812)</u>	<u>(189,775)</u>
					<u>28,356,899</u>

	31.12.2015				
	Opening balance	Increases	Reversals	Utilisations	Closing balance
Non-current provisions					
Litigations	9,907,427	1,942,805	(2,556,840)	(1,603,861)	9,102,700
Onerous contracts	16,854,955	1,291,580	(670,798)	(3,117,634)	14,358,103
Other provisions	18,693,363	1,212,339	(941,773)	(515,527)	17,035,233
Investments in associated companies	215,772	-	-	-	189,775
	<u>45,671,517</u>	<u>4,446,724</u>	<u>(4,169,411)</u>	<u>(5,237,022)</u>	<u>40,685,811</u>
Restructuring	-	1,880,000	(167,398)	(1,666,081)	46,521
	<u>45,671,517</u>	<u>6,326,724</u>	<u>(4,336,809)</u>	<u>(6,903,103)</u>	<u>40,732,332</u>

### 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 resolution of the Conde Redondo's building lease contract, CTT recorded, in the six-month period ended 30 June 2016, a reversal of the provision for onerous contracts regarding the lease contract of this building, in the amount of 2,913,557 Euros. The utilisations in the amount of 7,551,657 Euros relate to the payment of rents due during the period as well as part of the maturing rents of the Conde Redondo building. The remaining increases and reversals regard the update of the assumptions used in 2015, namely the discount rate.

As at 30 June 2016 the amount provided for onerous contracts is 3,759,857 Euros (14,358,103 Euros as at 31 December 2015).

### Other provisions

For the six-month period ended 30 June 2016, the provision to cover contingencies relating to employment litigation actions not included in the current court proceedings and related to remuneration differences that can be required by workers, amounts to 13,477,539 Euros (15,142,991 Euros as at 31 December 2015).

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

- the amount of 194,358 Euros to cover costs for dismantlement of tangible fixed assets and/or removal of facilities and restoration of the sites;
- the amount of 985,363 Euros, which arise from the assessment made by the management regarding the possibility of tax contingencies.

### Investments in associated companies

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

### Restructuring

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

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to 3,657,846 Euros as at 30 June 2016 (105,161 Euros as at 30 June 2015).

#### Guarantees provided

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

Description	30.06.2016	31.12.2015
Courts	163,107	200,087
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174
EURO BRIDGE - Sociedade Imobiliária, Lda	-	2,944,833
PLANINOVA - Soc. Imobiliária, S.A.	2,033,582	2,033,582
LandSearch, Compra e Venda de Imóveis	1,792,886	1,792,886
NOVIMOVESTE - Fundo de Investimento Imobiliário	1,523,201	1,523,201
LUSIMOVESTE - Fundo de Investimento Imobiliário	1,274,355	1,274,355
Autoridade Tributária e Aduaneira	590,000	590,000
Lisboagás, S.A.	190,000	190,000
Autarquias	183,677	183,677
Solred	80,000	80,000
ACT Autoridade Condições Trabalho	58,201	59,395
PT PRO - Serv Adm Gestao Part, S.A.	50,000	50,000
Record Rent a Car (Cataluña, Levante)	40,000	40,000
SetGás, S.A.	30,000	30,000
ANA - Aeroportos de Portugal	34,000	34,000
TIP - Transportes Intermodais do Porto, ACE	50,000	50,000
EPAL - Empresa Portuguesa de Águas Livres	21,433	21,433
Portugal Telecom, S.A.	16,657	16,657
SPMS - Serviços Partilhados do Ministério da Saúde	30,180	30,180
Instituto de Gestão Financeira Segurança Social	24,596	-
Águas do Porto, E.M	10,720	10,720
INCM - Imprensa Nacional da Casa da Moeda	33,855	-
TNT Express Worldwide	6,010	6,010
SMAS Torres Vedras	9,909	2,808
Instituto do emprego e formação profissional	3,718	3,718
Inmobiliaria Ederkin	7,800	7,800
Promodois	6,273	6,273
Águas de Coimbra	870	870
Direção Geral do Tesouro e Finanças	16,867	16,867
Estradas de Portugal, EP	5,000	5,000
ARM - Águas e Resíduos da Madeira, SA	-	12,681
REN Serviços, S.A.	9,818	9,818
EMEL, S.A.	26,984	19,384
IFADAP	1,746	1,746
Casa Pia de Lisboa, I.P.	1,863	-
Consejería Salud	6,433	6,433
Universidad Sevilla	4,237	4,237
Fonavi, Nave Hospitalet	40,477	40,477
Other entities	7,694	7,694
	<u>11,416,323</u>	<u>14,336,996</u>

#### Guarantees for lease contracts

According to the terms of some lease contracts of the buildings occupied by the Group's services, at the moment that the Portuguese State ceased to hold the majority of the share capital of CTT, bank guarantees on first demand had to be provided. These guarantees amount to 9,654,198 Euros as at 30 June 2016 (12,599,031 Euros as at 31 December 2015). The decrease in the value of the guarantees provided is mainly explained by the resolution of the lease contract of the building Conde Redondo, whose guarantee amounted to 2,944,833 Euros.

#### Commitments

As at 30 June 2016 and 31 December 2015, the Group subscribed promissory notes amounting to approximately 42.8 thousand Euros and 60.9 thousand Euros, respectively, for various credit institutions intended to secure complete and timely compliance with the corresponding financing contracts.

The Group assumed financial commitments (comfort letters) in the amount of 1,170,769 Euros for the subsidiary Tourline and regarding the subsidiary Corre in the amount of 93,659 Euros, which are still active as at 30 June 2016.

As at 30 June 2016, the commitments assumed by the Group regarding the sponsoring of "Taça da Liga" (League Football Cup) for three seasons amount to 1.9 million Euros.

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

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

## 16. ACCOUNTS PAYABLE

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

	30.06.2016	31.12.2015
Advances from customers	2,942,403	3,043,051
CNP money orders	374,548,904	218,478,956
Suppliers	57,468,253	67,989,193
Invoices pending confirmation	8,710,723	9,834,805
Fixed assets suppliers	1,497,223	6,717,094
Invoices pending confirmation (fixed assets)	1,000,930	5,311,267
Values collected on behalf of third parties	6,253,173	5,881,304
Postal financial services	78,018,790	112,544,152
Customers deposits	-	52,422
Other accounts payable	5,901,100	6,039,433
	<u>536,341,501</u>	<u>435,891,677</u>

#### CNP money orders

The value of CNP money orders refers to the money orders received from the National Pensions Centre (CNP), whose payment date to the corresponding pensioners must occur in the month after the closing of the period. The increase in this caption is due to the payment of the holiday pay to the pensioners that occurs in the month of June.

#### Postal financial services

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

## 17. BANKING CLIENT DEPOSITS AND OTHER LOANS

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

	30.06.2016	31.12.2015
Sight deposits	28,724,624	-
Term deposits	27,241,928	-
	<u>55,966,552</u>	<u>-</u>

The above mentioned amounts referred to Deposits from Banco CTT's clients. As at 30 June 2016, the due dates of the residual maturity of banking client deposits and other loans, are detailed as follows:

	30.06.2016				
	In cash	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years
Sight deposits	28,724,624	-	-	-	-
Term deposits	-	4,769,494	22,472,434	-	-
	<u>28,724,624</u>	<u>4,769,494</u>	<u>22,472,434</u>	<u>-</u>	<u>-</u>
					<u>27,241,928</u>
					<u>55,966,552</u>

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

## 18. INCOME TAXES PAYABLE

As at 30 June 2016 the caption reflects the estimated income tax regarding the six-month period ended 30 June 2016.

## 19. OTHER CURRENT LIABILITIES

The variation of Other current liabilities mainly relates to the estimated holiday pay and holiday subsidy regarding the six-month period ended on 30 June 2016, since the estimated amount regarding the year ended 31 December 2015 has not yet been fully utilised.

## 20. INVESTMENTS HELD TO MATURITY

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

	30.06.2016	31.12.2015
Non-current		
Debt securities and other fixed-income securities		
Public issuers	8,145,848	-
Other issuers	212,905	-
	<u>8,358,753</u>	<u>-</u>
Current		
Debt securities and other fixed-income securities		
Public issuers	14,019,629	-
Other issuers	5,980,386	-
	<u>20,000,015</u>	<u>-</u>
	<u>28,358,768</u>	<u>-</u>

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

	30.06.2016				
	Current		Non-current		Total
	Due within 3 months	Over 3 months and less than 1 year	Over 1 year and less than 3 years	Over 3 years	
Debt securities and other fixed-income securities					
Public issuers	14,019,629	-	7,054,592	109,1256	22,165,477
Other issuers	19,119,54	4,068,432	212,905	-	6,193,291
	<u>15,931,583</u>	<u>4,068,432</u>	<u>7,267,497</u>	<u>109,1256</u>	<u>28,358,768</u>

## 21. FINANCIAL ASSETS AVAILABLE FOR SALE

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

	30.06.2016	31.12.2015
Debt securities and other fixed-income securities		
Public issuers	680,509	-
Other issuers	<u>2,336,073</u>	<u>-</u>
	<u>3,016,582</u>	<u>-</u>

The analysis of the Financial assets available for sale is detailed as follows:

	30.06.2016			
	Cost <sup>(1)</sup>	Fair value reserve		Total
		Positive	Negative	
Debt securities and other fixed-income securities				
Public-debt securities				
National	679,821	977	(289)	680,509
Foreign	-	-	-	-
Other issuers				
National	-	-	-	-
Foreign	<u>2,330,780</u>	<u>11,247</u>	<u>(5,954)</u>	<u>2,336,073</u>
	<u>3,010,601</u>	<u>12,224</u>	<u>(6,243)</u>	<u>3,016,582</u>

<sup>(1)</sup> Acquisition cost regarding shares and other equity instruments and amortised cost regarding debt securities.

## 22. OTHER BANKING FINANCIAL ASSETS

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

	30.06.2016	31.12.2015
Investments in credit institutions	29,709,033	-
Other	<u>1,065,760</u>	<u>-</u>
	<u>30,774,793</u>	<u>-</u>

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

	30.06.2016	31.12.2015
Up to 3 months	26,500,499	-
From 6 to 12 months	<u>3,208,534</u>	<u>-</u>
	<u>29,709,033</u>	<u>-</u>



## 23. OTHER OPERATING INCOME

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

	30.06.2016	30.06.2015
Supplementary revenues	1,478,661	1,762,437
Altice agreement	5,000,000	416,667
Prompt-payment discounts obtained	23,835	42,240
Favourable exchange rate differences of assets and liabilities different from financing	459,982	2,037,204
Income from financial investments	322,481	272,234
Income from non-financial investments	4,226,737	904,669
Income from services and commissions	52,011	-
Interest income and expenses - financial services	154,672	283,743
VAT adjustments	1,967,568	201,770
Other	1,194,799	932,548
	<u>14,880,745</u>	<u>6,853,512</u>

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

The caption Income from non-financial investments includes the gains realised on the sale of five properties classified as Investment properties in the amount of 1.2 million Euros, as well as the gain in the amount of 1.7 million Euros regarding Conde Redondo's building as a result of the lease contract's resolution.

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

## 24. STAFF COSTS

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

	30.06.2016	30.06.2015
Statutory bodies remuneration (Note 26)	2,372,966	1,849,410
Staff remuneration	129,100,779	130,839,865
Employee benefits	718,266	2,284,710
Indemnities	834,199	2,671,280
Social Security charges	28,907,861	28,322,718
Occupational accident and health insurance	1,567,318	1,042,772
Social welfare costs	3,541,979	3,309,647
Other staff costs	30,512	24,126
	<u>167,073,880</u>	<u>170,344,528</u>

### Remuneration of the statutory bodies

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

30.06.2016					
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	1557,512	109,286	15,104	4,500	1686,401
Annual variable remuneration	686,565	-	-	-	686,565
	2,244,076	109,286	15,104	4,500	2,372,966
Long-term remuneration					
Defined contribution plan RSP	111,750	-	-	-	111,750
Long-term variable remuneration - Share Plan	746,773	-	-	-	746,773
	858,523	-	-	-	858,523
	3,102,599	109,286	15,104	4,500	3,231,489

30.06.2015					
	Board of Directors	Audit Committee	Remuneration Board	General Meeting of Shareholders	Total
Short-term remuneration					
Fixed remuneration	984,676	132,400	18,720	-	1,135,796
Annual variable remuneration	713,614	-	-	-	713,614
	1,698,290	132,400	18,720	-	1,849,410
Long-term remuneration					
Defined contribution plan RSP	95,708	-	-	-	95,708
Long-term variable remuneration - Share Plan	863,912	-	-	-	863,912
	959,620	-	-	-	959,620
	2,657,910	132,400	18,720	-	2,809,030

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

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

The long-term variable remuneration awarded to the executive members of the Board of Directors shall be paid at the end of the 2014-2016 term of office in Company shares, and the amount of 746,773 Euros corresponds to the expense to be recognised in the period between 1 January 2016 and 30 June 2016 and was determined by an actuarial study performed by an independent entity. The annual variable remuneration will be determined and paid on an annual basis.

#### Staff remuneration

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

#### Employee benefits

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

#### Indemnities

During the six-month period ended 30 June 2016, this caption includes 544,591 Euros related to compensation paid for termination of employment contracts by mutual agreement.

#### Social welfare cost

Social welfare costs relate almost entirely to health costs incurred by the Group with active workers, as well as expenses related to Health and Safety at Work. The decrease in this caption results from **changes that took place in CTT's Healthcare Plan following the revised Regulation of the Social Works (RSW)**, according to which the fees that the beneficiaries pay to the system were increased by raising the monthly contributions and co-payments.

During the six-month periods ended 30 June 2016 and 30 June 2015, the heading Staff costs includes the amounts of 287,333 Euros and 315,791 Euros, respectively, related to expenses with workers' representative bodies.

For the six-month periods ended 30 June 2016 and 30 June 2015, the average number of staff of the Group was 12,243 and 12,386, respectively.

## 25. 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 six-month periods ended 30 June 2016 and 30 June 2015, the reconciliation between the nominal rate and the effective income tax rate is as follows:

	30.06.2016	30.06.2015
Earnings before taxes	44,924,604	57,321,000
Nominal tax rate	21.0%	21.0%
	9,434,167	12,037,410
Tax Benefits	(99,683)	(85,855)
Accounting capital gains/(losses)	(127,692)	37,576
Tax capital gains/(losses)	(856,478)	(91,640)
Equity method	(8,518)	(5,938)
Provisions not considered in the calculation of deferred tax	(96,330)	16,546
Impairment losses and reversals	390,130	(4,440)
Other situations, net	1,515,717	943,651
Adjustments related with - autonomous taxation	769,940	305,509
Adjustments related with - Municipal Surcharge	530,492	828,463
Adjustments related with - State Surcharge	1,749,794	2,713,207
Tax losses without deferred tax	814,070	1,448,243
Excess estimated income tax	(640,857)	-
Income taxes for the period	13,374,753	18,142,732
Effective tax rate	29.77%	31.65%
Income taxes for the period		
Current tax	8,748,067	16,231,482
Deferred tax	5,267,543	1,911,250
Excess estimated income tax	(640,857)	-
	13,374,753	18,142,732

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

### Deferred taxes

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

	30.06.2016	31.12.2015
Deferred tax assets		
Employee benefits - healthcare	67,037,739	67,158,181
Employee benefits - other long-term benefits	5,467,465	6,531,878
Deferred accounting capital gains	911,793	1,723,242
Impairment losses and provisions	5,643,413	8,997,558
Tax losses carried forward	338,798	342,161
Impairment losses in tangible fixed assets	379,567	405,373
Share Plan	1,058,925	847,140
Land and buildings	1,017,249	1,392,924
Other	246,844	137,484
	<u>82,101,793</u>	<u>87,535,941</u>
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,433,053	3,562,520
Suspended capital gains	956,152	971,679
Other	42,399	42,399
	<u>4,431,604</u>	<u>4,576,598</u>

As at 30 June 2016, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 4,008,569 Euros and 289,988 Euros, respectively.

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

	30.06.2016	31.12.2015
Deferred tax assets		
Opening balances	87,535,941	91,428,940
Effect on net profit		
Employee benefits - healthcare	(120,442)	(733,228)
Employee benefits - other long-term benefits	(1,064,413)	(3,628,545)
Deferred accounting gains	(811,449)	(661,719)
Impairment losses and provisions	(3,354,145)	(1,142,594)
Tax losses carried forward	(3,363)	24,628
Impairment losses in tangible fixed assets	(25,806)	(91,864)
Share plan	211,785	459,819
Land and buildings	(375,675)	1,392,924
Other	109,360	460,283
Effect on equity		
Employee benefits - healthcare	-	27,297
Closing balance	<u>82,101,793</u>	<u>87,535,941</u>

	30.06.2016	31.12.2015
Deferred tax liabilities		
Opening balances	4,576,598	4,841,684
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(129,467)	(231,295)
Suspended capital gains	(15,527)	(23,274)
Other	-	(10,517)
Closing balance	4,431,604	4,576,598

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

Company	Tax losses	Deferred tax assets
CORRE	42,959	13,747
Tourline	29,131,339	320,408
Escrita Inteligente	22,108	4,643
Total	29,196,406	338,798

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

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

#### SIFIDE

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

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

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

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

#### Other information

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

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

## 26. RELATED PARTIES

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

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

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

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

30.06.2016					
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	70,264,792	-
Other shareholders of Group companies	-	-	-	-	-
Associated companies	11,533	-	6,795	-	30,186
Jointly controlled	136,419	-	134,596	-	18,664
Members of the	-	-	-	-	-
Board of Directors	-	-	-	-	2,244,076
General Meeting	-	-	-	-	4,500
Audit Committee	-	-	-	-	109,286
Remuneration Committee	-	-	-	-	15,104
	<u>147,952</u>	<u>-</u>	<u>141,391</u>	<u>70,264,792</u>	<u>2,421,816</u>
30.06.2015					
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	69,750,000	-
Other shareholders Group companies	-	-	-	-	-
Associated companies	4,139	-	8,975	-	34,135
Jointly controlled	107,439	29,675	262,392	-	108,854
Members of the	-	-	-	-	-
Board of Directors	-	-	-	-	1,698,290
General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	91,500
Remuneration Committee	-	-	-	-	18,720
	<u>111,578</u>	<u>29,675</u>	<u>271,367</u>	<u>69,750,000</u>	<u>1,951,499</u>

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

## 27. SUBSEQUENT EVENTS

### Post-employment healthcare benefits fund

On 4 August 2016, the Board of Directors of CTT decided, , to submit to the Supervisory Authority for Insurance and Pension Funds (“Autoridade de Supervisão de Seguros e Fundos de Pensões” - “ASF”) an application for authorization to establish the fund (within the pension fund system) with aim of financing and managing CTT’s responsibilities with post-employment healthcare benefits, pursuant to the CTT Social Works Regulation, covering the post-employment liabilities, on a first stage only for active, retired and pre-retired workers (“CTT Fund - Post-employment Healthcare Benefits” or “Fund”). These liabilities amount to 158 million Euros as at 31 December 2015.

The establishment of the Fund is subject to: (i) the definition of the final terms and conditions between CTT and the Fund managing entity (in particular with regard to the financing plan, as well as the investment policy, including the real estate to be transferred to the Fund); and (ii) the necessary internal approvals and compliance with the requisite formalities and the applicable authorisations, specifically the authorisation from the ASF for the establishment of the Fund.

### Increase in Fidelidade’s offer

During July, CTT agreed with Fidelidade under a tripartite agreement (CTT, Banco CTT and Fidelidade), the increase in the offer of insurance, during the 2<sup>nd</sup> half of 2016, with the launch, in partnership with Fidelidade, of healthcare insurance based on Multicare’s products. This offer will be provided by CTT and Banco CTT under the brand “Multicare CTT”.



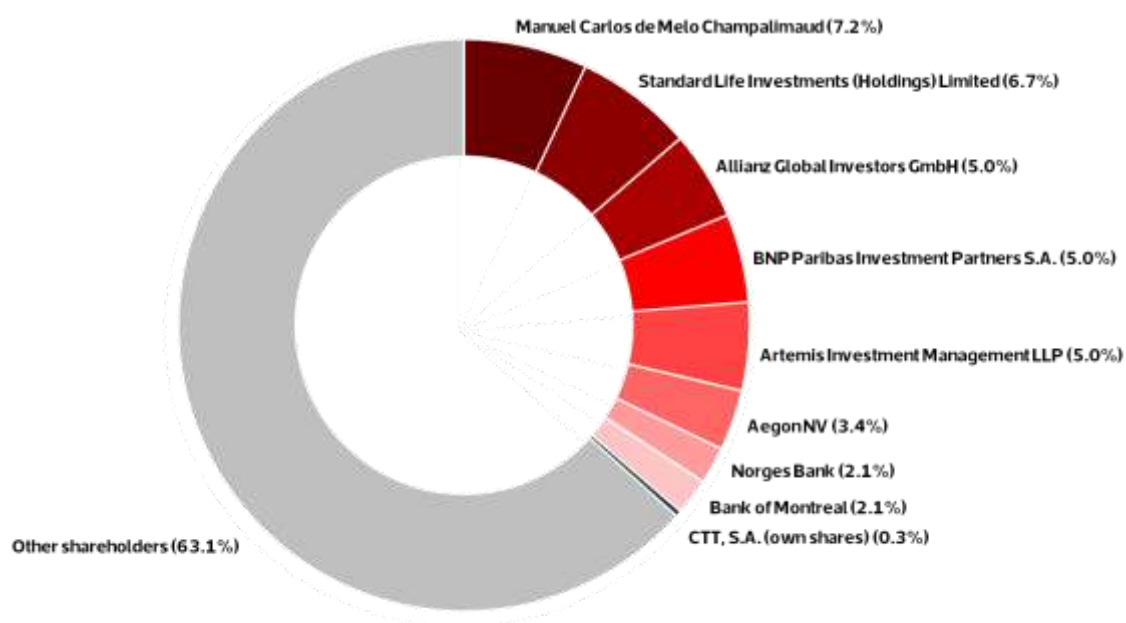


## PART III – OTHER CORPORATE GOVERNANCE DOCUMENTS

### 1. Capital Structure

In the 1<sup>st</sup> half of 2016, the CTT share capital of €75,000,000 was fully subscribed and paid-up, represented by 150,000,000 ordinary shares with nominal value of €0.50 each. The shares are registered and in book-entry form and there are no different categories of shares. All the shares representing the CTT share capital are admitted to trading on the regulated market Euronext Lisbon.

As at 30 June 2016, CTT shareholder structure in terms of qualifying holdings was as follows:



### 2. Holders of qualifying holdings

As at 30 June 2016, based on the communications made to the Company, the qualifying holdings in CTT, as calculated in accordance with the provisions of article 20 of the Portuguese Securities Code, were as follows:

Holders of Qualifying Shareholdings in CTT as at 30 June 2016  
based on the communications made to the Company

Shareholders		No. of shares	% Share capital	% Voting Rights
Gestmin SGPS, S.A. <sup>(1)</sup>		10,574,615	7.050%	7.050%
Manuel Carlos de Melo Champalimaud		284,885	0.190%	0.190%
Manuel Carlos de Melo Champalimaud	Total	10,859,500	7.240%	7.240%
Standard Life Investments Limited <sup>(2)</sup>		9,910,580	6.607%	6.607%
Ignis Investment Services Limited <sup>(2)</sup>		97,073	0.065%	0.065%
Standard Life Investments (Holdings) Limited	Total	10,007,653	6.672%	6.672%
Allianz Global Investors GmbH <sup>(3)</sup>	Total	7,552,637	5.035%	5.035%
BNP Paribas Investment Partners Belgium S.A. <sup>(4)</sup>			0.833%	0.833%
BNP Paribas Investment Partners Luxembourg S.A. <sup>(4)</sup>			2.972%	2.972%
BNP Paribas Asset Management SAS <sup>(4)</sup>			1.197%	1.197%
BNP Paribas Investment Partners S.A.	Total	7,502,430	5.002%	5.002%
Artemis Fund Managers Limited <sup>(5)</sup>			4.885%	4.885%
Artemis Investment Management LLP			0.100%	0.100%
Artemis Investment Management LLP	Total	7,477,712	4.985%	4.985%
Kames Capital plc <sup>(6)</sup>		2,045,003	1.363%	1.363%
Kames Capital Management Limited <sup>(6)</sup>		3,096,134	2.064%	2.064%
Aegon NV <sup>(6)</sup>	Total	5,141,137	3.427%	3.427%
Norges Bank	Total	3,143,496	2.096%	2.096%
F&C Asset Management plc <sup>(7)</sup>		3,124,801	2.083%	2.083%
Bank of Montreal <sup>(7)</sup>	Total	3,124,801	2.083%	2.083%
CTT, S.A. (own shares)	Total	500,442	0.334%	0.334% <sup>(8)</sup>
Other shareholders	Total	94,690,192	63.127%	63.127%
<b>TOTAL</b>		<b>150,000,000</b>	<b>100.000%</b>	<b>100.000%</b>

<sup>(1)</sup> Shareholding directly and indirectly attributable to Mr. Manuel Carlos de Melo Champalimaud.

<sup>(2)</sup> Company held by Standard Life Investments (Holdings) Limited.

<sup>(3)</sup> Previously, Allianz Global Investors Europe GmbH.

<sup>(4)</sup> Companies controlled by BNP Paribas Investment Partners S.A..

<sup>(5)</sup> Company held by Artemis Investment Management LLP.

<sup>(6)</sup> As of 1 January 2015, as a result of a group corporate restructuring the client portfolios managed by Kames Capital Management Limited (a subsidiary of Kames Capital plc) have been transferred and are currently managed by Kames Capital plc. This qualifying shareholding is attributable to the following chain of entities: (i) Kames Capital Holdings Limited, which holds 100% of Kames Capital plc; (ii) Aegon Asset Management Holding BV, which holds 100% of Kames Capital Holdings Limited; and (iii) Aegon NV, which holds 100% of Aegon Asset Management Holding BV.

<sup>(7)</sup> 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.

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

The updated information on qualifying holdings in the Company as at the date of approval of this report can be found at [www.ctt.pt](http://www.ctt.pt) and the Securities Commission (CMVM) website, [www.cmvm.pt](http://www.cmvm.pt).

### 3. Own shares

At the Annual General Meeting held on 5 May 2015 the shareholders granted authorisation to the Company for the acquisition and sale of own shares for a period of 18 months .

Within the scope of such authorisation, from 16 to 22 March 2016, the Company undertook, on the Euronext Lisbon Stock Exchange, the acquisition of own shares, as detailed below:

Date of the transaction	Number	% of share capital	Average price	Disbursements made by the Company	% of Stock Exchange total volume
16-03-2016	86,650	0.058%	€ 8.168	€ 707,728	7.22%
17-03-2016	52,000	0.035%	€ 8.411	€ 437,384	5.62%
18-03-2016	60,000	0.040%	€ 8.569	€ 514,140	5.97%
21-03-2016	55,000	0.037%	€ 8.659	€ 476,264	10.52%
22-03-2016	46,615	0.031%	€ 8.556	€ 398,841	7.73%
<b>Total</b>	<b>300,265</b>	<b>0.201%</b>	<b>€ 8.446</b>	<b>€ 2,534,357</b>	<b>n.a.</b>

Note For further details on the transactions above, see the corresponding press release, available at CTT Investor Relations website:  
<http://www.ctt.pt/ctt-e-investidores/relacoes-com-investidores/comunicados.html?com.dotmarketing.htmlpage.language=1#panel3-1>

Following the transactions mentioned above and as at 30 June 2016, CTT is the holder of 500,442 own shares, **with nominal value of € 250,221.00** at the end of the period, which represent 0.334% of its share capital and voting rights (all the rights inherent to those shares are suspended, with the exception of the right to receive new shares in the event of a capital increase by means of a bonus issue), pursuant to article 324, paragraph 1(a) of the Portuguese Companies Code.

These transactions were performed in compliance with the obligations resulting from the share awarding plan for the Company's Executive Directors, as approved at the Annual General Meeting, in the framework of the corresponding long-term variable remuneration policy defined by the Remuneration Committee, as duly announced.

### 4. Shares held by and relevant transactions of the members of the governing and supervisory bodies

Under the terms of article 447, paragraph 5 of the Portuguese Companies Code and article 14 of CMVM Regulation no. 5/2008, during the 1<sup>st</sup> half of 2016, based on the communications made to the Company, the number of company shares held by the members of the Board of Directors and the supervisory body of the company and their related parties, including all their acquisitions, encumbrances or disposals of ownership, are indicated hereafter.

Board of Directors <sup>(a)</sup>	No. of shares as at 31.12.2015	Date	Acquisition	Encum- brance	Disposal	Price	No. of shares as at 30.06.2016
Francisco José Queiroz de Barros de Lacerda	3,110						3,110
António Sarmiento Gomes Mota	0						0
Manuel Cabral de Abreu Castelo-Branco	1,550						1,550
André Manuel Pereira Gorjão de Andrade Costa	3,890						3,890
Dionizia Maria Ribeiro Farinha Ferreira	0						0
Ana M <sup>a</sup> Carvalho Jordão Ribeiro Monteiro de Macedo	0						0
António Manuel de Carvalho Ferreira Vitorino <sup>(b)</sup>	0						0
Rui Miguel de Oliveira Horta e Costa	0						0
Nuno de Carvalho Fernandes Thomaz	0						0
Diogo José Paredes Leite de Campos	0						0
José Manuel Baptista Fino	0						0
Manuel Carlos de Melo Champalimaud <sup>(c)</sup>	267,885 <sup>(d)</sup>	14.06.2016	17,000			7.656 €	284,885

<sup>(a)</sup> Includes the members of the Executive Committee and the Audit Committee.

<sup>(b)</sup> Resigned from the position of Non-Executive member of the Board of Directors by letter dated 30 May 2016.

<sup>(c)</sup> Elected to the position of Non-Executive member of the Board of Directors at the Annual General Meeting of 28 April 2016.

<sup>(d)</sup> Number of shares held on the date of his election, on 28 April 2016.

Closely Related Parties	No. of shares as at 31.12.2015	Date	Acquisition	Encum- brance	Disposal	Price	No. of shares as at 30.06.2016
Alice Monjardino de Campos de Azevedo Soares <sup>(e)</sup>	120						-
Manuel M <sup>a</sup> Azevedo Soares de Abreu Castelo-Branco <sup>(f)</sup>	1,550						1,550
Susana Gorjão Costa <sup>(g)</sup>	3,110						3,110
Gestmin SGPS, S.A. <sup>(h)</sup>	10,409,615 <sup>(i)</sup>	24.06.2016	95,000			6.922 €	10,504,615
		27.06.2016	70,000			7.014 €	10,574,615

<sup>(e)</sup> As at 30 June 2016, no longer is a person closely related to Manuel Cabral de Abreu Castelo-Branco.

<sup>(f)</sup> Person closely related to Manuel Cabral de Abreu Castelo-Branco.

<sup>(g)</sup> Person closely related to André Manuel Pereira Gorjão de Andrade Costa.

<sup>(h)</sup> Person/entity closely related to Manuel Carlos de Melo Champalimaud.

<sup>(i)</sup> Number of shares held as at the date of the election of its major shareholder, Manuel Carlos de Melo Champalimaud, as Non-Executive Member of the Board of Directors.

Statutory Auditor and External Auditor	No. of shares as at 31.12.2015	Date	Acquisition	Encum- brance	Disposal	Price	No. of shares as at 30.06.2016
KPMG & Associados, SROC, S.A.	0						0
Maria Cristina Santos Ferreira	0						0
Vítor Manuel da Cunha Ribeirinho	0						0

As at 30 June 2016, the members of the managing and supervisory bodies of CTT did not hold any other securities issued by the Company or by companies in a group or control relationship with CTT, nor have they performed during the first half of 2016 other transactions regarding such securities than those indicated above.

## 5. Business with the Company and other interests of current members of the Board

Under the terms of paragraph 5(e) of article 66 and articles 397 and 398 of the CSC

During the 1<sup>st</sup> half of 2016, no authorisations were given by the Board of Directors to any of its members to carry out business with the Company or with companies in a group or control relationship with CTT.

None of the current members of the Board of Directors of CTT has held any temporary or permanent position subject to an employment or self-employment contract at CTT or at any Company in a group or control relationship with CTT during the 1<sup>st</sup> half of 2016.

The list shown below indicates the internal and external appointments of the members of the managing and supervisory bodies of the Company:

Members of the Board of Directors	Internal Appointments	External Appointments
Francisco José Queiroz de Barros de Lacerda	<ul style="list-style-type: none"> <li>Chairman &amp; CEO of CTT – Correios de Portugal, S.A.</li> <li>Chairman of Banco CTT, S.A.</li> <li>Chairman of CTT Expresso – Serviços Postais e Logística, S.A.</li> <li>Chairman of Tourline Express Mensajería, S.L.U.</li> <li>Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> <li>Chairman of the General Meeting Remuneration Committee of Banco CTT, S.A.</li> <li>Chairman of Remuneration Committee and Member of the Selection Committee of Banco CTT, S.A.</li> <li>Chairman of the Board of the General Meeting of Correio Expresso de Moçambique, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>Non-Executive Member of the Board of Directors of Endesa Energia, S.A.</li> <li>Chairman of the Board of COTEC Portugal - Associação Empresarial para a Inovação</li> <li>Member of the Board of IPC – International Post Corporation</li> <li>Member of the Board of AEM – Associação de Empresas Emitentes de Valores Cotados em Mercado (Companies Issuers of Listed Securities Association)</li> <li>Member of the Board of Directors of Fundação Portuguesa das Comunicações</li> <li>Member of the Advisory Board of Nova School of Business &amp; Economics</li> <li>Member of the Remuneration Committee of PHAROL, SGPS, S.A.</li> <li>Member of the Advisory Board of the Master in Finance of Católica Lisbon School of Business &amp; Economics</li> <li>Member of the Supervisory Board of the Cascais Yacht Club; appointed Deputy Commodore of this Board in 2016</li> </ul>
António Sarmento Gomes Mota	<ul style="list-style-type: none"> <li>Vice-Chairman and non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A. and Lead Independent Director</li> <li>Chairman of the Audit Committee of CTT – Correios de Portugal, S.A.</li> <li>Chairman of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> <li>Chairman of the Selection Committee of Banco CTT, S.A.</li> <li>Member of the General Meeting Remuneration Committee of Banco CTT, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>Member of the General and Supervisory Board and Chairman of the Audit Committee of EDP - Energias de Portugal, S.A.</li> <li>Member of the Remuneration Committee of PHAROL SGPS, S.A.</li> <li>Vice-Chairman of the Portuguese Institute of Corporate Governance</li> </ul>

Members of the Board of Directors	Internal Appointments	External Appointments
Manuel Cabral de Abreu Castelo-Branco	<ul style="list-style-type: none"> <li>• Vice-Chairman and Executive Member of the Board of Directors of CTT – Correios de Portugal, S.A.</li> <li>• Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.</li> <li>• Member of the Board of Directors of Tourline Express Mensajería, S.L.U.</li> </ul>	<ul style="list-style-type: none"> <li>• Manager of Alpodex, Lda.</li> </ul>
André Manuel Pereira Gorjão de Andrade Costa	<ul style="list-style-type: none"> <li>• CFO and Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Board of Directors of Banco CTT, S.A.</li> <li>• Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.</li> <li>• Member of the Board of Directors of Tourline Express Mensajería, S.L.U.</li> <li>• Chairman of Payshop (Portugal), S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Vice-Chairman of Eurogiro A/S</li> </ul>
Dionizia Maria Ribeiro Farinha Ferreira	<ul style="list-style-type: none"> <li>• Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Chairwoman of Mailtec Comunicação, S.A.</li> <li>• Chairwoman of CTT Contacto, S.A.</li> <li>• Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.</li> <li>• Member of the Board of Directors of Tourline Express Mensajería, S.L.U.</li> <li>• Member of the Board of Directors of Correio Expresso de Moçambique, S.A.</li> </ul>	
Ana Maria de Carvalho Jordão Ribeiro Monteiro de Macedo	<ul style="list-style-type: none"> <li>• Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Board of Directors of CTT Expresso - Serviços Postais e Logística, S.A.</li> <li>• Member of the Board of Directors of Tourline Express Mensajería, S.L.U.</li> </ul>	

Members of the Board of Directors	Internal Appointments	External Appointments
António Manuel de Carvalho Ferreira Vitorino <sup>19</sup>	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT – Correios de Portugal, S.A.</li> <li>• Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the Fiscal Board of Tabaqueira, S.A.</li> <li>• Chairman of the Fiscal Board of Siemens Portugal</li> <li>• Non-Executive Director of Áreas Portugal</li> <li>• President of Notre Europe – Institute Jacques Delors</li> <li>• Chairman of the Board of the General Meeting of EDP</li> <li>• Chairman of the Board of the General Meeting of Brisa - Auto-Estradas de Portugal, S.A.</li> <li>• Partner of Cuatrecasas, Gonçalves Pereira</li> </ul>
Nuno de Carvalho Fernandes Thomaz	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of Sociedade Gestora do Fundo de Capital de Risco Bem Comum</li> <li>• Manager of I Cook - Organização de Eventos, Lda.</li> <li>• Member of the Advisory Committee of Luz Saúde, S.A.</li> <li>• Member of the Advisory Committee of the Portuguese Institute of Corporate Governance</li> <li>• Chairman of the School Council of Nova School of Business and Economics</li> <li>• Member of the international and European Boards of UNIAPAC – Union des Entrepreneurs Chrétiens</li> <li>• Vice-Chairman of the Competitiveness Forum</li> </ul>
Diogo José Paredes Leite de Campos	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Audit Committee of CTT – Correios de Portugal, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the Fiscal Board of Banco Santander Consumer Portugal, S.A.</li> </ul>

<sup>19</sup> Resigned from the position by letter dated 30 May 2016.

Members of the Board of Directors	Internal Appointments	External Appointments
Rui Miguel de Oliveira Horta e Costa	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> <li>• Member of the Selection Committee of Banco CTT, S.A.</li> <li>• Member of the General Meeting Remuneration Committee of Banco CTT, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of Agrocortex</li> <li>• Member of the Board of Directors of Cell2B</li> <li>• Member of the Iberian Advisory Board of ATKearney</li> <li>• Non-Executive Member of the Board of Directors of EIP</li> <li>• Founder and member of the Board of Directors of Luz.on</li> <li>• Non-Executive Member of the Board of Directors of Vale do Lobo Resort</li> <li>• Founder, as consultant, of RHCAS</li> </ul>
José Manuel Baptista Fino	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> <li>• Member of the Corporate Governance, Evaluation and Nominating Committee of CTT – Correios de Portugal, S.A.</li> <li>• Member of the Selection Committee of Banco CTT, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Ramada Energias Renováveis, S.A.</li> <li>• Member of the Board of Directors of SDC Investimentos, SGPS, S.A.</li> <li>• Sole Director of Dignatis – Investimentos Imobiliários e Turísticos, S.A.</li> <li>• Chairman of the Board of Directors of Ramada Holdings SGPS, S.A.</li> <li>• Managing Partner of Nova Algodoeira, Lda.</li> <li>• Sole Director of Dorfino Imobiliário, Lda.</li> <li>• Member of the Board of Directors of Specialty Minerals (Portugal) Especialidades Minerais, S.A.</li> </ul>
Manuel Carlos de Melo Champalimaud <sup>20</sup>	<ul style="list-style-type: none"> <li>• Non-Executive Member of the Board of Directors of CTT - Correios de Portugal, S.A.</li> </ul>	<ul style="list-style-type: none"> <li>• Chairman of the Board of Directors of Gestmin SGPS, S.A.</li> <li>• Managing Director of Sociedade Agrícola São Barão – Unipessoal, Lda.</li> <li>• Manager of DaPraia – Promoção Imobiliária, Lda</li> <li>• Chairman of the Board of Directors of Sogestão – Administração e Gerência, S.A.</li> <li>• Managing Director of Sogolfe – Empreendimentos Turísticos, Sociedade Unipessoal, Lda</li> </ul>

<sup>20</sup> Elected at the Annual General Meeting of 28 April 2016 for the 2014-2016 term of office.



## PART IV – AUDIT REPORT





**KPMG & Associados - Sociedade de Revisores  
Oficiais de Contas, S.A.**  
Edifício Monumental  
Av. Praia da Vitória, 71 - A, 11º  
1069-006 Lisboa  
Portugal

Telephone: +351 210 110 000  
Fax: +351 210 110 121  
Internet: [www.kpmg.pt](http://www.kpmg.pt)

## **LIMITED REVIEW REPORT ON CONSOLIDATED INTERIM FINANCIAL INFORMATION**

(This report is a free translation to English from the Portuguese version.

In case of doubt or misinterpretation the Portuguese version will prevail.)

### **Introduction**

- 1 In accordance with the requirements of the 'Código dos Valores Mobiliários' (CVM), we hereby present our limited review report on the interim condensed consolidated financial information for the six month period ended 30 June 2016, of **CTT – Correios de Portugal, S.A.** which include: the interim condensed consolidated statement of financial position (with total assets of Euros 1,221,308,756 and total equity of Euros 211,406,327 including non-controlling interests of Euro 56,497 and consolidated net profit of Euros 31,676,537) and the condensed consolidated statements of income, cash flows, changes in equity and comprehensive income for the six month period then ended and the corresponding explanatory notes.
- 2 The amounts included in the interim condensed consolidated financial statements and the additional financial information were extracted from the accounting records.

### **Responsibilities**

- 3 The Board of Directors is responsible for:
  - a) the preparation of interim condensed consolidated financial information which gives a true and fair view of the consolidated financial position of CTT and the consolidated result of its operations, cash-flows, changes in equity and comprehensive income;
  - b) the preparation of historical financial information, in accordance with IAS 34 – Interim Financial Reporting and that is complete, true, current, clear, objective and lawful as established by CVM;
  - c) the adoption of adequate accounting policies and criteria;
  - d) the maintenance of an appropriate internal control system; and
  - e) the communication of any relevant fact that may have influenced its activity, financial position or results.
- 4 Our responsibility is to verify the above mentioned interim condensed consolidated financial information, namely if it is complete, true, current, clear, objective and fair as required by the CVM, and issue an independent report based on our work.

## Scope

- 5 The work that we have performed was conducted with the objective of obtaining a moderate level of assurance about whether the interim consolidated financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the Portuguese Institute of Statutory Auditors (Ordem de Revisores Oficiais de Contas), and planned in accordance with that objective and included the following procedures:
- a) mainly, inquiries and analytical procedures performed to review:
    - the reliability of the assertions included in the interim condensed consolidated financial information;
    - the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
    - applicability of the going concern principle;
    - the presentation of the interim condensed consolidated financial information;
    - if the interim condensed consolidated financial information is complete, true, current, clear, objective and fair; and
  - b) substantive tests on non-usual significant transactions.
- 6 Our review also included the verification that the financial information included in the Management Report is consistent with the documents mentioned above.
- 7 We believe that our work provides a reasonable basis to issue the report on the interim condensed consolidated financial information.

## Conclusion

- 8 Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information for the six month period ended 30 June 2016, is not free of material misstatements that affect its compliance with IAS 34 – Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 4 August 2016

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**KPMG & Associados**  
**Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)**  
Represented by  
Maria Cristina Santos Ferreira (ROC n.º 1010)

## CONTACTS

### HEADQUARTERS

Avenida D. João II, N. 13

1999-001 Lisbon

PORTUGAL

Telephone: +351 210 471 836

Fax: +351 210 471 994

### Customers

E-mail: [informacao@ctt.pt](mailto:informacao@ctt.pt)

CTT Line 707 26 26 26

Business days and Saturdays from 8:00 am to 10:00 pm

### Market Relations Representative

André Gorjão Costa

### Investor Relations Department

Peter Tsvetkov

E-mail: [investors@ctt.pt](mailto:investors@ctt.pt)

Telephone: +351 210 471 087

Fax: +351 210 471 994

### Media

Brand and Communication Department

Press Advisor

Fernando Marante

E-mail: [gabinete.imprensa@ctt.pt](mailto:gabinete.imprensa@ctt.pt)

Telephone: +351 210 471 800