

Consolidated Results

2016



ctt



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

FULL YEAR 2016 CONSOLIDATED RESULTS

LAUNCH OF BANCO CTT IS THE LANDMARK OF 2016

- The price increase of the postal services in 2016 did not compensate the decline in the addressed mail volumes which stood at -4.2%, very much influenced by the sharper decline experienced in the 4th quarter. In the mail sent by large clients, the decline in registered mail caused a deterioration of the average unit price in excess of 2%, exacerbating the effect of the volumes decline on revenues.
- As far as the other business units are concerned, 2016 was marked by the launch of Banco CTT as an evolution driver of the Financial Services of CTT for the medium and long-term, consolidating this growth lever. Banco CTT¹ closes the year with 202 branches countrywide, 105 thousand clients, over 74 thousand current accounts and more than €250m in customer deposits.
- Recurring revenues decreased by 4.4%, recurring EBITDA stood at €119.5m (-17%) and EBITDA margin reached 17.2%. The recurring EBITDA excluding Banco CTT¹ was €139.6m (-6.3%), with Mail contributing 70%, Financial Services 27% and Express & Parcels 3%.
- Net profit reached €62.2m, a 13.7% year-on-year decrease, with an 8.9% net margin on revenues. The Net Profit excluding Banco CTT¹ was €85.5m (+5.6%).

Consolidated Results

€ Million

	Reported			Recurring ^(*)		
	2016	2015	Δ	2016	2015	Δ
Revenues	696.8	727.2	-4.2%	695.1	727.2	-4.4%
Sales and services rendered	669.7	705.2	-5.0%	669.7	705.2	-5.0%
Net interest income	0.03	-	-	0.03	-	-
Other operating income	27.1	22.0	23.2%	25.4	22.0	15.2%
Operating costs	594.8	592.6	0.4%	575.6	583.2	-1.3%
EBITDA	102.1	134.6	-24.2%	119.5	144.0	-17.0%
Amortisation, depreciation, provisions and impairments	11.2	24.6	-54.7%	24.8	24.2	2.5%
EBIT	90.9	109.9	-17.3%	94.7	119.8	-20.9%
Financial income, net	-5.9	-5.4	-9.2%	-5.9	-5.4	-9.2%
Gains / (losses) in associated companies	0.2	0.1	324.4%	0.2	0.1	324.4%
Earnings before taxes (EBT)	85.2	104.6	-18.5%	89.0	114.4	-22.2%
Income tax for the period	23.3	32.5	-28.2%	25.4	32.9	-22.8%
Non-controlling interests	-0.26	0.01	<<	-0.26	0.01	<<
Net profit attributable to equity holders	62.2	72.1	-13.7%	63.9	81.6	-21.6%

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

¹ Includes Banco CTT business unit and Banco CTT project (booked in CTT S.A.).



Consolidated Results excluding Banco CTT ^(**)

€ Million

	Reported			Recurring ^(*)		
	2016	2015	Δ	2016	2015	Δ
Revenues	695.5	727.2	-4.4%	693.8	727.2	-4.6%
Sales and services rendered	669.6	705.2	-5.0%	669.6	705.2	-5.0%
Other operating income	25.9	22.0	17.6%	24.2	22.0	9.8%
Operating costs	566.5	581.2	-2.5%	554.2	578.2	-4.1%
EBITDA	129.0	146.0	-11.7%	139.6	149.0	-6.3%
Amortisation, depreciation, provisions and impairments	8.6	24.5	-65.1%	23.0	24.0	-4.2%
EBIT	120.5	121.6	-0.9%	116.5	125.0	-6.8%
Financial income, net	-5.9	-5.4	-8.8%	-5.9	-5.4	-8.8%
Gains / (losses) in associated companies	0.2	0.05	324.4%	0.2	0.05	324.4%
Earnings before taxes (EBT)	114.8	116.2	-1.2%	110.9	119.6	-7.3%
Income tax for the period	29.6	35.3	-16.1%	31.8	34.4	-7.5%
Non-controlling interests	-0.26	0.01	<<	-0.26	0.01	<<
Net profit attributable to equity holders	85.5	80.9	5.6%	79.3	85.2	-6.9%

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

(**) Excluding revenues/ costs of Banco CTT and project Banco CTT booked at CTT S.A..

REVENUES

Recurring revenues amounted to €695.1m, -4.4% in relation to the previous year.

This negative variance reflects the decrease in revenues of the business units: Mail, Express & Parcels and Financial Services (mainly payments and transfers) only slightly offset by Banco CTT, still in its launch stage. The evolution of the caption “Central Structure and Intragroup Eliminations” shows the decrease in the amount of other operating income (€-16.6m), which results from the optimisation and efficiency measures taken since 2015, especially the reduction in internal service provisions in information systems (€-2.4m) and human resources (€-12.5m), in the scope of the continuous policy of utilising the scale and resources of the company.

The weight of each business unit in the overall revenues did not show significant changes from 2015 to 2016.

Revenues

€ Million

	Reported			Recurring			Weight %	
	2016	2015	Δ	2016	2015	Δ	2016	2015
Revenues	696.8	727.2	-4.2%	695.1	727.2	-4.4%	100%	100%
Business Units	726.1	761.2	-4.6%	726.1	761.2	-4.6%		
Mail	533.6	554.6	-3.8%	533.6	554.6	-3.8%	77%	76%
Express & Parcels	120.8	131.3	-8.0%	120.8	131.3	-8.0%	17%	18%
Financial Services	70.8	75.3	-6.0%	70.8	75.3	-6.0%	10%	10%
Banco CTT (*)	1.0	0.0	>>	1.0	0.0	>>	0.1%	0.0%
Central Structure and intragroup eliminations	-29.3	-34.0	13.9%	-31.0	-34.0	8.8%	-4%	-5%

(*) Revenues from Banco CTT business unit were €961.7 thousand in 2016 and €1.7 thousand in 2015.



In the **MAIL** business unit the decrease in revenues is mainly due to the evolution of **addressed mail volumes** which decreased by 4.2% in 2016, as detailed in the table below.

Mail Volumes

Million items									
	9M16	9M15	Δ	4Q16	4Q15	Δ	2016	2015	Δ
Transactional Mail	504.9	522.8	-3.4%	157.9	165.5	-4.6%	662.8	688.3	-3.7%
Editorial Mail	31.9	34.3	-6.7%	11.3	12.0	-5.3%	43.3	46.2	-6.4%
Advertising Mail	54.6	54.3	0.5%	19.6	25.9	-24.4%	74.2	80.2	-7.5%
Addressed Mail	591.4	611.4	-3.3%	188.8	203.4	-7.2%	780.2	814.7	-4.2%
Unaddressed Mail	361.4	345.0	4.8%	136.3	128.4	6.1%	497.8	473.4	5.1%

The main reasons for the change in addressed mail volumes were the 4 less working days compared to 2015, corresponding to 4 national holidays that were reinstated in 2016, with effects on the 4th quarter volumes, as well as the reduced consumption of large and medium business customers, both due to the normal effect of substitution of physical with digital communication and to the change in the consumption profile (campaigns or initiatives not carried out). An analysis of the year-on-year change of the 4th quarter 2016 addressed mail volumes shows that that period is the one with the most negative effect on the overall annual change, especially with the reintroduction of three holidays in the 4th quarter 2016 (less 3 working days than in 2015).

The average change of the prices of the Universal Service in 2016 versus the previous year was +1.1% and contributed, along with the growth of international inbound mail, to mitigate the effect of the volume decline in the revenues of addressed mail. This change stemmed mainly from the update of the basket of letter mail, editorial mail and parcels services that entered into force as of 1 February, from the changes in the discounts policy and from the volume structure in terms of the different mail products and weight levels.

Transactional mail volumes decreased by 3.7% in 2016. This evolution is the result of changes in the volumes of ordinary mail (-3.4%), registered mail (-8.8%), priority mail (-8.8%), "green mail" / *correio verde* (-2.7%) and international outbound mail (-2.4%). On the contrary, international inbound mail had a positive evolution (+5.2%).

The decrease in **registered mail** was due to the Government and the Public Administration's reduced consumption, particularly the Tax Authority, which has been reducing its use of this type of mail since the 3rd quarter of 2015. Excluding the reduction, amounting to -35% in 2016, of this type of mail originated in the Tax Authority, registered mail volumes would have grown by 1.3% when compared with the previous year proving its resilience as a form of added-value communication for users. The evolution of this type of mail volumes even showed improvements throughout the year (year-on-year changes of -12.5% in the 1st quarter and -0.9% in the 4th quarter).

Ordinary mail volumes decreased mainly in the 4th quarter (-5.4%) due to the reduction in mail sent by some of the large customers of the Banking (-6.5%), Telecommunications (-12.5%) and other utilities (-5.9%) sectors, as well as by the medium-size customers. The reductions were mostly due to the continuous substitution of physical with digital communications and to the use, even though still very limited, of other operators that entered the market.

Domestic **editorial mail** volumes maintained the downward trend (-5.3% in the 4th quarter and -6.4% in the year) evidenced during the year, mainly due to the reduced consumption of contractual customers. It should be noted that the pricing policy allowed this decrease in volumes not to be reflected in the revenues of this product, which grew by 6.3% in the 4th quarter and 1.4% in the year.

Addressed advertising mail volumes declined sharply in the 4th quarter (-24.4%), influencing the annual evolution (-7.5%). The behaviour in the 4th quarter was mainly due to the reduction in the number of campaigns carried out by two large customers in the retail sector.



The **EXPRESS & PARCELS** business unit posted revenues of €120.8m, corresponding to a decrease of 8.0% (-€10.4m) compared to 2015. Business revenues in **Spain** decreased by €6.2 million (-12.6%) mainly due to a 12.3% drop in volumes as a result of the strategy implemented in the 1st quarter, with the termination of the contracts of 2 clients with unprofitable contracts for Tourline, representing more than 10% of the revenues. Although very relevant to the strategy being implemented in the Spanish market, the entry of the Amazon.es customer had an impact in 2016 which was still limited since it only began operations with Tourline a little more than a month before the end of the year.

In spite of the drive of the various commercial and marketing initiatives carried out in 2016, revenues in **Portugal** decreased by 4.5%, although with signs of recovery in the last 3 months of the year, with volume growth of 8.6%, based in particular on the performance of the e-commerce, retail, cosmetics and telecommunications sectors. This behaviour includes the entry of new customers acquired during 2016, the increase of the share of wallet in some customers and also the growth of activity of important customers.

The decrease in revenues was particularly affected by (i) the continued erosion of the banking business (38% of the drop) due to the decrease in activity associated with the contraction in the number of bank branches and the increase in competition in this segment, (ii) the behaviour of international inbound and outbound mail volumes (32% of the drop) motivated by the greater aggressiveness of the competition of integrators in this international segment, and (iii) in the domestic express due to the exit of a relevant customer; without this effect, the revenues of the domestic segment would be growing at a rate of around 2%.

Mozambique recorded a reduction of 0.6 M€ (-29.8%) in revenues, due to the evolution of the exchange rate, given that the growth in the figures expressed in metical (local currency) was 12.9%, +11.9 million meticaïs mainly due to the growth of the banking business.

The **FINANCIAL SERVICES** business unit posted revenues of €70.8m, corresponding to a decrease of 6.0% (-€4.6m) compared to 2015.

Savings placements reached 3.8 billion euros, corresponding mostly to subscriptions of public debt certificates that totalled 97% of that amount; especially the placement of Treasury Certificates Poupança Mais; the revenues from the placement of public debt posted a 6.3% growth vis-à-vis 2015.

The decrease in revenues originated mainly in the segments of money orders and transfers, and payments. The **money orders and transfers** business evolved in line with its main service, pension payments, which continued to record a decline in 2016. International transfers continued to record a decrease in revenues due primarily to the reduction of prices in the Western Union network. Of note is the gradual extension, from the end of 2016 onwards, of this partnership with Western Union to the postal agencies.

Despite the decline in revenues still experienced in 2016 (-12.3%), the **payments** business as a whole generated revenues of €23.5m, with the following positive developments to be highlighted: (i) integrated payment solutions that allow business customers to have all payment solutions with the same supplier, (ii) payment of tolls whose fully digital campaign during the summer period resulted in a significant growth of this business, and (iii) the sale of prepaid products for purchases on the internet which reversed the trend in the last quarter of the year with the launch of the new *paysafecardirect* service and promotional campaigns for users and agents. In this area of payments, 2016 is marked by the repositioning of the Payshop brand as single payment brand, which involved the setting up of a transformational plan that will be implemented during the 2017-2019 period and that will bring new services to customers and users, as the growth of this segment is boosted by two levers: more services offered and an expanded network with more agents available.



The recurring revenues of **BANCO CTT** business unit reached €961.7 thousand in 2016, a period in which the focus was on account openings and customer acquisitions. The results achieved so far prove that Banco CTT was a project sought by the market, and is already a brand widely recognised by the Portuguese people.

The year 2016 marked the beginning of the activity of Banco CTT, with enormous challenges, namely the unprecedented number of branches opened, the capture of new clients, the development and optimisation of processes, the gradual reinforcement of the offer of products and solutions for the customers, and the focus on the quality of the promotion of the identity and trademark Banco CTT to the Portuguese population. These challenges have been overcome and the proof is in the results achieved by the end of the year, not only in attracting customers but also in the use they make of their account with Banco CTT, allowing the Bank to obtain revenues from card transactions and from consumer credit products.

After only 9 months of operation, Banco CTT complied with the roll-out plan and year-end proposed goal and is present countrywide in 202 branches open to the public. It won the trust of 105 thousand customers through the opening of more than 74 thousand current accounts. These clients have established a relationship of trust and proximity with the bank – materialised in the utilisation of the accounts – values that are at the origin of its value proposition in the Portuguese banking market, and which have led to the growth of the institution, of which the highlight is the capture of above 250 million euros of customer deposits.

OPERATING COSTS²

The evolution of the recurring operating costs in 2016 continued to depend mostly on the implementation of the **Transformation Programme**³. The reductions achieved allowed the total costs to reduce by 1.3%, despite the €21.3m recurring costs from Banco CTT, mostly incremental.

€ Million	Operating costs					
	Reported			Recurring		
	2016	2015	Δ	2016	2015	Δ
Operating costs (*)	594.8	592.6	0.4%	575.6	583.2	-1.3%
External supplies & services	232.0	233.1	-0.4%	223.3	224.7	-0.6%
Staff costs	338.4	331.8	2.0%	328.4	331.7	-1.0%
Other operating costs	24.3	27.8	-12.3%	23.9	26.8	-10.7%

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

Recurring **external supplies & services** (ES&S) costs decreased by 0.6% (–€1.4m) year-on-year, mainly due to the initiatives regarding the optimisation and rationalisation of the operations and the distribution networks integration, which fully offset the ES&S costs from Banco CTT amounting to €11.8m (+€9.5m than in 2015). CTT strategy is to increasingly leverage the growth and development of its businesses within its distribution and retail networks, allowing for a continuous improvement in the allocation of fixed costs.

As far as **staff costs** are concerned, the €3.3m (–1.0%) decrease in recurring costs is mainly due to the following reductions: (i) –€8.6m resulting from the remuneration policy implemented that emphasises the variable component granted as employee profit-sharing; (ii) –€2.4m from the “telephone subscription fee” employee benefit; and (iii) –€2.9m from Tourline’s staff costs following the personnel restructuring measures implemented in 2015.

² Including depreciation / amortisation, impairments, provisions and non-recurring costs.

³ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



These favourable changes were partly absorbed by the increase of Banco CTT staff costs (+€7.4m), by the extension of the coverage of the work accidents insurance of the CGA (Caixa Geral de Aposentações) workers (+€1.3m), and by the increase of sales incentives (+€1.4m) mostly in the scope of financial services. It should be noted that non-recurring staff costs of the 4th quarter include an amount of €4 million related to the implementation of a human resources optimisation plan which resulted in the reduction of 56 employees with a positive impact on next years' costs.

STAFF

As at 31 December 2016, the CTT headcount consisted of 12,149 employees, 92 more (+0.8%) than on 31 December 2015.

There was a reduction of 118 permanent employees and an increase of 210 with fixed-term contracts. With special impact on this change is the reduction in the staff of the Express & Parcels business unit, as a consequence of the distribution networks integration and optimisation of the integrated networks process in Portugal, and the staff reduction in CTT S.A. central services as a result of the human resources optimisation plan. Conversely, the number of Banco CTT staff increased based on the life span of this project.

The increase in fixed-term contract employees focused on the Mail business unit, (i) in the operations area as a result of a higher absenteeism rate in the period and the necessary process adaptation to the integration of the Express & Parcels mail delivery within the Mail delivery network and (ii) in the Retail Network as a consequence of the necessary reorganisation to perform banking operations in the CTT post offices which involved a strong demand from clients wishing to open an account. It is expected that in the future this demand will be gradually reduced to levels more compatible with the size of the network of post offices provided with the Banco CTT, which, in turn, will gradually expand to more CTT post offices in order to meet the demand.

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

The number of employees includes 6,685 mail operations and delivery staff (including 4,687 delivery postmen) and 2,745 employees in the Retail Network.

In 2016, 140 employees were hired (106 in Portugal, of which 59 for Banco CTT and 34 abroad, specifically for Tourline Express), while 260 left. Of these, 58 employees retired, 186 terminated their contracts or are on leave without pay or similar situations (40 abroad, of which 36 at Tourline Express and 4 at Corre) and 16 passed away.



RECURRING EBITDA

The operating activity generated a recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results) of €119.5m, -17.0% (-€24.5m) below that of 2015, with an EBITDA margin of 17.2%. It should be mentioned that even this recurring EBITDA is strongly affected by recurring costs with Banco CTT and the Banco CTT project at this launching stage with no relevant income; excluding such costs the decrease in recurring EBITDA would have been 6.3% (-€9.5m).

These results reflect the evolution described above: a €32.1m decline in revenues combined with a lower decrease of €7.6m in operating costs (excluding depreciation and amortisation, impairments, provisions and non-recurring costs).

Consolidated EBITDA by Business Unit

€ Million								
	Reported			Recurring			Weight %	
	2016	2015	Δ	2016	2015	Δ	2016	2015
EBITDA	102.1	134.6	-24.2%	119.5	144.0	-17.0%	100%	100%
Mail	85.2	103.0	-17.3%	97.8	102.7	-4.8%	82%	71%
Express & Parcels	4.5	0.8	478.7%	4.6	4.0	15.3%	4%	3%
Financial Services	37.8	38.2	-1.0%	37.9	41.9	-9.7%	32%	29%
Banco CTT	-25.4	-7.4	-244.0%	-20.8	-4.7	-344.3%	-17%	-3%

RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax, and non-recurring results) recorded a negative year-on-year change of €25.1m (-20.9%) to €94.7m. The EBIT margin stood at 13.6%.

Net financial results reached -€5.6m, which represents a €0.3m decrease vis-à-vis 2015. Financial costs incurred amounted to €6.5m, mainly incorporating financial costs associated with the discount rate of employee benefits amounting to €6.3m and also, but of less relevance, interest related to financial leasing and bank loans operations (€0.2m). Interest and other financial income decreased by 54.7% (-€0.8m) in relation to the figures of 2015 due to the decline in the rates of return on term deposits, the reduction in the liquidity levels as a result of the investment in Banco CTT, and the continued policy of conservative treasury management.

CTT obtained a €62.2m consolidated net profit attributable to shareholders, which is 13.7% below that of 2015 and corresponding to a result of €0.42 per share and an 8.9% net profit margin on the revenues (9.9% in 2015). Excluding the non-recurring effects in both financial years, as well as the expenditure with Banco CTT at this launch stage, the net profit would have increased by 5.6% to €85.5m.



NON-RECURRING COSTS AND REVENUES

In 2016, CTT recorded non-recurring results of -€3.8m.

Non-recurring costs and revenues

€ Million		
	2016	2015
Total	-3.8	-9.8
affecting EBITDA	-17.4	-9.4
. Other operating income	1.8	-
. External supplies & services and other costs	-9.2	-9.4
. Staff costs	-10.0	-0.03
affecting only EBIT	13.6	-0.4
. Provisions (reinforcements / reductions)	15.1	-0.04
. Impairments (losses / reductions)	-1.5	-0.4

Other operating income includes €1.7m relative to the recognition of the deferred capital gain for the early termination of the Conde Redondo building lease contract.

ES&S costs include €8.8m of costs incurred with studies and consulting on strategic projects, especially those related to (i) the Banco CTT implementation project (€6.8m), (ii) the Management Information improvement project, and (iii) consulting on other projects.

Under staff costs is included the negative impact of (i) €8.4m from the transformation programme³ (€2.8m in compensations resulting from the Company Agreement 2015, €0.7m associated with termination of employment contracts by mutual agreement, €0.9m in indemnities for Suspension Agreements and €4.0m related to the human resources optimisation programme implemented in the 4th quarter) and (ii) €1.6m resulting from the decrease of the discount rate of other long-term employee benefits and the reduction of medical expenses, as well as the creation of the healthcare plan within the optimisation programme.

INVESTMENT

Capex of the Group stood at €42.2m, which is 30.4% above that of the same period of last year (+€9.8m) with special focus on the implementation of both Banco CTT (€19.0m) and the IT systems strategic plan (€11.4m). Special note also to the investments in the maintenance and resettlement works in buildings and premises (€6.9m), and in the renewal and expansion of the fleet (€3.2m).

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables) increased from €93.9m in 2015 to €269.4m in 2016 (+187.0%). The adjusted operating free cash flow (excluding the change in net financial services payables) totalled €83.8m.

³ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



The net **change in cash** amounted to €15.2m, a positive change of €76.1m versus 2015. Excluding the change in the financial services receivables/payables (-€1.1m), the change in cash was €16.3m. This situation results mostly from: (i) +€225.8m from Banco CTT's operating cash flows; (ii) +€43.6m of cash flow from the operating activities (excluding the financial services and Banco CTT's cash flows); (iii) -€29.5m relative to payments regarding tangible and intangible fixed assets; (iv) -164.8m relative to financial assets held by Banco CTT; and (v) -€70.3m for the payment of dividends.

Cash flow						
€ Million	Reported			Adjusted (*)		
	2016	2015	Δ	2016	2015	Δ
Cash flow from operating activities	268.2	32.8	716.9%	269.4	93.9	187.0%
Cash flow without Fin. Services and Banco CTT	-	-	-	43.6	97.1	-55.1 %
Cash flow Banco CTT	-	-	-	225.8	-3.2	»
Cash flow from investment activities	-185.6	-25.5	-626.7%	-185.6	-25.5	-626.7%
Capex	-29.5	-28.4	-4.1%	-29.5	-28.4	-4.1%
Of which cash flow Banco CTT	-	-	-	-10.0	-9.9	-0.7%
Financial assets Banco CTT (**)	-164.8	-	-	-164.8	-	-
Other	8.7	2.8	207.4%	8.7	2.8	207.4%
Operating Free cash flow	82.6	7.3	1032.7%	83.8	68.3	22.6%
Cash flow from financing activities	-72.4	-68.2	-6.1%	-72.4	-68.2	-6.1%
Of which dividends	-70.3	-69.8	-0.7%	-70.3	-69.8	-0.7%
Other	5.0	0.02	»	5.0	0.02	»
Net change in cash	15.2	-60.9	124.9%	16.3	0.1	»
	31.12.2016	31.12.2015	Δ	31.12.2016	31.12.2015	Δ
Cash and equivalents at the end of the period	618.8	603.6	2.5%	295.3	279.0	5.8%

(*) Cash flow excluding change in net Financial Services payables (-€1.1m in 2016 and -€61.0m in 2015).

Cash and equivalents at the end of the period excluding net Financial Services payables (€323.5m in December 2016 and €324.7m in December 2015).

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

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 31.12.2016 and that at the end of the 2015 financial year are:

Total **assets** increased by €197.2m (+17.6%), of which €167.7m relative to financial assets held by Banco CTT broken down as follows: (i) €101.5m of investments held to maturity and available-for-sale financial assets, 79.2% of which relative to public debt securities; (ii) €59.1m of other banking financial assets, mostly investments in credit institutions and in the interbank market; and (iii) €7.1m of credit to banking clients (bilateral). Within the total assets it should be mentioned the €15.2m increase in cash and equivalents and the €7.1m increase in other current assets.

Equity decreased by €18.5m (-7.3%) as a result of a €9.9m lower net profit and of the €8.5m reduction in other changes in equity due to the negative net amount of actuarial gains/losses associated to post-employment employee benefits (€11.8m) and corresponding deferred tax assets (-€3.3m) due essentially to the reduction of the discount rate. To be mentioned is also the purchase of own shares (400,354 shares) in 2016 for a total amount of €3.2m, totalling €5.1m (600,531 shares) at the end of the year.



Liabilities increased €215.7m (+24.9%) with the following main changes: (i) €253.9m increase of Banco CTT customer deposits; (ii) the €2.6m increase in current funding obtained (mainly for funding Tourline via cash pooling); (iii) €9.6m decrease of deferrals-current in (reflecting the amount recorded in the 2016 results regarding the agreement with Altice); (iv) €4.7m decrease in deferrals non-current (of which €1.7m related to the early recognition of the deferred gain due to the early termination of the Conde Redondo building lease contract); and (v) €26.6m reduction in provisions (of which €9.0m related to the early termination of the Conde Redondo building lease contract, €4.4m refer to the Restauradores and Av. Casal Ribeiro buildings and €7.0m relate to the revision of the provisions for labour contingencies reflecting the historical information compiled from court decisions).

Consolidated Balance Sheet

€ Million	31.12.2016	31.12.2015	Δ
Non-current Assets	452.6	354.9	27.5%
Current Assets	864.1	764.6	13.0%
Assets	1,316.7	1,119.5	17.6%
Equity	233.3	251.8	-7.3%
Total Liabilities	1,083.4	867.6	24.9%
Non-current Liabilities	269.5	292.7	-7.9%
Current Liabilities	813.8	575.0	41.5%
Total Equity and Liabilities	1,316.7	1,119.5	17.6%
Liquidity ratio	106.2%	133.0%	-26.8 p.p.
Adjusted solvency ratio ^(a)	30.7%	46.4%	-15.7 p.p.
Net debt	-90.3	-82.6	9.3%
Net debt/recurring EBITDA ^(b)	-0.8 x	-0.6 x	-0.2 x
Tangible fixed asset coverage	230.4%	237.0%	-6.6 p.p.

^(a) Equity/(total liabilities - third party funds included in cash and equivalents)

^(b) Negative net debt corresponds to net cash

As at 31 December 2016, the **liabilities related to employee benefits** amounted to €272.3m, 3.6% more than in December 2015, in large part due to the reduction of the discount rate from 2.5% to 2.0%.

Liabilities related to long-term employee benefits

€ Million	31.12.2016	31.12.2015	Δ
Total liabilities	272.3	262.8	3.6%
Healthcare	249.1	236.8	5.2%
Staff (suspension agreements)	5.5	8.2	-33.3%
Other benefits to Corporate Bodies	4.5	3.0	50.0%
Other long-term benefits	13.2	14.8	-10.6%



OTHER HIGHLIGHTS

QUALITY OF SERVICE

In 2016, the OQSI – Overall Quality of Service Indicator stood at 126 points, compared to a target of 100. The year of 2016 was marked by the transition to an external entity (PricewaterhouseCoopers (PwC)) of the universal postal service quality of service indicators measurement. PwC started such measurement on 1 October 2016.

TRANSFORMATION PROGRAMME³

▪ OPTIMISATION OF OPERATIONS AND INTEGRATION OF THE DISTRIBUTION NETWORKS

In terms of operations and with a view to improving the profitability in Portugal, the **integration of the Mail and Express & Parcels distribution networks** (subcontracted) started in 2014. In 2015 an in-depth integration of the network was carried out to achieve an increased use of the postmen network for the last-mile delivery of parcels, maximising the existing capacity and capillarity of the network. This process allowed to a large extent the replacement of outsourced distribution with internal resources.

In 2016, a new stage of the distribution networks optimisation project began, leading to the gradual insourcing of the delivery of EMS 19 *Múltiplo* through the Mail distribution network in a total of 30 postal delivery offices. This completed the insourcing potential of EMS within the Mail distribution network. As a result of these initiatives, throughout 2016, circa 73% of all the EMS volumes were delivered by the Mail distribution network.

▪ INFORMATION SYSTEMS STRATEGIC PLAN

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

In 2016, in the field of **transformation of applications** and highlighting only the most important initiatives, the implementation of the new revenue assurance solution began, as did the support system for the new Mail Advertising (CTT Ads) offer and the CTT information management platform. In terms of current activity, several services of the new modular Express & Parcels offer and the new cost accounting system of CTT Expresso were completed, as well as the design of the self-service model for products and services (of CTT or its partners), which will be offered in post offices, postal agencies and partners, and other premises with large public inflow.

In the area of **transformation of infrastructures**, the consolidation of the Unix servers pool was completed, which allows for significant savings of maintenance costs and strong performance improvements. Also, new communication, security and unwanted access control services were implemented. The project to design the consolidation and storage of the Windows servers pool was also completed aiming to reduce maintenance costs, improve performance and provide CTT with the necessary responsiveness for the envisaged transformation plan and the definition of the new backup / replacement and data storage platform.

CTT Ads

During 2016, CTT prepared the launch, which occurred in January 2017, of a new integrated advertising solutions service that enables micro, small and medium-sized companies to design, produce and contract advertising campaigns through the online solution – www.cttads.pt. This turnkey solution allows companies to manage their

³ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



advertising campaigns autonomously, simply and effectively. For this, the user only has to define his communication goals and create his own campaign. CTT ensures all the rest of the process, from printing (Mailtec) to delivery of the messages via mail, email or SMS channels.

In this context, CTT Ads was created as a new umbrella brand that is easy to recognise in its intended environment and encompasses the advertising solutions provided by CTT that go beyond advertising mail and direct marketing tools.

REGULATORY FRAMEWORK

Complying with the **pricing** criteria for the 2015/2017 period as defined by a decision of ANACOM of 21.11.2014, the proposal on the prices of the Universal Postal Service submitted by CTT on 17.11.2015, and subsequently adjusted, was approved by ANACOM by a deliberation of 20.01.2016. The prices foreseen in said proposal, which met the defined pricing principles and criteria, entered into force on 01.02.2016. In terms of prices and as far as the special prices for postal services included in the universal postal service applicable to bulk mail senders are concerned, these were also updated on 01.02.2016, following the proposal submitted to the Regulator on 18.01.2016.

As the universal postal service provider and in order to provide a standardised and non-discriminatory service to operators wishing to use the universal service network, as of February 2016, CTT offers the postal operators **access to its network**, considered competitive and that does not jeopardise the security and efficiency of the universal service provision. With regard to the access of other postal operators to some elements of the postal infrastructure, the offer on the **access to the service of delivery into P.O. boxes** and the service of **return to sender of the mail found in the CTT network with postage of other operators** entered into force in March 2016.

As regards the **quality of the universal postal service**, as per the new Postal Law, the implementation of a new quality of service levels measurement and monitoring system took place in 2016 to be carried out by an independent external body. Following a pre-qualifying international tender, the external entity in charge of the measurement of the quality levels was selected and the service awarded to an international company, which undertook the necessary work to implement the measurement system of the quality of service indicators that started as of 01.10.2016.

TRANSPORTA PURCHASE AGREEMENT

Following the announcement of 15 December 2016 regarding the conclusion of the agreement for the acquisition of the total share capital of Transporta - Transportes Porta a Porta, S.A. ("Transporta"), on 2 March 2017 the Competition Authority notified CTT of its non-opposition decision regarding such acquisition, with no conditions attached. This acquisition is still subject to other conditions with suspensive effect previously agreed between the parties.

Operating in a liberalised and competitive market, where there has been a significant decrease in physical mail due to the competition of new forms of communication, especially email, CTT has been developing a strategy of expansion and diversification, promoting and launching new services and businesses in adjacent markets with potential synergies, expanding the offer available to its customers ("one-stop shop"). The acquisition of Transporta falls within the scope of such strategy because, an operator dedicated to the fractional transportation of goods and the provision of integrated logistics services, Transporta will enable CTT to add a new offer of delivery of items above 30 kg to its portfolio and create a new growth platform within the last-mile logistics and cargo value chain, thus adding value to its customers. Besides reinforcing the service offer, the integration of Transporta will enable CTT to take advantage of some economies of scale and generate operational synergies that materialise in a reduction of consolidated costs.



BALANCE SHEET OPTIMISATION INITIATIVES

In 2016 the financial year and in the recent past, CTT has been developing several initiatives to optimise its Balance Sheet, such as the optimisation of working capital, the optimisation of vacant real estate and non-strategic assets and the beginning of the process of creating a fund for financing and management of part of post-employment health responsibilities

On 15 December 2016, CTT entered into a promissory agreement for the sale of real estate properties owned by the Company located at Rua de São José, in Lisbon (one of which was the former CTT head office), in line with its policy of disposal of non-strategic assets when the necessary market conditions are met. The total price due for the sale of these real estate assets is €25m (which will represent an accounting gain of approximately €16m, with a tax impact of circa €2m) to be paid to CTT when the parties sign the public deed of the definitive sale. Such deed shall take place within a maximum of 12 months from the date of the promissory agreement and is conditional upon the administrative authorities legally entitled to a pre-emptive right on the sale of this property not exercising such right.

CTT also developed, during the year 2016, with the support of consultants, a number of relevant arrangements to set up a fund for the transfer of part of the post-employment health care responsibilities. On 16 December 2016, CTT obtained the corresponding authorisation of the Supervision Authority of Insurance and Pension Funds. However, considering the changes in some of the assumptions of incorporation of the Fund, it was decided to reassess the opportunity to carry on with the process during 2017.

On 9 March 2017 and as detailed in the Annual General Meeting preparatory information, the Board of Directors decided to submit to the General Meeting's approval a proposal for the decrease of share capital, in the amount of €49.5m, to be transferred to free reserves, and an increase of share capital, also in the amount of €49.5m, by way of incorporation of reserves available therefor and resulting mainly from retained earnings arising from revaluations of fixed tangible assets (which, until the adoption of the Accounting Standardisation System, fell under the "revaluation reserves" heading and as at 31 December 2016 amounted to approximately €44m. Taking into account on this date the actual conditions for carrying out the referenced transactions and various interests at stake, said transactions will allow for: (i) free up share capital, with such amount being transferred to free reserves, in line with the Company's, its Shareholders' and creditors' interests from both a corporate-accounting and management perspective; (ii) create conditions to execute an adequate dividend policy that reconciles shareholder interest in stable remuneration with the Company's interest in its own sustained development; (iii) make the share capital decrease neutral to the interests safeguarded by the Concessionaire, by combining it with a capital increase carried out mainly by way of "revaluation reserves" whose incorporation into share capital is deemed admissible from a legal and accounting standpoint.

Following these mutually conditional transactions subject to the approval of the 2016 account and appropriation of results, the nominal value and number of the shares representing CTT's share capital shall remain unchanged and, as the due legal reserve is €15m, it is also proposed that the General Meeting bring the amount of €3m to free reserves. As the Concessionaire's prior authorisation has been granted (since any resolution aiming at a possible share capital decrease is subject to such authorisation), said transactions are still conditional on the General Meeting approval and must be registered with the commercial registry.



FUTURE PERSPECTIVES

The Transformation Programme³ initiatives implemented from 2013 to 2016 allow CTT to face the year 2017 with the expectation of continuing to pursue the defined strategy, namely to achieve growth in the consolidated revenues based on the growth levers and the unique networks of CTT, as means to sustain the generation of value for the shareholders.

The fall in mail demand will continue to be affected by the structural trend of electronic substitution, as well as by macroeconomic factors; it should remain close to the natural long-term trend, and may change depending on the behaviour of domestic consumption. CTT may also be affected by increased competition, both in penetration and price pressure, particularly in certain market segments.

The growth of e-commerce will continue to be the main driver of the parcels business growth for the B2C (business to consumer) segment while domestic economic activity promotes the growth of the parcels market for the B2B (business to business) segment, both in Portugal and in Spain. CTT is undertaking a number of initiatives to increasingly lead the supply of logistics solutions in this market, which include (i) the modular offer in the parcels business for this segment, with different levels of service, attributes and flexibility, (ii) the integration and now optimisation of the distribution networks in Portugal and also in Spain, and (iii) the continued development of the supporting technology platform.

In Financial Services, CTT's Financial Services area will be focused on business customers while Banco CTT will focus on the private segment, covering the overall market with financial solutions leveraged in the unique capacities and assets of CTT. For Banco CTT, 2017 will be the year for consolidation of its customer base and the beginning of the "monetisation" of the clients with the launching of new products and services, especially focused on the supply of mortgage loans and consumer credit. CTT will continue its winning bet as one of the main suppliers of savings solutions, namely with regard to public debt products for the retail market in partnership with IGCP. Within the scope of Payshop, initiatives will be carried out to maximise its competitive advantages in this market: (i) the vast customer base covering almost all service providers with a more comprehensive offer and (ii) a network of more than 4,000 agents spread throughout the country, introducing new services to its users.

After a difficult year in 2016, CTT aims to achieve sustainable revenue growth in the future in the expectation that the growing businesses (Financial Services and Express & Parcels) will offset the expected fall in revenues from the Mail, resulting from the volumes decline not fully compensated by price increases. To this end, the organic initiatives implemented in 2016 will be deepened and, according to the market interest and opportunity, inorganic growth alternatives will be pursued consistent with the strategy and the markets where the company operates.

DIVIDENDS

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

Since the IPO until the end of 2016, CTT share presented a 37.10% total shareholder return, the second best of the European postal sector and only below Bpost's, with 80.53%, but above the performance of the PSI20 index, which was negative (-19.90%).

³ Transformation Programme: set of projects selected every year as fundamental for the implementation of the CTT strategy.



Regarding the 2016 financial year, the Board of Directors will propose to the Annual General Meeting, to be held on 20 April 2017, a dividend of €0.48 per share. This distribution is subject to a favourable resolution of the General Meeting and is scheduled to be paid on 19 May 2017.

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. statutory reported financial information for the year 2016, audited by an auditor registered with the Portuguese Securities Commission (CMVM).

Lisbon, 9 March 2017

The Board of Directors

This information to the market and the general public is made under the terms and for the purposes of article 248 of the Portuguese Securities Code.

This information is also available on CTT's Investor Relations website at:

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

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

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

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

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