

Consolidated Results

1st Quarter 2016



ctt



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CTT – CORREIOS DE PORTUGAL, S.A. – PUBLIC COMPANY 1ST QUARTER 2016 CONSOLIDATED RESULTS

1ST QUARTER EBITDA IN LINE WITH 2016 GUIDANCE, ALTHOUGH A GOOD 1ST QUARTER 2015 IN MAIL AND AN EXTRAORDINARY ONE IN FINANCIAL SERVICES AND THE LAUNCH OF BANCO CTT PENALISE THE YEAR-ON-YEAR COMPARISON. BALANCE SHEET OPTIMISATION MEASURES SUPPORT SOLID RESULTS.

- **Recurring EBITDA¹ decreases by 15.8% to €35.1m – with Mail contributing 75%², Financial Services 22%², Express & Parcels 3%² and incorporating –€2.9m EBITDA related to Banco CTT business unit. Considering only the recurring EBITDA of the Mail and the Express & Parcels business units, there was a growth of 11.4 %.**
- **Decline of 4.4% in addressed mail volumes, more pronounced than in the whole year of 2015 (-3.2%) and in the 1st quarter of 2015 (-1.5%) but within the -3% to -5% range considered by CTT.**
- **Recurring revenues decrease by 7.0% to €177.9m, influenced by the extraordinary effect of the placement of Public Debt Certificates in January 2015 (circa €2.2 billion, i.e. 56% of the total placed in 2015) and by the very reduced mail volumes decline in the 1st quarter of 2015:**
 - **Mail revenues decrease by 3.3%, due to the fall in volumes, partly offset by the 3.1% average price increase in the quarter;**
 - **Express & Parcels revenues decrease by 5.7% and volumes by 4.0%, mainly as a result of consumption trends of large customers in Portugal and Spain as well as the restructuring of the franchisee network in Spain;**
 - **Financial Services recurring revenues recorded a 32.1% (-€7.8m) reduction resulting from the extraordinary effect mentioned above, but displaying a growing monthly trend in attracting savings inflows that reached €1.1 billion in the quarter, clearly above €300m/month.**
- **Banco CTT opened up to the public in 51 CTT post offices and in the Head Branch on 18 March 2016 and its 9 working days in the quarter have met the expectations with the opening of 2,108 accounts, corresponding to 4.5 accounts opened per counter daily.**
- **Operating costs³ fall by 4.5% to €142.7m, mainly due to the rationalisation of operations, particularly the network integration, the reductions of costs with foreign operators and staff costs (remuneration supplements, particularly under the scope of the new Company Agreement, a more balanced use of the Healthcare Plan and the effect of the change in the assumptions used in the calculation of the responsibility with the telephone subscription fee benefit). Excluding €3.3m recurring costs from Banco CTT⁴, an even sharper 6.7% cost reduction is reached.**
- **Net profit of €20.7m influenced by non-recurring impact on EBIT of €2.0m stemming mainly from the termination of the long-term lease contract of a vacant building (Conde de Redondo).**
- **Effects of the ongoing reorganisation initiatives in the Express & Parcels undertaken in 2015 and still underway start to have an impact on the results, even in a quarter with decreasing volumes.**

¹ Before non-recurring revenues and costs.

² The weight of the businesses is calculated excluding –€2.9m EBITDA related to Banco CTT business unit.

³ Excluding depreciation/amortisation, impairments, provisions and non-recurring costs.

⁴ Costs associated to Banco CTT and Banco CTT project recorded in CTT, S.A..



- **Launch of the 2nd edition of the Trainee Programme contributes to the rejuvenation and further qualification of the staff.**
- **Signature of a Revision Agreement of the 2015 CTT Company Agreement with 10 Trade Unions on 23 March, including the revision of the fixed remunerations for 2016 extended to the workers of the subsidiary companies.**
- **Strong levels of financial standing and good liquidity with an adjusted cash position amounting to €278m, identical to that at the end of 2015 (€279m).**
- **Decision to launch the process to select the managing entity with a view to create a fund for post-employment healthcare responsibilities, still subject to final terms and conditions as well as applicable formalities and authorisations, with future financial benefits and increased quality of CTT's financial information.**



SUMMARY OF CONSOLIDATED RESULTS

Concisely, the consolidated results of CTT – Correios de Portugal, S.A. are as follows:

Consolidated Results

€ Million

	Reported			Recurring ^(*)		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	179.6	1912	-6.1%	177.9	1912	-7.0%
Sales and services rendered	170.6	186.4	-8.4%	170.6	186.4	-8.4%
Net interest income	0.01	-	-	0.01	-	-
Other operating income	9.0	4.9	84.5%	7.2	4.9	49.0%
Operating costs	145.4	1518	-4.2%	142.7	149.5	-4.5%
EBITDA	34.2	39.4	-13.3%	35.1	41.7	-15.8%
Amortisation, depreciation, provisions and impairments	3.2	6.4	-50.2%	6.1	5.6	9.3%
EBIT	31.0	33.0	-6.1%	29.0	36.2	-19.7%
Financial income, net	-14	-12	-14.5%	-14	-12	-14.5%
Gains / (losses) in associated companies	0.2	-	-	0.2	-	-
Earnings before taxes (EBT)	29.8	31.8	-6.3%	27.9	35.0	-20.3%
Income tax for the period	9.2	9.5	-3.1%	7.5	9.4	-20.7%
Losses / (gains) attributable to non-controlling interests	-0.04	0.03	<<	-0.04	0.03	<<
Net profit attributable to equity holders	20.7	22.3	-7.3%	20.4	25.5	-19.9%

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

Consolidated Results excluding Banco CTT^(**)

€ Million

	Reported			Recurring ^(*)		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	179.5	1912	-6.1%	177.7	1912	-7.1%
Sales and services rendered	170.6	186.4	-8.4%	170.6	186.4	-8.4%
Other operating income	8.8	4.9	82.0%	7.1	4.9	46.5%
Operating costs	140.7	150.3	-6.4%	139.4	149.3	-6.7%
EBITDA	38.8	41.0	-5.3%	38.3	41.9	-8.5%
Amortisation, depreciation, provisions and impairments	3.0	6.4	-52.4%	6.0	5.6	6.7%
EBIT	35.8	34.6	3.4%	32.4	36.3	-10.8%
Financial income, net	-14	-12	-14.4%	-14	-12	-14.4%
Gains / (losses) in associated companies	0.2	-	-	0.2	-	-
Earnings before taxes (EBT)	34.6	33.4	3.6%	31.2	35.1	-11.1%
Income tax for the period	10.3	9.9	3.7%	8.4	9.5	-11.4%
Losses / (gains) attributable to non-controlling interests	-0.04	0.03	<<	-0.04	0.03	<<
Net profit attributable to equity holders	24.4	23.4	3.9%	22.9	25.6	-10.7%

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

(**) Excluding revenues/costs of Banco CTT and Banco CTT project reported in CTT S.A..



1. OPERATING ACTIVITY

Mail

The 4.4% decline in addressed mail volumes in the 1st quarter of 2016 was slightly more pronounced than that of 2015 (-3.2%).

Mail Volumes			
Million items	1Q16	1Q15	Δ
Transactional Mail	180.5	188.8	-4.4%
Editorial Mail	114	113	0.4%
Advertising Mail	19.3	20.9	-7.4%
Addressed Mail	211.2	221.0	-4.4%
Unaddressed Mail	103.4	110.3	-6.3%

Transactional mail volumes decreased by 4.4% in the 1st quarter of 2016. This evolution is the result of changes in the volumes of ordinary mail (-3.4%), registered mail (-12.5%), priority mail (-13.8%), "green mail"/ *correio verde* (-6.2%) and international outbound mail (-5.0%) while the international inbound mail had a positive evolution (+4.4%).

The decrease in registered mail was mainly 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 to levels consistent with the period prior to the strong increase following the extraordinary recovery of tax collections. Excluding the effect of this customer's behaviour in the 1st quarter of 2016, registered mail volumes would have been at the same level of that of the same period of the previous year.

The fall in priority mail is particularly marked in the occasional segment related to the sale of pre-paid items at the CTT post offices, since the significant growth that took place in the 1st quarter of 2015 as a reaction of the customers to the anticipated mail price increase did not have the same expression in 2016 due to a lower price increase.

The reduction in ordinary mail is focused on the portfolio of large customers and particularly on the utilities, telecommunications and Public Administration and Government sectors (here again the Tax Authority customer is the one with the most significant reduction). This decrease is also connected to the impact of the growing use of electronic communications to the detriment of physical communications and the entry in the market of new competitors, which always generates a trial effect from some clients. It is expected that, as it occurred in the past, this effect will probably fade given the competitive advantages of CTT.

As mentioned below in the Regulatory Environment section, as of February 2016, CTT offers the postal operators holding an individual license access to its network under competitive conditions and not jeopardising the security and efficiency of the universal service provision.

Domestic **editorial mail** volumes increased slightly due to the distribution of the shipments across the various quarters of the year.

The decline in **addressed advertising mail** volumes (-7.4%) was mainly due to the behaviour of a major customer of the mail order business sector who used a lower number of items in the advertising campaign of 2016 than in the campaign of the previous year. The volume of items from new customers was not yet sufficient to offset this decline. It is estimated that this has been a one-off behaviour and that Advertising Mail may bring a positive contribution in the coming quarters with the increase in the frequency and volume of the campaigns of some of the more important customers, and the entry of new ones as a consequence of the initiatives and tools under development for the advertising medium, which will be on the market in the 2nd and 3rd quarters of this year.



Mail Business Unit Revenues, Costs and EBITDA

€ Million

	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	138.9	143.7	-3.3%	138.9	143.7	-3.3%
Sales and services rendered	127.7	132.2	-3.4%	127.7	132.2	-3.4%
Other operating income	11.2	11.5	-2.0%	11.2	11.5	-2.0%
Operating costs^(*)	110.0	118.8	-7.5%	110.3	117.9	-6.5%
External supplies and services	24.1	25.3	-4.6%	24.0	25.3	-5.4%
Staff costs	62.2	62.6	-0.6%	61.2	62.1	-1.5%
Other costs	12.4	19.6	-36.6%	12.4	19.6	-36.6%
Intragroup costs	11.1	11.3	-1.3%	12.7	10.9	16.3%
EBITDA	29.0	24.8	16.6%	28.7	25.7	11.4%
EBITDA MARGIN	20.9%	17.3%	3.6 p.p.	20.6%	17.9%	2.7 p.p.

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

The Universal Service average price change of the 1st quarter of 2016 vis-à-vis the same period of the previous year was 3.1% and together with the growth of international inbound mail it contributed to mitigate the effect of the volumes decline in Sales and services rendered of this business unit, which fell by 3.4%.

This change stemmed mainly from the price update of the basket of letter mail, editorial mail and parcels services that entered into effect from 1 February 2016 (further details given in the Regulatory Environment section below), from the changes in the discounts policy and from the volume structure in terms of the different mail products and weight steps.

Other operating income of the Mail segment decreased €0.2m (-2.0%), mainly due to the reduction of the favourable exchange rate differences (-€2.2m; -84.7%) which result from the foreign exchange rate stability of the first three months of 2016 (-2.8%). This effect was offset by the increased distribution and processing networks integration of CTT and CTT Expresso and by the improvements implemented in the VAT deduction, with a positive impact of €1.9m in revenues, as well as by the €0.8m of revenues resulting from the Memorandum of Understanding with Altice.

This development in revenues was foreseen and offset with measures to increase efficiency and rationalise the distribution networks and the operations in general. A very substantial decrease of 6.5% in Mail recurring operating costs was ensured (further explained in the Economic and Financial Analysis – Evolution of Operating Costs section) as a result of (i) the continuation of the measures taken within the Transformation Programme (a set of projects which are constantly monitored by a dedicated team, considered as essential for achieving the short and long-term goals of CTT), among which the network integration and the optimisation of the integrated networks continued to have a relevant role; (ii) the reduction of staff costs resulting from the 2015 Company Agreement and the rationalisation of the use of the Healthcare Plan (renegotiated in the 1st quarter of 2015); (iii) the decrease in costs with foreign operators due to the effects of the decline in outbound mail volumes and to the implementation of the IRAE Agreement (Interconnect Remuneration Agreement – Europe), (iv) the decrease in the unfavourable exchange rate differences (included in Other Costs) and (v) the reduction of intragroup costs.

Consequently, the recurring EBITDA margin of this business unit recorded a positive change of 2.7 p.p. to 20.6%.

In the 1st quarter of 2016, CTT carried out a segmentation of the Retail Network for the sale of third-party products and services. The respective portfolio was reviewed, bearing in mind the need to free resources of the post offices for Banco CTT, optimising the value-added products and services potential, and adapting the image of the post offices to the growing weight of the financial services and Banco CTT.



On the basis of the trust that is granted to CTT and its capillary presence in the territory, the provision of public services continued, among which it is to be highlighted the payment of the Social Mobility Allowance to the residents of the Autonomous Regions of Madeira and Azores (50.3 thousand operations in the 1st quarter) and the maintenance of the Citizen's Bureau areas, available at 127 post offices in the mainland.

At the end of the 1st quarter of 2016, CTT offered the most capillary network of the country, with 2,330 branches, of which 618 post offices and 1,712 partnership branches (postal agencies), 254 postal delivery offices and a transport network operating 3,604 vehicles.

Express & Parcels

Volumes handled by the Express & Parcels business unit decreased by 4.0% in the three months of 2016 as a consequence of the loss of a low-margin large customer contract in the 4th quarter of 2015. This decrease has not yet been offset by the volumes generated by smaller, higher-margin customers transported in the 1st quarter of 2016, as well as by the consequences of the new phase of the restructuring process in Spain, which is taking advantage of the expiry of contracts to stop working with some large customers with a negative contribution to profitability.

In that period CTT recorded a volume of 3.2 million items (-5.0% vs. the same period of last year) in **Portugal** and clearly maintains the leading position in the domestic market with a share of 34.8% in the express segment (source: "Postal Services Report - Statistical Information - 3rd quarter 2015," ANACOM). The drop in volumes was due to the above-mentioned loss of a major customer which, in contrast, had beneficial effects on the profitability of the business, to the trend of some large customers to concentrate shipments by addressee, and also choose a different shipping schedule for the shipments vis-à-vis the previous year. Hence, a recovery is expected in the coming quarters resulting also from the entry in the market of the ongoing product offer initiatives.

In the 1st quarter of 2016, the operation with a number of new customers begun, especially in the B2B segment and in the e-commerce performed by middle and small-size customers, which recorded an increase of circa 16%, as this type of customers strongly focused on this sales channel.

With the entry of two new relevant customers in the industrial and fashion retail sector, CTT expects not only good returns associated with those specific businesses but also the ability to position the CTT brand in this segment, where there is a strong potential to reinforce the market share. In the B2C segment, CTT Expresso reinforced its leadership in the cosmetics sector - one of the major customers of transport services in Portugal.

Aiming at e-commerce customers, the foundations of a "Special Cross-Border Solutions" offer were laid in the 1st quarter of 2016 based on line-hauls for e-sellers wishing to ship to Portugal, either as a final destination or as a gateway to other geographies (e.g. Brazil).

In the 1st quarter of 2016, the IT developments to support the new modular product offer were also completed: D+1, D+2 and D+5 services and multiple delivery attempts; the commercial launch is planned for the 2nd quarter of 2016. This portfolio has as main objective the construction by the customer of its own solution in a simple and modular fashion for any desired flow (B2B, B2C and C2X) at Iberian and international levels.

In **Spain**, volumes in the 1st quarter of 2016 reached 3.3 million items, representing a 3.9% decrease compared to the same period of the previous year, mainly due to the loss of 3 large customers whose volumes, given their considerable size, were not offset by the shipments of the remaining customers of the portfolio. However, the loss of these customers benefiting from very low prices allowed the business to improve its profitability, a strategy that will continue in the coming quarters, with a negative impact in terms of sales but positive for the profitability of the business.

Following the restructuring of human resources conducted in late 2015, Tourline Express experienced operational improvements during the 1st quarter of 2016. These improvements resulted in the reduction of staff



costs and in simpler procedures while the quality level was maintained, a feature that differentiates the company in the Spanish market.

The work aimed at improving the franchisee network continued by splitting and transferring own areas to adjacent franchisees and/or new ones, thus increasing the capillarity of the network and improving market penetration in these areas. It is expected that this progressive increase of capillarity has a direct effect on the (last mile) distribution costs, which, together with the increased business volume in the transferred areas, partially compensates for the above-mentioned large customers' sales drop and allows to significantly improve the results of Tourline Express.

Considering also the strategic importance of the B2C segment and the significant increase in online sales in Spain, in the 1st quarter of 2016 Tourline Express launched a new, fully modular and innovative product, aimed at local e-sellers.

As a result of the analysis of the ongoing restructuring results in Tourline and the decision to integrate the Express & Parcels network within the Mail distribution network, consideration was given as to what the best corporate structure would be to achieve the targeted strategic objectives. The strategy of integration of operations in the Iberian Peninsula has become a second priority given the different operating models and has been passed over in favour of the integration of networks in Portugal given the clear synergies and economies of scale. In this context, on 15 March 2016 the Board of Directors approved the acquisition of Tourline by CTT from CTT Expresso.

In **Mozambique**, the 1st quarter of 2016 was marked by a continued depreciation of the metical currency against the dollar/euro with particular impact, in the case of CORRE, on the rise of fleet costs (repair and maintenance) and on the purchase/import of operational support materials.

The difficult internal political and military conditions in the country's central region had an impact on the safety of the transit conditions affecting negatively the transit times of the goods. As a result, there is lack of alternatives to air transport by LAM – Linhas Aéreas de Moçambique (Mozambique Airlines).

CORRE registered a 158% volumes growth in the 1st quarter and continued to consolidate its position as the largest service provider in the banking sector in Mozambique.

Express & Parcels Business Unit Revenues, Costs and EBITDA

€ Million	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	30.1	31.9	-5.7%	30.1	31.9	-5.7%
Sales and services rendered	28.8	31.4	-8.1%	28.8	31.4	-8.1%
Other operating income	12	0.5	137.9%	12	0.5	137.9%
Operating costs (*)	29.1	31.0	-6.1%	29.1	31.0	-6.2%
External supplies and services	22.9	24.1	-4.7%	22.9	24.1	-4.7%
Staff costs	5.5	6.3	-12.2%	5.5	6.3	-12.4%
Other costs	0.6	0.6	0.5%	0.6	0.6	0.5%
EBITDA	1.0	0.9	11.2%	1.0	0.9	11.8%
EBITDA MARGIN	3.2%	2.7%	0.5 p.p.	3.3%	2.8%	0.5 p.p.

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

The Express & Parcels business unit posted revenues of €30.1m, corresponding to a €1.8m (-5.7%) decline resulting from the decrease in revenues in Portugal (-€1.1m), as a consequence of the above-mentioned aspects



and also of the continuous pressure on the banking documents delivery network, and Spain (-€1.5m). To be emphasised is the €1.9m reduction in operating costs (-6.2%), which resulted mainly from a reduction in Staff costs (-€0.8m), and in External Supplies and Services costs (-€1.1m), the latter as a consequence of the network integration process, while an integrated networks optimisation programme started in the 1st quarter aiming at a more efficient management of same. In Spain, the measures initiated in the previous year, both in the ERE (*Expediente de Regulación de Empleo*), and with regard to the re-franchising of own areas to reduce delivery costs, produced stronger cost reductions (-€1.1m).

The measures for the implementation of the Transformation Programme in Portugal (network integration) and in Spain (reorganisation of the franchisee network and human resources optimisation and restructuring in 2015) are expected to be decisive for the future business evolution in 2016, with a stronger impact in the following quarters.

Financial Services

In the first three months of 2016, the Financial Services business unit recorded total revenues amounting to €16.5m (-32.1%). This reduction vis-à-vis the 1st quarter of 2015 is related to the overshooting effect of Treasury Certificates Poupança Mais placements that took place in January 2015 (due to the pre-announced significant reduction of the remuneration rate of February 2015). The impact of this product on revenues represents a €8.1m drop in the 1st quarter of 2016 compared to the same period of last year. The average rate of return was 4.25% until January 2016 and the Government decided to reduce it to 2.25%, in line with the strong contraction of the interest rates and yields of Portuguese government debt in the international markets. Nevertheless, it continues to be the most competitive interest rate in the market for 5-year maturity investments.

This extraordinary situation of anticipation of subscriptions in January 2015 led to a level of placement of Treasury and Savings Certificates of circa 2.2 billion Euros, which was reduced in the following months to average levels below 200 million Euros a month, thus leading to an overall subscription level below 4.0 billion Euros in 2015. It should be pointed out, however, that the placement of savings in 1Q16 reached 1.1 billion Euros at a growing monthly pace and mostly related to subscriptions in Public Debt Certificates, which totalled 92.5% of that amount, especially the placement of Treasury Certificates Poupança Mais, thus maintaining the objective, already set by the *Agência de Gestão da Tesouraria e da Dívida Pública – IGCP, E.P.E.* (Treasury and Public Debt Management Agency) to place more than 4.0 billion Euros in 2016, potentially above the levels of 2015.

In the 1st quarter of 2016, CTT continued the marketing of an offer of capitalisation insurance and PPR (Retirement Savings Scheme), in line with the diversification strategy consistently followed in recent years.



Financial Services Business Unit Revenues, Costs and EBITDA⁵

€ Million

	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	16.5	24.3	-32.1%	16.5	24.3	-32.1%
Sales and services rendered	14.9	24.1	-38.2%	14.9	24.1	-38.2%
Other operating income	16	0.2	>>	16	0.2	>>
Operating costs (*)	8.2	10.6	-22.9%	8.2	9.2	-11.1%
External supplies and services	2.4	4.1	-40.8%	2.4	2.7	-10.1%
Staff costs	13	18	-26.7%	13	18	-26.7%
Other costs	4.4	4.6	-5.9%	4.4	4.6	-5.9%
Intragroup costs	0.1	0.1	-15.6%	0.1	0.1	-0.5%
EBITDA	8.3	13.7	-39.1%	8.3	15.1	-44.9%
EBITDA MARGIN	50.5%	56.4%	-5.9 p.p.	50.4%	62.1%	-11.7 p.p.

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

The Payments business, the second largest contributor of the revenues of this business unit, recorded a 12.9% decline in revenues in the 1st quarter of 2016 compared to the same period of 2015, except for the toll service and invoice billing solutions with a quite remarkable growth though not enough to offset the adverse effects of the remaining services. Essentially, this decrease results not only from the effect of the downward revision of average prices (partly resulting from the review required by the EU directives regulating card payment services, which are the main competitor of CTT in this business) but also from the reduction in the number of processed payment transactions. The most negative effect comes mainly from the top-up of national mobile phones not only due to the pressure to use alternative automatic and electronic payment means, as well as due to the bundling of products and services, with consequent impact on the migration to post-paid mobile phones to the detriment of the prepaid ones, thus eliminating a high number of mobile top-up operations, the service with the highest weight in this business segment.

Another highlight is the significant increase in the number of PayShop agents, which reflects not only the characteristic resilience of the payment network, but most of all represents a strong indication of its growth potential.

The Money Orders and Transfers business evolved in line with its main service, Pension Payments, which recorded a decrease in revenues in the 1st quarter of 2016. The International Transfers business, despite presenting a similar volume of transactions as in the same period of 2015, experienced similar evolution to that of the social benefits payments due to the reduction of prices that occurred throughout 2015. This effect will tend to disappear in the following quarters when the new prices were already implemented.

The remaining business segments, namely Consumer Credit and Property and Casualty Insurance, although smaller in size when compared to the aforementioned businesses, registered in both cases a very positive evolution compared to 2015, almost doubling their revenues, thus demonstrating the capacity and capability of the CTT network to extend the range of financial services offered to its customers. These services will migrate to Banco CTT and shall be better exploited within the normal banking offer with the cross-selling potential of the opening of accounts.

Recurring EBITDA in the 1st quarter of 2016 was €8.3m, corresponding to an EBITDA margin of 50.4%, impacted, in relation to 2015, by the extraordinary situation of the previous year, as mentioned.

⁵ In 2016, the amounts include the Financial Services of CTT, S.A. and PayShop. In 2015, the amounts include also the operating costs of Banco CTT (€0.6m reported and €0.1m recurring operating costs).



Banco CTT

On 18 March, Banco CTT opened its doors to the general public in 51 post offices of the CTT Retail Network, scattered from north to south of the country, including the Islands, as well as at the Head Branch. Fifty-two branches were thus open, the biggest opening ever occurred in Portugal on a single day.

The reception of the market has been confirming the initial expectations. The number of customers and accounts growing daily and the evolution of transactions corroborate and validate the strategy defined for the bank: a banking operation aimed at individuals, based on a national network with dense capillarity and proximity to the population, leveraged upon innovative digital channels, with a differentiated value proposal based on the concepts of simplicity, transparency and competitive price.

Still during the 1st quarter of 2016, the planning of the project to open 50 more branches was initiated. It will allow Banco CTT to be progressively present in a total of more than 100 branches by the beginning of July, a growth that does not follow the current market trends.

Also during the 1st quarter of 2016, the first advertising campaign of Banco CTT was prepared. It intends to strengthen the brand values, the identity and the distinctive value proposition of the Bank, much associated with the strength and reputation of the CTT brand. In order to overcome indifference and inertia that prevail among bank customers, the campaign was anchored in two main phases, starting with the brand and in the 2nd quarter focused on the product communication, emphasising the competitive offer without costs for the client.

To enhance the incentives for growth of the European economies, the European Central Bank's announcement that its debt purchase programme would be extended to include private debt, triggered a new round of reduction in spreads of both corporate and sovereign debt. In this framework, customer deposits currently offer a lower profitability, which constitutes a challenge in the quest for solutions to get more profitability from the funds captured.

In the 1st quarter of 2016, Banco CTT worked in direct interaction with the general public for only two weeks, hence the business indicators, although promising and meeting expectations, are not yet relevant. During this period 2,108 accounts were opened by new clients, a daily average of 4.5 accounts per opened branch of Banco CTT.

This new business unit recorded a -€4.1m EBITDA, which includes a non-recurring component of -€1.2m.

Banco CTT Business Unit Revenues, Costs and EBITDA

€ Thousand		
	Reported	Recurring
	1Q16	1Q16
Revenues	124.3	124.3
Net interest income	8.1	8.1
Other operating income	116.2	116.2
Operating costs (*)	4 200.9	2 984.3
External supplies and services	2 665.7	1 449.1
Staff costs	1 470.2	1 470.2
Other costs	65.0	65.0
EBITDA	-4 076.6	-2 860.0

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



2. ECONOMIC AND FINANCIAL ANALYSIS

REVENUES

The recurring revenues totalled €177.9m, corresponding to a decrease of €13.4m (-7.0%) in relation to the same period of last year.

€ Million	Revenues					
	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Revenues	179.6	191.2	-6.1%	177.9	191.2	-7.0%
Business Units (*)	185.6	199.9	-7.1%	185.6	199.9	-7.1%
Mail	138.9	143.7	-3.3%	138.9	143.7	-3.3%
Express & Parcels	30.1	319	-5.7%	30.1	319	-5.7%
Financial Services	16.5	24.3	-32.1%	16.5	24.3	-32.1%
Banco CTT	0.1	-	-	0.1	-	-
Central Structure and Intragroup Eliminations	-6.0	-8.7	30.1%	-7.8	-8.7	10.3%

(*) The revenues of Banco CTT business unit in the 1Q16 amounted to €124.3 thousand.

This negative change reflects primarily the decrease of €4.8m (-3.3%) in the revenues of the **Mail** business unit and of €7.8m (-32.1%) in the **Financial Services** business unit. The reduction in revenues of the Mail business unit is originated mainly in the services rendered (-€4.0m) affected by the fall of addressed mail volumes (-4.4%). In the Financial Services, the services rendered decreased €9.2m, a reduction motivated by the decrease of €8.1m (-57.2%) of revenues from Public Debt Certificates in the 1st quarter of 2016 compared to the same period of 2015, when there had been a high level of subscriptions. In January 2015, anticipating the decrease of the interest rates of this offer, placements hit historical highs of circa €2.2 billion, unparalleled in the 50-year history of retail marketing of public debt certificates, as mentioned above. However, the monthly trend of placement of over 300 million Euros in the 1st quarter of 2016 is in line with the objective of achieving subscriptions above €4.0 billion in 2016, similar to those of 2015.

OPERATING COSTS³

The evolution of the recurring operating costs in the 1st quarter of 2016 continued to depend mostly on the implementation of the **Transformation Programme**. The very significant reductions achieved brought about a 4.5% reduction of the consolidated costs (-€6.8m) vis-à-vis the 1st quarter of 2015, despite the €3.3m recurring costs from Banco CTT and Banco CTT project recorded in CTT, S.A. (€1.5m in ES&S costs and €1.5m in Staff costs in the Banco CTT business unit and €0.3m in the Mail business unit). Excluding the above-mentioned effect of the drop of revenues as a result of the extraordinary situation that took place in **Financial Services**, the recurring costs reduction more than offset the decline in revenues, which shows the capacity of CTT to adjust its costs in order to maintain the profitability of its business portfolio.

³ Excluding depreciation/amortisation, impairments, provisions and non-recurring costs.



Operating costs

€Million

	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
Operating costs (*)	145.4	151.8	-4.2%	142.7	149.5	-4.5%
External supplies & services	55.1	55.9	-14%	53.6	54.1	-10%
Staff costs	84.1	87.5	-3.8%	83.0	86.9	-4.5%
Other operating costs	6.1	8.5	-27.5%	6.1	8.5	-27.5%

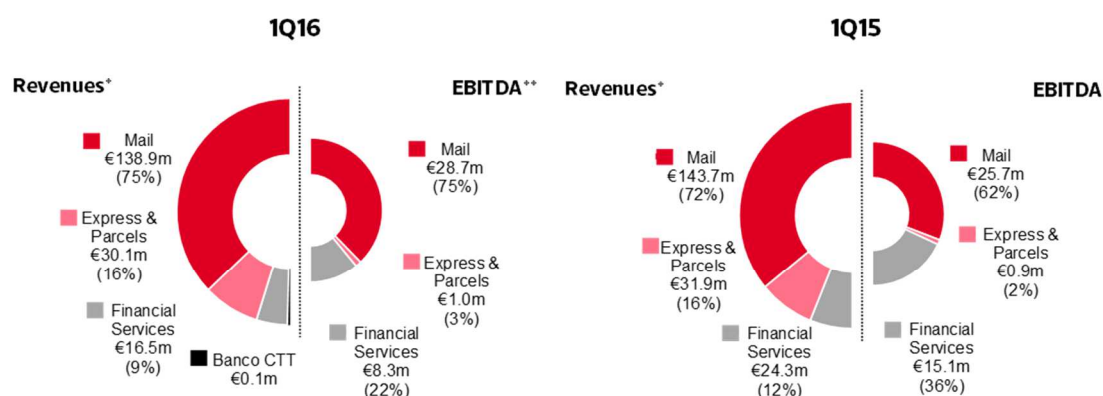
(*) Excluding impairments, provisions and depreciation/amortisation.

The initiatives carried out for the **optimisation and rationalisation of the operations and the distribution networks integration** had a particularly positive effect in the **ES&S** costs, as they have led not only to the reduction of operating costs but also to increased productivity levels and higher operational efficiency. To the overall reduction of this item also contributed the lower costs with **foreign operators** due to the effect of a slight fall in outbound international mail volumes and to the implementation of the IRAE Agreement (Interconnect Remuneration Agreement – Europe).

As far as **Staff costs** are concerned, the €3.9m decrease (-4.5%) in recurring costs is mainly due to the following reductions: -€2.3m in the adjustment of the remuneration supplements partly due to the Company Agreement and to the implemented remuneration policy that emphasises the variable component connected to the company results; and -€1.5m from the more balanced use of the Healthcare Plan and the effect of the change of the assumptions used in the calculation of the responsibility with the telephone subscription fee employee benefit.

These favourable changes were partly absorbed by Banco CTT Staff costs (€1.5m) and by the extension, as of January 2016, of the coverage of the work accidents insurance of the CGA workers (€0.3m).

RECURRING EBITDA



* Including internal provision of services and intragroup transactions eliminated in the consolidation process; excluding income related to CTT Central Structure and Intragroup Eliminations amounting to -€7.8m in 1Q16 and -€8.7m in 1Q15

** The weight of each Business Unit is calculated excluding -€2.9m related to Banco CTT's EBITDA.

The operating activity generated a €35.1m recurring EBITDA (earnings before interest, tax, depreciation and amortisation, impairments, provisions and non-recurring results), -15.8% (-€6.6m) below that of the 1st quarter of 2015, with an EBITDA margin of 19.8% (-2.0 p.p. than in the 1st quarter of 2015). It should be mentioned that the recurring EBITDA of the 1st quarter of 2016, excluding the recurring costs with Banco CTT and those with the



Banco CTT project which were booked in CTT, S.A., would have been €38.3m, i.e. -€3.5m (-8.5%) vis-à-vis the same adjusted period of the previous year.

These results correspond to the evolution described above: decline in revenues of €13.4m (-7.0%) due to the extraordinary situation of 2015 mentioned above, combined with a lower decrease of €6.8m (-4.5%) in operating costs (excluding depreciation and amortisation, impairments, provisions and non-recurring costs), including Banco CTT's recurring costs.

Consolidated EBITDA by Business Unit

€ Million	Reported			Recurring		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
	EBITDA	34.2	39.4	-13.3%	35.1	41.7
Mail	29.0	24.8	16.6%	28.7	25.7	11.4%
Express & Parcels	10	0.9	112%	10	0.9	118%
Financial Services	8.3	13.7	-39.1%	8.3	15.1	-44.9%
Banco CTT	- 4.1	-	-	- 2.9	-	-

CTT's EBITDA performance resulted from the EBITDA in the Mail business unit (+€2.9m; +11.4%), in the Express & Parcels business unit (+€0.1m; +11.8%), in the Financial Services business unit (-€6.8m; -44.9%) and in Banco CTT business unit, which had recurring EBITDAs of €28.7m, €1.0m, €8.3m and -€2.9m, respectively.

RECURRING EBIT AND NET PROFIT

Recurring EBIT (earnings before interest, tax and non-recurring results) stood at €29.0m (-19.7% than in the same period of the previous year) while the EBIT margin was 16.3% (-2.6 p.p. below the 1st quarter of 2015).

Consolidated financial results amounted to -€1.2m, which represents an improvement of €0.02m (+1.4%) vs. those of the 1st quarter of 2015. Financial costs incurred reached €1.6m, which includes financial costs associated with employee benefits. Interest and other financial income decreased by 61.7% vis-à-vis the 1st quarter of 2015, as they were affected by the sharp fall in the rates of return on term deposits and by CTT's very conservative policy of application of liquidity.

CTT obtained a €20.7m consolidated reported net profit attributable to shareholders, which is 7.3% below that of the 1st quarter of 2015 and corresponds to a result of €0.14 per share and to a 11.5% net profit margin on the consolidated revenues (11.7% in the 1st quarter of 2015). As mentioned in the Summary of Consolidated Results, net profit excluding Banco CTT totalled €24.4m (+3.9% than in the 1st quarter of 2015), corresponding to a net margin of 13.6% (+1.4 p.p.).

NON-RECURRING COSTS AND REVENUES

In the 1st quarter of 2016, CTT posted a €2.0m non-recurring impact on EBIT of which includes, under Other operating income, €1.7m regarding the recognition of the capital gain (previously deferred) as a result of the termination of Conde de Redondo building lease contract; this is a decision made within the scope of the balance sheet optimisation measures underway which aim at improving the efficiency of the capital used and maximise the cash flow generated.



ES&S costs for an amount of €1.6m include costs related to strategic project studies and consultancy, especially those related to the project of the launch of Banco CTT (€1.4m), particularly related to the launch of the advertising campaign.

Non-recurring costs and revenues

€ Million	1Q16	1Q15
Total	2.0	-3.1
affecting EBITDA	-0.9	-2.3
. Other operating income	17	-
. External supplies & services and other costs	-16	-18
. Staff costs	-11	-0.6
affecting only EBIT	2.9	-0.8
. Provisions (reinforcements / reductions)	3.2	-0.4
. Impairments (losses / reductions)	-0.3	-0.4

Staff costs, totalling €1.1m, include €0.2m regarding compensations paid for termination of employment contracts by mutual agreement within the transformation programme and €0.9m associated to compensations resulting from the 2015 Company Agreement. The corresponding benefits are visible already in terms of current staff costs.

Impairments and net provisions recorded a net reversal of €2.9m resulting from the net reversal of the provisions (€3.2m) and from the increased costs relative to net impairments associated with the restructuring of Tourline network (€0.3m) under the scope of the optimisation of the Express & Parcels business unit. The reversal of provisions is explained by the elimination of the provision for onerous contracts in respect to the termination of the Conde de Redondo building lease contract (€3.1m), which represents a relevant reduction of over 30% in future cash outflows from this vacant building and by the reinforcement of the provision for labour contingencies (€0.2m).

INVESTMENT

Capex amounted to €4.7m, 8.3% (-€0.4m) below that of the same period of last year; to be highlighted are the investments in the implementation of Banco CTT (€3.2m), essentially in IT systems with the development of the core banking system and the multi-channel offer, and renovation works to adapt the post offices for the launch of Banco CTT (52 branches).

To highlight are also several investments in IT systems for a total amount of €1.0m for the start of the implementation of the IT Strategic Plan, the renewal of IT hardware and the expansion of the RFID (Radio-Frequency Identification) for tracking and tracing of international ordinary mail under the scope of the Interconnect project (e-commerce project under a partnership with IPC – International Post Corporation).

FREE CASH FLOW

The cash flow from operating activities (excluding the change in net financial services payables and Banco CTT deposits and bank applications) decreased from €23.4m in the 1st quarter of 2015 to €12.1m in the 1st quarter of 2016, contributing to an adjusted operating free cash flow (excluding the change in net financial services payables and Banco CTT deposits and bank applications) of -€1.2m, i.e. 109.4% less than in the 1st quarter of 2015.



The change in cash went from -€141.8m in the 1st quarter of 2015 to -€30.6m in the 1st quarter of 2016 corresponding to a favourable change of €111.1m. Excluding the changes in the financial services receivables/payables and Banco CTT deposits and bank applications (€126.5m), the CTT change in cash was -€1.5m.

The -€30.6m change in cash results mostly from: (i) the €9.1m increase in payments to suppliers and stable collections from customers; (ii) the €6.0m increase in the deposits from banking clients and other loans; (iii) the €0.9m reduction in payments to employees; (iv) the €118.2m reduction in other payments resulting mostly from the high subscription of Treasury Certificates in December 2014 which were paid at the beginning of 2015; and also (v) the €2.6m increase in payments regarding investments in tangible and intangible fixed assets.

Cash flow

€ Million	Reported			Adjusted (*)		
	1Q16	1Q15	Δ	1Q16	1Q15	Δ
	Cash flow from operating activities	-15.4	-132.2	88.3%	12.1	23.4
Cash flow from investment activities	-14.8	-10.8	-37.9%	-13.3	-10.8	-23.4%
Operating free cash flow	-30.3	-143.0	78.8%	-1.2	12.6	-109.4%
Cash flow from financing activities	-0.3	12	-128.1%	-0.3	12	-128.1%
Net change in cash	-30.6	-141.8	78.4%	-1.5	13.8	-111.0%
	31.03.2016	31.12.2015	Δ	31.03.2016	31.12.2015	Δ
Cash and equivalents at the end of the period	573.0	603.6	-5.1%	277.5	279.0	-0.5%

(*) Cash flow from operating activities and investment activities excluding change in Net Financial Services payables and Banco CTT deposits and applications (-€29.1m in 1Q16 and -€155.6m in 1Q15).

Cash and equivalents at the end of the period excluding Net Financial Services payables and Banco CTT deposits and applications (€295.6m in March 2016 and €324.7m in December 2015).

CONSOLIDATED BALANCE SHEET

The highlights of the comparison between the Balance Sheet as at 31 March 2016 and that at the end of the 2015 financial year are as follows:

Total **assets** decreased €20.8m (-1.9%) reflecting (i) the decrease in non-current assets (-€4.0m) mainly due to the reduction in deferred tax assets (of which €3.0m relate to the early termination of the Conde de Redondo building lease contract); conversely, €1.8m were recorded relative to financial assets held by Banco CTT; and (ii) the decrease in current assets (-€16.8m) resulting from the €30.6m (-5.1%) reduction in cash and cash equivalents, which resulted mostly from the €33.1m reduction in financial services receivables/payables.

Equity increased €18.7m (+7.4%), mainly as a result of the effect of the net profit for the period before the distribution of dividends for the financial year of 2015.

In the 1st quarter of 2016, another purchase of own shares was carried out for a total amount of €2.5m. The number of own shares held as at 31 March 2016 was 500,442. The amount of €0.4m related to the share plan that corresponds to the long-term variable remuneration attributed to the executive members of the Board of Directors was also recorded.

Liabilities decreased €39.5m (-4.6%) mostly due to (i) the €29.2m (-8.8%) decrease in Financial Services payables; (ii) the €1.3m decrease of the liabilities related to employee benefits following the revision of the assumptions used in the calculation of the responsibility with the telephone subscription fee benefit, based on a more balanced use of that benefit, as a result of the measures implemented in previous years which allowed for the reduction of the monthly costs per beneficiary; (iii) the €2.9m decrease in current deferrals reflecting the



amount booked in the results of the 1st quarter of 2016 and regarding the Agreement with Altice (€2.5m); (iv) the €2.2m reduction in non-current deferrals (€1.7m related to the recognition of deferred capital gains for the early termination of the Conde de Redondo building lease contract); (v) the €10.6m decrease in provisions (€8.9m related to the termination of the Conde de Redondo building lease contract); (vi) the €12.0m increase in other current liabilities related to the holiday accrual linked to holidays to be taken in the next year but before the current year holidays have been consumed; (vii) the €5.9m deposits from clients of Banco CTT; and (viii) the €2.5m increase in current funding obtained for Tourline via cash pooling.

Consolidated Balance Sheet

€ Million	31.03.2016	31.12.2015	Δ
Non-current Assets	350.9	354.9	-1.1%
Current Assets	747.8	764.6	-2.2%
Assets	1,098.7	1,119.5	-1.9%
Equity	270.6	251.8	7.4%
Total Liabilities	828.1	867.6	-4.6%
Non-current Liabilities	277.5	292.7	-5.2%
Current Liabilities	550.6	575.0	-4.2%
Total Equity and Liabilities	1,098.7	1,119.5	-1.9%

As at 31 March 2016, the **liabilities related to employee benefits** amounted to €260.6m, i.e. €2.2m (-0.8%) less than in December 2015.

Liabilities related to long-term employee benefits

€ Million	31.03.2016	31.12.2015	Δ
Total responsibilities	260.6	262.8	-0.8%
Healthcare	236.7	236.8	-0.05%
Staff (suspension agreements)	7.2	8.2	-12.4%
Other benefits to Corporate Bodies	3.4	3.0	12.5%
Other long-term benefits	13.3	14.8	-9.9%

Worth mentioning is also the €1.3m reduction in the liability related to other long-term employee benefits, due to the reduction of the liability related to the "telephone subscription fee" benefit, as mentioned above.

The caption Other benefits to Corporate Bodies includes the liability defined by an independent actuarial study regarding the long-term variable remuneration (to be paid in company shares to the executive members of the Board of Directors at the end of the 2014-2016 term of office) linked to the achievement of objectives for the Total Shareholder Return – TSR (comparison of the TSR performance of the company shares and the average weighted TSR of a peer group – PSI20 listed companies and other relevant peers of the European postal sector).

3. HUMAN RESOURCES

As at 31 March 2016, the CTT headcount consisted of 12,046 employees, 167 less (-1.4%) than in the same period of 2015. There was a reduction of 160 permanent employees and 7 with fixed-term contract, with a special impact on the Express & Parcels business unit arising from the distribution networks integration process,



the optimisation of the integrated networks, and from the collective redundancy procedure at Tourline (ERE) in the context of the ongoing restructuring process.

Headcount

	3103.2016	3103.2015	Δ 2016/2015	
Mail	9,659	9,711	-52	-0.5%
Express & Parcels	1,046	1,276	-230	-18.0%
Financial Services	93	105	-12	-11.4%
Banco CTT	97	6	91	>>
Other	1,151	1,115	36	3.2%
Total, of which:	12,046	12,213	-167	-1.4%
Permanent	11,368	11,528	-160	-1.4%
Fixed-term contracts	678	685	-7	-1.0%
Total in Portugal	11,604	11,608	-4	0.0%

The number of employees includes 6,624 mail operations and delivery staff (including 4,947 delivery postmen) and 2,686 employees in the Retail Network.

In the 1st quarter of 2016, 64 employees were hired (43 in Portugal, of which 25 for Banco CTT, and 21 abroad), while 61 left CTT. Of these, 18 employees retired, 35 terminated their contracts and 8 passed away.

In the framework of the human capital enhancement and development required for the growth of CTT, several measures have been implemented to promote the recruitment of staff with new skills and resources, to strengthen particularly the growing areas. In this field it is to be highlighted the launch during the 1st quarter of 2016 of the 2nd edition of the Trainee Programme designed to attract and retain high-potential youngsters, promote their development within a structured company-wide programme, contribute to the rejuvenation of the staff, foster a mobility culture and position CTT as an “employer of first choice”. This programme is currently identifying the future trainees.

The annual performance assessment process regarding the 2015 financial year was triggered, conducted for the first time on a new performance management model based on the assessment of behaviours and objectives linked to the company performance, both in overall terms and at the level of its business units.

During the 1st quarter of 2016, 73,651 hours of training were held with the participation of 7,295 workers. During the period, it is to be noted the demanding preparation of the teams of the 52 branches with which Banco CTT opened on 18 March. For their importance, are also mentioned the changes in the CTT offer and the new model for the automated handling of non-standardised mail items (“Rest Mail”) which involved a total of more than 7,000 participations and nearly 12,000 hours of training. The training of professionals under the scope of strategic projects with greater importance took place in the field of the new performance management model, service certification, the fight against work accidents and Dangerous Goods Regulation (standards of acceptance of goods to be transported by air). Significant efficiency gains were obtained through a marked growth in e-learning training, which represents already more than 20% of the total of the training hours and has grown in this quarter 240% when compared to the same period of the previous year.

On 23 March 2016, with effect as from 1 January 2016, the Revision Agreement of the 2015 CTT Company Agreement was signed with ten Trade Unions to set out a revision for 2016 for fixed remunerations that are below the level of €2,753 per month. This revised agreement was extended to the employees of the subsidiaries. This Revision Agreement takes into account the promotion of a climate of stability and social peace in the company, which is the aim of both CTT and the Trade Unions having signed it, and sets out an increase in monthly base salaries of employees affiliated to the signatory trade unions aiming also at valuing the work, which



is substantially founded on the performance-based variable remuneration policy. This revision of the fixed remuneration constitutes an important adjustment in the lower remuneration levels.

4. QUALITY OF SERVICE

In the 1st quarter of 2016, the results of the quality of service were less favourable than in previous quarters. The OQSI – Overall Quality of Service Indicator registered 89.9 points, negatively influenced by the performance of the month of February. That performance was impacted by the introduction of changes in the functioning of some operating units of the Lisbon sorting centre, due to the implementation of technological updates and to the holding of several plenaries of workers at a national level. The careful monitoring of these indicators led to the prompt launch of a number of initiatives that enabled the company to recover and the OQSI to reach 131.8 points in the month of March, compared to a target of 100 points.

All the quality of service parameters defined by ANACOM and laid down in article 13(1) of the Postal Law (Law no. 17/2012, of 26 April) performed above the minimum established targets.

Customer perception of the quality of service continues to be very favourable, as 88.0% of the customers consider the overall quality of CTT as good or very good.

In the 1st quarter of 2016, the effort to maintain all the management systems certified continued. In February, the external audit to maintain the Quality Certification of the Monitoring Systems to determine the Quality of Service Indicators (QSI) was successfully carried out regarding QSI 1 to 5 (ordinary and priority mail routeing time), QSI 6 (newspapers and periodicals routeing time), QSI 9 (domestic parcels routeing time) and QSI 10 (waiting time in post office queues). The service certification process was maintained in all the post offices and postal delivery offices as well as in 100 postal agencies, an initiative that will be extended to 100 more units.

The implementation of a new system to measure and monitor the quality of service levels is underway. It is carried out by an external entity in accordance with the provisions of the new Postal Law and is explained in further detail below, in the section regarding the Regulatory Environment.

5. TRANSFORMATION PROGRAMME

In 2016 the following projects should be highlighted from among the wide number of projects within this Programme, which aims at the indispensable achievement of the short and middle-term objectives of CTT:

OPTIMISATION OF OPERATIONS AND DISTRIBUTION NETWORKS INTEGRATION

In 2015, a new stage started for a further integration of the Mail and Express & Parcels distribution networks, aiming at an increased use of the postmen & women network for the last-mile delivery of parcels and “day-certain” packages, using the installed capacity and the high capillarity of the Mail distribution network. The delivery of EMS 48 items is performed by the Mail network since 2014. The integration of the delivery of EMS 19 items into the Mail distribution network developed gradually in 2015 by geographical coverage areas with an integrated rationale and vision and was concluded at the end of the 3rd quarter of 2015. In the 1st quarter of 2016, a new stage began, with an integrated network optimisation project, after analysing the volume and efficiency of each delivery route in the 4th quarter of 2015 and 1st quarter of 2016. The aim is to insource in a gradual and coordinated manner the delivery of EMS 19 Múltiplo within the Mail network in a total of 36 postal delivery offices (PDO). This new stage will allow for the completion of the insourcing potential of EMS within the Mail distribution network: in this period it was implemented in 8 PDOs and the remaining are planned for the coming



months. It is to be noted that in the 1st quarter of 2016, 70% of all EMS items were distributed by the Mail distribution network (compared to 33% in the same period of 2015).

Also within the synergies among the operations of CTT, a special note to the new Distribution Sequencing Printing (DSP) project started in 2016. By the first quarter it was implemented in 5 postal delivery offices/customer and delivery services. This project consists in the production of sequenced mail from some customers by Mailtec and its distribution by CTT (clients of the municipal water sector), allowing these items to be processed and printed in an orderly manner, i.e., according to the progression in the street of the delivery rounds, thus contributing to a further optimisation of the operation throughout the operating circuit.

IT SYSTEMS STRATEGIC PLAN

Following the renegotiation of the IT and communication systems outsourcing contracts, in 2015 a new stage of the IT and communication systems transformation programme started with the definition of an IT Systems Strategic Plan which aims to provide CTT with a modern technological platform that supports business growth and meets the new customer requirements by increasingly incorporating attributes in the mail and express & parcels products as well as in the financial services products. The IT Systems Strategic Plan defines a number of structural projects to be implemented across the company throughout the year 2016, involving the implementation of the new SAP HANA, SAP Hybris Billing, integration platforms (EAI, BPM, ECM), and new business-driving/business-oriented applications. It is expected that this is a year of major transformation and the implementation of the plan has an estimated duration of 5 years.

These initiatives are expected to reduce recurring costs (by reducing complexity and managed assets, remotely managing these assets in an integrated manner and by involving even less effort in outsourcing contracts, particularly in the constant need to upgrade systems, which will have an impact on these annual costs in the future). The latest paradigms of efficiency and cooperation, such as job mobility and dematerialisation, seamless integration with partners and increased automation of operations will also be leveraged.

ADVERTISING MAIL

The Advertising mail initiative is a major challenge for this year. It aims to increase market penetration through greater use of the CTT products (Direct Mail, Unaddressed Mail, email, SMS) by SMEs, the most representative segment of the business fabric in Portugal.

CTT intends to develop its offer in terms of solutions for advertising campaigns and for this purpose it focuses on two vectors: (i) development of a platform where advertisers can build their own campaigns in a self-service way and (ii) boosting demand and leveraging partnerships with media agencies. It is intended to create an integrated online offer of Advertising Mail and Digital Marketing to SMEs by promoting an appealing and trendy concept that will position CTT as a swift and innovative company that supports solutions to promote its customers' brands and products.

Although the start of production is planned for the 2nd half of 2016, during the 1st quarter the team dedicated to this project, which integrates new skills following external recruitment, worked mainly in the first steps for the development of the supporting technological platform. The proposals received are already being analysed, and definition of the concept and the brand of the new solution, as well as the relationship model with media agencies are also underway.



6. OTHER BUSINESS OPPORTUNITIES

Regarding the Memorandum of Understanding (MoU) with Altice, in July of 2015 the latter paid CTT the initial fee established in the agreement following the conclusion of the acquisition of PT Portugal by Altice. The negotiations regarding the details of the specific business partnerships that will create value for both companies have had some developments regarding the scope of action and the definition of the joint business plan, in particular the joint optimisation of the retail networks and the development of joint ventures in the area of e-commerce.

During the 1st quarter of 2016, a strategic plan for the development of the CTT payments area within the Financial Services business unit has been designed, as these services will not migrate to Banco CTT. This plan will define the options to create more value and position CTT as a stronger player in non-banking payment solutions. For this purpose a strategic plan has been approved already in the 2nd quarter which will be integrated in the Transformation Programme and will aim to leverage the growth of this business segment, specifically in the PayShop agents' network.

7. REGULATORY ENVIRONMENT

Complying with the pricing criteria as defined by a decision of ANACOM of 21.11.2014⁶, the proposal on the **prices of the universal service** submitted by CTT on 17.11.2015, and subsequently adjusted⁷, 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. This update corresponds to a 1.3% annual average change of the price of the letter mail, editorial mail and parcels basket of services, excluding the offer of the universal service to bulk mail senders, to whom the special pricing arrangement applies. This change takes into account not only the parameters and forecasts of volumes evolution and inflation in 2016 but also the correction of the 2015 parameters since the actual indicators were more favourable than forecasted.

Special prices for postal services included in the universal service⁸ applicable to bulk mail senders were also updated on 01.02.2016, following the proposal submitted to the Regulator on 18.01.2016.

Within the framework of the company's 2016 tariff policy, the mentioned update corresponds to an average overall annual price change of 1.1% and also reflects the update of prices for reserved services (registered mail used in legal or administrative proceedings) and the special prices for bulk mail.

As the universal postal service provider and in order to provide a standardised, non-discriminatory service to operators wishing to use the universal service network, as of February 2016, CTT offers the postal operators holding an individual license **access to its network**⁹, under competitive conditions and not jeopardising the security and efficiency of the universal service provision. In this context and with regard to the access of other postal operators to some elements of the postal infrastructure¹⁰, the offer on the access to the service of delivery into P.O. boxes and to the service of return to sender of the mail found in the CTT network with postage of other operators was published and entered into force in the past month of March.

In terms of the quality of the universal postal service and following the provisions of the new Postal Law, a new quality of service measurement and control system is being implemented, carried out by an external entity. To ensure effective and efficient measurement of quality levels and given the specificities of the postal sector, in November 2015, CTT launched a pre-qualifying international tender in order to select the external entity

⁶ Under Article 14(3) of Law no. 17/2012, of 26 April (Postal Law), as amended by Decree-Law no. 160/2013, of 19 November, and by Law no. 16/2014, of 4 April.

⁷ On 09.12.2015, 08.01.2016 and 15.01.2016.

⁸ As per Article 4 of Decree-Law no. 160/2013, of 19 November.

⁹ Pursuant to Article 38 of Law no. 17/2012, of 26 April (Postal Law).

¹⁰ Pursuant to Article 39 of Law no. 17/2012, of 26 April (Postal Law).



responsible for measuring the levels of quality. It was completed in the month of March and the provision of the service was awarded to an international company. In the short term it is expected that the successful tenderer develops the necessary work to implement the measurement system of the quality of service indicators.

8. CORPORATE GOVERNANCE

In the 1st quarter of 2016, CTT, S.A. acquired CTT Expresso's 100% stake in Tourline following a strategic analysis carried out in 2014 and completed in 2015 regarding the synergies of the geographies in the Express & Parcels area vs. the potential synergies by the distribution networks integration in Portugal. The synergies obtained from the network integration, which are already evident today, as well as the reduced operational synergies between Portugal and Spain, due the different business models existing in both markets, made clear the decision not to integrate the Express & Parcels operations at Iberian level.

On 28 April 2016, the Annual General Meeting of Shareholders of CTT was held, where, among others, the following resolutions were adopted:

- Election of Mr Manuel Carlos de Mello Champalimaud as non-executive member of the Board of Directors for the current term of office 2014/2016. As from that date, the Board of Directors consists of 12 members;
- Election of Mr Manuel Alves Monteiro as member of the Remuneration Committee to complete the current term of office 2014/2016, following the resignation submitted by Mr José Gonçalo Ferreira Maury.

9. FUND FOR POST-EMPLOYMENT HEALTHCARE RESPONSIBILITIES

The Board of Directors decided to launch a call for proposals to select the managing entity in the context of the possible creation of a fund to which the liabilities with post-employment healthcare will be transferred under the pension fund system ("CTT Fund for Post-employment Healthcare" or "Fund").

The creation of the Fund is subject to the definition by CTT and the managing entity to be selected of the corresponding terms and conditions, the necessary internal approvals, and compliance with the formalities and applicable authorisations, specifically the authorisation for its establishment from the Insurance and Pension Funds Supervisory Authority.

The establishment of the CTT Fund for Post-employment Healthcare is a measure aimed to improve the quality of CTT's financial information and generate relevant benefits in financial and accounting terms during the current and coming financial years. The quantification of such benefits depends namely on the accurate definition of assets and liabilities and on the financing plan of the Fund, as well as on its tax and regulatory framework. As at 31 March 2016 the current amount of the liabilities with the Healthcare Plan corresponds to €237m.

10. DIVIDENDS

The Annual General Meeting of Shareholders held on 28 April 2016 approved the proposal submitted by the Board of Directors of CTT to distribute dividends relative to the 2015 financial year for a total amount of €70.5m (47.0 Euro cents per share).



Accordingly, the dividends per share relating to the financial year of 2015 shall be payable on the dates and amounts, and under the terms indicated below:

Ex-dividend date: 23 May 2016

Dividend payment date: 25 May 2016

Gross dividend	€ 0.4700	Gross dividend	€ 0.4700
Withholding Tax/ Personal Income (28%)(*)	€ 0.1316	Withholding Tax/ Corporate Income (25%)(*)	€ 0.1175
Net dividend	€ 0.3384	Net dividend	€ 0.3525

(*) Dividends are subject to a definitive withholding tax of 35% when paid or made available: (i) in bank accounts opened in the name of one or more holders but on behalf of unidentified third parties, except in the case that the effective beneficiary is identified; or (ii) to non-resident entities with no permanent establishment in the Portuguese territory, who are domiciled in a country, territory or region under a tax regime clearly more favourable, included in the approved list published by the Ministry of Finance.

In accordance with applicable regulations, payment of the dividend will be made through the *Central de Valores Mobiliários*. The paying agent appointed for this purpose is Banco Comercial Português, S.A..

FINAL NOTE

This press release is based on CTT – Correios de Portugal, S.A. interim condensed consolidated financial statements for the 1st quarter of 2016, which are attached hereto.

Lisbon, 11 May 2016

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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Disclaimer

This document has been prepared by CTT – Correios de Portugal, S.A. (the “Company” or “CTT”) exclusively for communication of the financial results of the 1st quarter of 2016 and has a mere informative nature. This document does not constitute, nor must it be interpreted as, an offer to sell, issue, exchange or buy any financial instruments (namely any securities issued by CTT or by any of its subsidiaries or affiliates), nor any kind of solicitation, recommendation or advice to (di)invest by CTT, its subsidiaries or affiliates.

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This document (i) may contain summarised information and be subject to amendments and supplements and (ii) the information contained herein has neither been independently verified, nor audited or reviewed by any of the Company’s advisors or auditors. Thus being, given the nature and purpose of the information herein and, except as required by applicable law, CTT does not undertake any obligation to publicly update or revise any of the information contained in this document. This document does not contain all the information disclosed to the market about CTT, thus its recipients are invited and advised to consult the public information disclosed by CTT in www.ctt.pt and in www.cmvm.pt. In particular, the contents of this press release shall be read and understood in light of the financial information disclosed by CTT, through such means. By reading this document, you agree to be bound by the foregoing restrictions.

Forward-looking statements

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

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

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

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

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



3 months 2016 report

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CTT-CORREIOS DE PORTUGAL, S.A.

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

Euros

	NOTES	Unaudited 31.03.2016	31.12.2015
ASSETS			
Non-current assets			
Tangible fixed assets	4	206,781,778	209,940,886
Investment properties	6	19,304,880	19,783,095
Intangible assets	5	29,048,683	27,624,015
Goodwill		8,058,656	8,058,656
Investments in associated companies		255,695	255,695
Other investments		2,258,056	1,106,812
Other non-current assets		1,132,040	601,103
Financial assets available for sale		696,465	-
Deferred tax assets	21	83,368,928	87,535,941
Total non-current assets		350,905,181	354,906,203
Current assets			
Inventories		5,470,485	5,455,115
Accounts receivable		124,474,621	124,355,641
Deferrals	8	8,213,529	8,168,589
Other current assets		36,485,379	22,936,943
Other banking financial assets		110,072	-
Cash and cash equivalents		573,036,227	603,649,717
Total current assets		747,790,313	764,566,005
Total assets		1,098,695,494	1,119,472,208
EQUITY AND LIABILITIES			
Equity			
Share capital	10	75,000,000	75,000,000
Own shares	11	(4,407,482)	(1,873,125)
Reserves	11	33,755,961	33,384,112
Retained earnings	11	163,813,638	91,727,994
Other changes in equity	11	(18,352,342)	(18,644,832)
Net profit attributable to equity holders of parent company		20,671,965	72,065,283
Non-controlling interests		99,397	175,322
Total equity		270,581,137	251,834,754
Liabilities			
Non-current liabilities			
Medium and long term debt		878,704	1,035,522
Employee benefits	14	239,124,352	241,306,773
Provisions	15	30,143,968	40,732,332
Deferrals	8	2,862,322	5,016,576
Deferred tax liabilities	21	4,504,101	4,576,598
Total non-current liabilities		277,513,447	292,667,801
Current liabilities			
Accounts payable	16	389,067,224	435,891,677
Banking client deposits and other loans	17	4,911,393	-
Employee benefits	14	18,122,594	18,538,572
Income taxes payable	18	13,222,355	7,922,942
Short term debt		9,600,866	7,078,155
Deferrals	8	10,849,474	13,745,430
Other current liabilities	19	103,800,491	91,792,877
Other banking financial liabilities		1,026,513	-
Total current liabilities		550,600,910	574,969,653
Total liabilities		828,114,357	867,637,454
Total equity and liabilities		1,098,695,494	1,119,472,208

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



CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2016 AND 31 MARCH 2015

Euros

	NOTES	Unaudited 3103.2016	Unaudited 3103.2015
Revenues		179,599,870	191,228,871
Sales and services rendered	3	170,623,181	186,367,218
Financial margin		8,103	-
Other operating income		8,968,586	4,861,653
Operating costs		(148,590,087)	(158,206,498)
Cost of sales		(3,355,816)	(3,651,176)
External supplies and services		(55,115,156)	(55,875,070)
Staff costs	20	(84,146,966)	(87,459,727)
Impairment of inventories and accounts receivable, net	9	(25,661)	(607,072)
Impairment of non-depreciable assets		-	-
Provisions, net	15	3,055,562	(394,848)
Depreciation/amortisation and impairment of investments, net	4, 5, 6	(6,220,016)	(5,400,974)
Other operating costs		(2,782,034)	(4,817,631)
Earnings before financial income and taxes		31,009,783	33,022,373
Financial results		(1,178,113)	(1,195,021)
Interest expenses		(1,600,222)	(1,801,212)
Interest income		232,333	606,191
Gains/losses in associated companies		189,776	-
Earnings before taxes		29,831,670	31,827,352
Income tax for the period	21	(9,204,135)	(9,495,327)
Net profit for the period		20,627,535	22,332,025
Net profit for the period attributable to:			
Equity holders of parent company		20,671,965	22,297,035
Non-controlling interests		(44,430)	34,990
Earnings per share of the parent company	13	0.14	0.15

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

CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2016 AND 31 MARCH 2015

Euros

	NOTES	Unaudited 3103.2016	Unaudited 3103.2015
Net profit for the period		20,627,535	22,332,025
Adjustments from application of the equity method (non re-classifiable adjustment to profit and loss)		-	335,015
Changes to fair value reserves		(1,537)	-
Employee benefits (non re-classifiable adjustment to profit and loss)	14	408,277	(62,591)
Deferred tax/Employee benefits (non re-classifiable adjustment to profit and loss)	21	(115,787)	17,613
Other changes in equity		(11,134)	20,620
Other comprehensive income for the period after taxes		279,819	310,657
Comprehensive income for the period		20,907,354	22,642,682
Attributable to non-controlling interests		(75,925)	391,413
Attributable to shareholders of CTT		20,983,279	22,251,269

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



CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31MARCH 2016 AND 31DECEMBER 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		-	(1,873,125)	-	-	-	-	-	(1,873,125)
Share plan		-	-	1,610,685	-	-	-	-	1,610,685
		-	(1,873,125)	1,610,685	-	7,421,128	(77,171,128)	-	(70,012,440)
Other movements		-	-	-	-	(177,319)	-	158,658	(18,661)
Actuarial gains/losses - Health Care, net from deferred taxes	11	-	-	-	141,478	-	-	-	141,478
Changes to fair value reserves		-	-	(540)	-	-	-	-	(540)
Adjustments from the application of the equity method	11	-	-	-	-	109,622	-	335,015	444,637
Net profit for the period		-	-	-	-	-	72,065,283	5,352	72,070,635
Comprehensive income for the period		-	-	(540)	141,478	(67,697)	72,065,283	499,025	72,637,549
Balance on 31 December 2015		75,000,000	(1,873,125)	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	(1,873,125)	33,384,112	(18,644,832)	91,727,994	72,065,283	175,322	251,834,754
Appropriation of net profit for the year of 2015		-	-	-	-	72,065,283	(72,065,283)	-	-
Acquisition of own shares	11	-	(2,534,357)	-	-	-	-	-	(2,534,357)
Share plan	11	-	-	373,386	-	-	-	-	373,386
		-	(2,534,357)	373,386	-	72,065,283	(72,065,283)	-	(2,160,971)
Other movements		-	-	-	-	20,361	-	(31,495)	(11,134)
Other changes - employee benefits	11	-	-	-	292,490	-	-	-	292,490
Changes to fair value reserves		-	-	(1,537)	-	-	-	-	(1,537)
Net profit for the period		-	-	-	-	-	20,671,965	(44,430)	20,627,535
Comprehensive income for the period		-	-	(1,537)	292,490	20,361	20,671,965	(75,925)	20,907,354
Balance on 31 March 2016 (unaudited)		75,000,000	(4,407,482)	33,755,961	(18,352,342)	163,813,638	20,671,965	99,397	270,581,137

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



CTT-CORREIOS DE PORTUGAL, S.A.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE THREE MONTH PERIODS ENDED 31 MARCH 2016 AND 31 MARCH 2015

Euro

	NOTES	Unaudited 3103.2016	Unaudited 3103.2015
Operating activities			
Collections from customers		165,703,601	165,890,438
Payments to suppliers		(73,600,315)	(64,457,629)
Payments to employees		(69,195,922)	(70,107,581)
Banking customer deposits and other loans		5,987,697	-
Cash flow generated by operations		<u>28,895,061</u>	<u>31,325,227</u>
Payments/receivables of income taxes		238,011	(819,039)
Other receivables/payments		(44,565,348)	(162,740,212)
Cash flow from operating activities (1)		<u>(15,432,276)</u>	<u>(132,234,024)</u>
Investing activities			
Receivables resulting from:			
Tangible fixed assets		584,814	-
Financial investments		-	12,435
Interest income		324,134	815,437
Payments resulting from:			
Tangible fixed assets		(7,300,205)	(9,134,372)
Intangible assets		(6,878,448)	(2,450,775)
Financial investments		(566,456)	-
Investments held to maturity		(1,000,000)	-
Cash flow from investing activities (2)		<u>(14,836,161)</u>	<u>(10,757,274)</u>
Financing activities			
Receivables resulting from:			
Loans obtained		7,137,974	1,620,738
Payments resulting from:			
Loans repaid		(4,524,364)	-
Interest expenses		(175,463)	(144,503)
Finance leases		(248,844)	(246,254)
Acquisition of own shares	11	(2,534,357)	-
Cash flow from financing activities (3)		<u>(345,053)</u>	<u>1,229,981</u>
Net change in cash and cash equivalents (1+ 2+ 3)		<u>(30,613,490)</u>	<u>(141,761,317)</u>
Changes in the consolidation perimeter		-	-
Cash and equivalents at the beginning of the period		<u>603,649,717</u>	<u>664,569,744</u>
Cash and cash equivalents at the end of the period		<u>573,036,227</u>	<u>522,808,427</u>

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



CTT – CORREIOS DE PORTUGAL, S.A.

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

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1. INTRODUCTION

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

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

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

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

During 2013, CTT’s capital was opened to the private sector. Supported by Decree-Law no. 129/2013 of 6 September and the Resolution of the Council of Ministers (“RCM”) no. 62-A/2013, of October 10, 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 on 11 May, 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.

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, 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..

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, earnings before depreciation, provisions, impairments, financial results and taxes by segment in the first quarter of 2016 and 2015 are analysed as follows:

31.03.2016								
Euros	Mail	Express & Parcels	Financial Services	BancoCTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	138,923,088	30,082,604	16,516,931	124,300	25,430,886	(31,477,939)	-	179,599,870
Sales and services rendered	127,684,622	28,844,711	14,883,921	-	-	(790,072)	-	170,623,181
Sales	4,144,210	200,056	-	-	-	-	-	4,344,266
Services rendered	123,540,412	28,644,655	14,883,921	-	-	(790,072)	-	166,278,916
Financial Margin	-	-	-	8,103	-	-	-	8,103
Operating revenues external customers	7,107,082	1,237,893	1,611,540	116,197	5,441,558	(6,545,684)	-	8,968,586
Internal services rendered	4,131,384	-	21,471	-	8,771,086	(12,923,941)	-	-
Allocation to CTT central structure	-	-	-	-	11,218,242	(11,218,242)	-	-
Operating costs	109,957,603	29,111,308	8,177,243	4,200,872	25,430,886	(31,477,939)	-	145,399,973
External supplies and services	24,148,279	22,947,103	2,423,942	2,665,660	10,256,520	(7,326,347)	-	55,115,156
Staff costs	62,233,424	5,543,982	1,315,976	1,470,173	13,588,263	(4,851)	-	84,146,966
Other costs	3,985,061	620,223	216,703	65,040	1,255,382	(4,558)	-	6,137,850
Internal services rendered	8,451,499	-	4,141,721	-	330,721	(12,923,941)	-	-
Allocation to CTT central structure	11,139,340	-	78,902	-	-	(11,218,242)	-	-
EBITDA⁽¹⁾	28,965,485	971,297	8,339,688	(4,076,572)	-	-	-	34,199,897
Depreciation/amortisation and impairment of investments, net	(3,692,366)	(694,966)	(91,257)	(127,648)	(1,461,808)	-	(151,971)	(6,220,016)
Impairment of inventories and accounts receivable, net	-	-	-	-	-	-	-	(25,661)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	-	-	-	-	-	-	-	3,055,562
Interest expenses	-	-	-	-	-	-	-	(1,600,222)
Interest income	-	-	-	-	-	-	-	232,333
Gains/losses in associated companies	-	-	-	-	-	-	-	189,776
Earnings before taxes	-	-	-	-	-	-	-	29,831,670
Income tax	-	-	-	-	-	-	-	(9,204,135)
Net profit	-	-	-	-	-	-	-	20,627,535
Non-controlling interests	-	-	-	-	-	-	-	(44,430)
Equity holders of parent company	-	-	-	-	-	-	-	20,671,965

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



31.03.2015								
Euros	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Intragroup eliminations	Others non allocated	Total
Revenues	143,673,972	318,915,26	24,314,808	-	28,430,470	(37,081,906)	-	191,228,871
Sales and services rendered	132,211,169	31,371,215	24,076,100	-	-	(129,126,7)	-	186,367,218
Sales	4,719,782	239,377	-	-	-	-	-	4,959,159
Services rendered	127,491,387	31,131,838	24,076,100	-	-	(129,126,7)	-	181,408,059
Operating revenues external customers	7,020,077	520,312	216,852	-	3,603,645	(6,499,232)	-	4,861,653
Internal services rendered	4,442,725	-	218,56	-	13,445,579	(17,910,160)	-	-
Allocation to CTT central structure	-	-	-	-	11,381,246	(11,381,246)	-	-
Operating costs	118,824,304	310,17,861	10,612,874	-	28,430,470	(37,081,906)	-	151,803,604
External supplies and services	25,324,853	24,089,106	4,092,396	-	10,153,957	(7,785,241)	-	55,875,070
Staff costs	62,600,612	6,311,785	1,794,610	-	16,752,720	-	-	87,459,727
Other costs	6,566,932	616,971	90,618	-	1,199,543	(5,258)	-	8,468,807
Internal services rendered	13,044,175	-	4,541,735	-	324,251	(17,910,160)	-	-
Allocation to central CTT structure	11,287,732	-	93,515	-	-	(11,381,246)	-	-
EBITDA⁽¹⁾	24,849,668	873,665	13,701,934	-	-	-	-	39,425,267
Depreciation/amortisation and impairment of investments, net	(3,490,662)	(677,172)	(137,231)	-	(918,789)	-	(177,120)	(5,400,974)
Impairment of inventories and accounts receivable, net	-	-	-	-	-	-	-	(607,072)
Impairment of non-depreciable assets	-	-	-	-	-	-	-	-
Provisions net	-	-	-	-	-	-	-	(394,848)
Interest expenses	-	-	-	-	-	-	-	(1,801,212)
Interest income	-	-	-	-	-	-	-	606,191
Gains/losses in associated companies	-	-	-	-	-	-	-	-
Earnings before taxes	-	-	-	-	-	-	-	31,827,352
Income tax	-	-	-	-	-	-	-	(9,495,327)
Net profit	-	-	-	-	-	-	-	22,332,025
Non-controlling interests	-	-	-	-	-	-	-	34,990
Equity holders of parent company	-	-	-	-	-	-	-	22,297,035

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

The revenues are detailed as follows:

Thousand Euros	31.03.2016	31.03.2015
Mail	138,923	143,674
Transactional mail	106,894	109,264
Editorial mail	4,282	3,824
Parcels (USO)	1,493	1,705
Advertising mail	7,373	8,226
Retail	4,334	3,833
Philately	1,192	1,487
Business Solutions	2,318	3,071
Other	11,037	12,264
Express & Parcels	30,083	31,892
Financial Services	16,517	24,315
Banco CTT	124	-
CTT Central Structure	25,431	28,430
Intragroup eliminations	(31,478)	(37,082)
	179,600	191,229



The assets by segment are detailed as follows:

Assets (Euros)	31.03.2016						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure	Non allocated assets	
Intangible assets	2,675,696	3,359,357	210,869	12,080,606	8,251,186	2,470,968	29,048,683
Tangible fixed assets	172,311,959	13,171,247	496,293	65,691	17,638,329	3,098,260	206,781,778
Investment properties						19,304,880	19,304,880
Goodwill	7,652,555		406,101				8,058,656
Deferred tax assets						83,368,928	83,368,928
Accounts receivable						124,474,621	124,474,621
Other assets						54,621,721	54,621,721
Cash and cash equivalents						573,036,227	573,036,227
	182,640,210	16,530,604	1,113,262	12,146,297	25,889,516	860,375,605	1,098,695,494

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)	31.03.2016						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure		
Medium and long-term debt	609,282	269,422	-	-	-	-	878,704
Bank loans	-	75,731	-	-	-	-	75,731
Leasings	609,282	193,691	-	-	-	-	802,973
Short-term debt	462,968	9,137,898	-	-	-	-	9,600,866
Bank loans	-	8,652,753	-	-	-	-	8,652,753
Leasings	462,968	485,145	-	-	-	-	948,113
	1,072,250	9,407,320	-	-	-	-	10,479,570
Other information (Euros)	31.12.2015						Total
	Mail	Express & Parcels	Financial Services	Banco CTT	CTT Central Structure		
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	31.03.2016	31.03.2015
Revenue - Portugal	151,393	166,110
Revenue - other countries	19,230	20,258
	170,623	186,368

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

4. TANGIBLE FIXED ASSETS

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

	31.03.2016								
	Land and natural resources	Buildings and other constructions	Basic equipment	Transport equipment	Office equipment	Other tangible fixed assets	Tangible fixed assets in progress	Advance payments to suppliers	Total
Tangible fixed assets									
Opening balance	37,306,577	337,982,013	138,002,341	3,273,327	54,961,400	23,252,352	197,1616	1,398,408	598,148,034
Acquisitions	-	28,136	426,167	-	390,581	36,180	626,081	223,279	1,730,423
Disposals	(73,365)	-	(412,366)	-	-	-	-	-	(485,731)
Transfers and write-offs	-	771,045	(2,225,292)	-	(444,544)	19,255	(771,045)	(128,252)	(2,778,834)
Adjustments	-	(814)	(219,742)	(4,006)	(16,530)	1,098	-	-	(239,993)
Changes in the consolidation perimeter	-	-	-	-	-	-	-	-	-
Closing balance	37,233,212	338,780,380	135,571,108	3,269,322	54,890,907	23,308,885	1826,652	1493,434	596,373,899
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	-	2,288,323	1,558,344	20,195	555,152	235,428	-	-	4,657,443
Disposals	(5,040)	-	(412,366)	-	-	-	-	-	(417,406)
Transfers and write-offs	-	-	(2,314,315)	-	(447,129)	(17,390)	-	-	(2,778,834)
Adjustments	-	(161)	(36,242)	(1,503)	(5,081)	(2,315)	-	-	(45,301)
Changes in the consolidation perimeter	-	-	-	-	-	-	-	-	-
Closing balance	3,883,281	195,032,149	117,425,103	3,173,114	50,290,160	19,522,473	-	-	389,326,280
Accumulated impairment									
Opening balance	-	-	-	-	-	296,769	-	-	296,769
Other variations	-	-	-	-	-	(30,929)	-	-	(30,929)
Closing balance	-	-	-	-	-	265,840	-	-	265,840
Net Tangible fixed assets	33,349,930	143,748,231	18,146,005	96,207	4,600,747	3,520,572	1826,652	1493,434	206,781,778



	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)	-	(1,991)	(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	18,185,867	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	19,243,987	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 three-month period ended 31 March 2016, Land and natural resources and Buildings and other constructions include 4,705,446 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 three-month period ended 31 March 2016, the most significant movements in Tangible Fixed Assets were the following:

Buildings and other constructions:

The movements associated to additions 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 computer equipment worth approximately 272 thousand Euros, pallets and pallet trucks for about 20 thousand Euros and scales for approximately 42 thousand Euros by CTT, and the upgrade of parcel sorting machines of about 39 thousand Euros in CTT Expresso.

Office equipment:

The amount of acquisitions relates essentially to the purchase of computer equipment of medium and large size and various computer equipment for a total amount of 297 thousand Euros and the acquisition of several administrative equipments of 63 thousand Euros, by CTT.

Tangible fixed assets in progress:

The amounts under this heading are related to costs 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 4,657,433 Euros (4,446,816 Euros on 31 March 2015), is booked under the heading Depreciation/amortisation and impairment of investments, net.

Contractual commitments related to Tangible fixed assets are as follows:

Upgrades to mail sorting machines	681,557
Upgrade servers	467,400
Safety equipment	424,209
Laptops, desktops e monitores	321,730
Hardware firewall networks	192,830
Safes and security doors	58,268
Hardware Secure Web Gateway	36,506
	<u>2,182,500</u>

5. INTANGIBLE ASSETS

During the three-month period ended 31 March 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:

	3103.2016					
	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	-	12,856	-	-	2,999,670	3,012,527
Transfers and write-offs	-	10,962,240	-	-	(10,962,240)	-
Adjustments	-	(15,332)	(185,433)	-	-	(200,765)
Closing balance	<u>4,372,922</u>	<u>59,414,789</u>	<u>11,818,862</u>	<u>444,739</u>	<u>4,212,843</u>	<u>80,264,155</u>
Accumulated amortisation						
Opening balance	4,350,412	36,912,898	8,120,329	444,739	-	49,828,379
Amortisation for the period	2,412	1,067,129	341,061	-	-	1,410,603
Transfers and write-offs	-	-	-	-	-	-
Adjustments	-	-	(23,509)	-	-	(23,509)
Closing balance	<u>4,352,824</u>	<u>37,980,028</u>	<u>8,437,881</u>	<u>444,739</u>	<u>-</u>	<u>51,215,472</u>
Net intangible assets	<u>20,098</u>	<u>21,434,761</u>	<u>3,380,981</u>	<u>-</u>	<u>4,212,843</u>	<u>29,048,683</u>

	3112.2015					
	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	<u>4,372,922</u>	<u>48,455,024</u>	<u>12,004,296</u>	<u>444,739</u>	<u>12,175,413</u>	<u>77,452,394</u>
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	<u>4,350,412</u>	<u>36,912,898</u>	<u>8,120,329</u>	<u>444,739</u>	<u>-</u>	<u>49,828,379</u>
Net intangible assets	<u>22,510</u>	<u>11,542,126</u>	<u>3,883,967</u>	<u>-</u>	<u>12,175,413</u>	<u>27,624,015</u>



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

The transfers occurred in the three-month period ended 31 March 2016 from Intangible assets in progress to Computer software refer to IT projects which were completed during the period.

The amounts of 150,937 Euros and 59,757 Euros that were capitalised in Computer software or in Intangible assets in progress as at 31 March 2016 and 31 March 2015, respectively, related to the staff costs incurred in the development of these projects.

As at 31 March 2016, Intangible assets in progress relate to IT projects which are under development, of which the most relevant are:

	<u>31.03.2016</u>
SGC - SW Application	748,160
International (E-CIP)	535,074
NAVE evolution	351,773
Reg Pro - Banking reports system	245,851
Mail products evolution	233,800
SAC - Card management system	184,230
App Banco CTT Mobile	176,567
Performance evaluation - Software	134,259
Payment platform	126,787
Portfolio - SW Application	115,517
SGEE - System Management Express Shipping - Software	115,496
Financial consolidation - Software	105,210
Audit management - Software	83,190
DOL - Treatment and generation of scales	81,666
Extraterritorial virtual mailbox	69,219
Riposte migration	61,454
VIA CTT - Application Software	60,222
CIA - New portal of treatment - Application Software	59,683
CTT Mobile	56,270
	<u>3,544,427</u>

The amortisation for the period of 1,410,603 Euros (777,038 Euros as at 31 March 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	7,359,934
SGEE - System Management Express Shipping	1,342,875
Card management system	187,664
Oracle Software	145,000
APP CTT 2.0	93,780
Web call center	50,000
RFP - GEOGIRO	39,975
SIGPOSTAL	3,967
	<u>9,223,195</u>

6. INVESTMENT PROPERTIES

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

	3103.2016		
	Land and natural resources	Buildings and other constructions	Total
Investment properties			
Opening balance	7,079,434	40,895,220	47,974,654
Additions	-	-	-
Disposals	(102,531)	(517,017)	(619,548)
Transfers and write-offs	-	-	-
Closing balance	<u>6,976,903</u>	<u>40,378,202</u>	<u>47,355,105</u>
Accumulated depreciation			
Opening balance	239,426	26,669,510	26,908,936
Depreciation for the period	-	182,899	182,899
Disposals	(11,749)	(312,484)	(324,233)
Transfers and write-offs	-	-	-
Closing balance	<u>227,678</u>	<u>26,539,925</u>	<u>26,767,603</u>
Accumulated impairment			
Opening balance	-	1,282,622	1,282,622
Impairments for the period	-	-	-
	<u>-</u>	<u>1,282,622</u>	<u>1,282,622</u>
Net Investment properties	<u>6,749,225</u>	<u>12,555,655</u>	<u>19,304,880</u>



	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	<u>7,079,434</u>	<u>40,895,220</u>	<u>47,974,654</u>
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	<u>239,426</u>	<u>26,669,510</u>	<u>26,908,936</u>
Accumulated impairment			
Opening balance	-	1,450,025	1,450,025
Impairments for the period	-	(167,403)	(167,403)
	<u>-</u>	<u>1,282,622</u>	<u>1,282,622</u>
Net Investment properties	<u>6,840,008</u>	<u>12,943,087</u>	<u>19,783,095</u>

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

Depreciation for the period of 182,899 Euros (208,049 Euros on 31 March 2015) was recorded in the caption Depreciation / amortisation and impairment of investments (losses / reversals).

7. COMPANIES INCLUDED IN THE CONSOLIDATION

Subsidiary companies

As at 31 March 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	31.03.2016			31.12.2015		
		Percentage of ownership		Total	Percentage of ownership		Total
		Direct	Indirect		Direct	Indirect	
Parent company:							
CTT - Correios de Portugal, S.A.	Av. D. João II N.º 13 1999-001 Lisbon	-	-	-	-	-	-
Subsidiaries:							
CTT Expresso - Serviços Postais e Logística, S.A. ("CTT Expresso")	Lugar do Quintanilha 2664-500 São Julião do Tojal	100	-	100	100	-	100
Payshop Portugal, S.A. ("Payshop")	Av. D. João II N.º 13 1999-001 Lisbon	100	-	100	100	-	100
CTT Contacto, S.A. ^(a) ("CTT Contacto")	Av. D. João II N.º 13 1999-001 Lisbon	100	-	100	100	-	100
Mailtec Comunicação, S.A. ("Mailtec TI")	Av. D. João II N.º 13 1999-001 Lisbon	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. ("Escrita Inteligente")	Av. D. João II N.º 13 1999-001 Lisbon	100	-	100	100	-	100
Banco CTT, S.A. ("BancoCTT")	Av. D. João II N.º 11 1999-001 Lisbon	100	-	100	100	-	100

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



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

On 17 March 2016, CTT Expresso, S.A. sold to CTT – Correios de Portugal, S.A., 100% of the participation in the subsidiary Tourline Express Mensajería, SLU.

This transaction had no impact on the consolidation perimeter.

Joint ventures

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

Company name	Head office	31.03.2016			31.12.2015		
		Percentage of ownership		Total	Percentage of ownership		Total
		Direct	Indirect		Direct	Indirect	
Ti-Post Prestação de Serviços informáticos, ACE ("Ti-Post")	R. do Mar da China, Lote 107.2.3 Lisbon	49	-	49	49	-	49
NewPost, ACE	Av. Fontes Pereira de Melo, 40 Lisbon	49	-	49	49	-	49
PTP & F, ACE	Estrada Casal do Canas Amadora	-	51	51	-	51	51

Associated companies

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

Company name	Head office	31.03.2016			31.12.2015		
		Percentage of ownership		Total	Percentage of ownership		Total
		Direct	Indirect		Direct	Indirect	
Multicert - Serviços de Certificação Electrónica, S.A. ("Multicert")	R. do Centro Cultural, 2 Lisbon	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 Mensajería, SLU, which currently has no activity

Changes in the consolidation perimeter

During the three-month period ended 31 March 2016, there were no changes in the consolidation perimeter.

8. DEFERRALS

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



	<u>3103.2016</u>	<u>3112.2015</u>
Assets deferrals		
Current		
Rents payable	1,294,705	1,293,761
Meal allowances	1,612,983	1,701,736
Company Agreement - Supplementary agreement compensation	583,589	1,457,575
Other	<u>4,722,252</u>	<u>3,715,517</u>
	<u>8,213,529</u>	<u>8,168,589</u>
Liabilities deferrals		
Non-current		
Deferred capital gains	1,607,534	3,677,282
Deferred commissions	900,000	1,000,000
Tangible fixed assets	<u>354,788</u>	<u>339,294</u>
	<u>2,862,322</u>	<u>5,016,576</u>
Current		
Deferred capital gains	2,143,378	2,399,029
Phone-ix top ups	193,421	206,329
Deferred commissions	400,000	400,000
Altice agreement	7,083,333	9,583,333
Tangible fixed assets	11,201	11,201
Other	<u>1,018,141</u>	<u>1,145,538</u>
	<u>10,849,474</u>	<u>13,745,430</u>
	<u>13,711,796</u>	<u>18,762,006</u>

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

During the three-month period ended 31 March 2016 and the year ended 31 December 2015, the amounts of 2,103,424 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 three-month period ended 31 March 2016 includes the amount of 1,725,642 Euros regarding Conde Redondo's building as a result of the lease contract's resolution.

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 31 March 2016 an amount of 1,300,000 Euros related to this contract was deferred.

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 three-month period ended 31 March 2016, the amount of 2,500,000 Euros, was recognised under Other operating income in the consolidated income statement, related to this memorandum.



Shareholder	31.03.2016		
	No. of shares	%	Nominal value
Gestmin SGPS, S.A. ⁽¹⁾	10,409,615	6.940%	5,204,808
Manuel Carlos de Mello Champalimaud	90,385	0.060%	45,193
Manuel Carlos de Mello Champalimaud	Total	7.000%	5,250,000
Standard Life Investments Limited ⁽²⁾	9,910,580	6.607%	4,955,290
Ignis Investment Services Limited ⁽²⁾	97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	Total	6.672%	5,003,827
Allianz Global Investors GmbH ⁽³⁾	Total	5.035%	3,776,319
BNP Paribas Investment Partners Belgium S.A. ⁽⁴⁾		0.833%	625,000
BNP Paribas Investment Partners Luxembourg S.A. ⁽⁴⁾		2.972%	2,228,765
BNP Paribas Asset Management SAS ⁽⁴⁾		1.197%	897,450
BNP Paribas Investment Partners S.A.	Total	5.002%	3,751,215
Artemis Fund Managers Limited ⁽⁵⁾		4.885%	3,664,000
Artemis Investment Management LLP		0.100%	74,856
Artemis Investment Management LLP	Total	4.985%	3,738,856
Kames Capital plc ⁽⁶⁾	2,045,003	1.363%	1,022,502
Kames Capital Management Limited ⁽⁶⁾	3,096,134	2.064%	1,548,067
Aegon NV ⁽⁶⁾	Total	3.427%	2,570,569
Norges Bank	Total	2.096%	1,571,748
F&C Asset Management plc ⁽⁷⁾	3,124,801	2.083%	1,562,401
Bank of Montreal ⁽⁷⁾	3,124,801	2.083%	1,562,401
CTT, S.A. (own shares) ⁽⁸⁾	Total	0.334%	250,221
Other shareholders	Total	63.366%	47,524,846
Total	150,000,000	100.000%	75,000,000

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



Shareholder	31.12.2015		
	No. of shares	%	Nominal value
Standard Life Investments Limited ⁽¹⁾	9,910,580	6.607%	4,955,290
Ignis Investment Services Limited ⁽¹⁾	97,073	0.065%	48,537
Standard Life Investments (Holdings) Limited	Total	6.672%	5,003,827
Manuel Carlos de Mello Champalimaud	33,785	0.023%	16,893
Gestmin SGPS, S.A. ⁽²⁾	7,766,215	5.177%	3,883,108
Manuel Carlos de Mello Champalimaud	Total	5.200%	3,900,000
Artemis Fund Managers Limited ⁽³⁾	7,433,817	4.956%	3,716,909
Artemis Investment Management LLP	276,892	0.185%	138,446
Artemis Investment Management LLP	Total	5.140%	3,855,355
Allianz Global Investors Europe GmbH (AGIE) ⁽⁴⁾	Total	5.035%	3,776,319
A.A.-FORTIS-ACTIONS PETITE CAP. EUROPE ⁽⁵⁾	226,096	0.151%	113,048
BNP PARIBAS A FUND European Multi-Asset Income ⁽⁵⁾	241,969	0.161%	120,985
BNP PARIBAS B PENSION BALANCED ⁽⁵⁾	675,151	0.450%	337,576
BNP PARIBAS B PENSION GROWTH ⁽⁵⁾	89,950	0.060%	44,975
BNP PARIBAS B PENSION STABILITY ⁽⁵⁾	42,617	0.028%	21,309
BNP PARIBAS L1MULTI-ASSET INCOME ⁽⁵⁾	287,384	0.192%	143,692
BNP PARIBAS SMALLCAP EUROLAND ⁽⁵⁾	1,569,016	10.46%	784,508
Merck BNP Paribas European Small Cap ⁽⁵⁾	97,607	0.065%	48,804
METROPOLITAN-RENTASTRO GROWTH ⁽⁵⁾	159,111	0.106%	79,556
PARVESTEQUITY EUROPE SMALL CAP ⁽⁵⁾	3,863,880	2.576%	1,931,940
PARWORLD TRACK EUROPE SMALL CAP ⁽⁵⁾	5,004	0.003%	2,502
Stichting Bewaar ANWB – Eur Small Cap ⁽⁵⁾	149,732	0.100%	74,866
Stichting Pensioenfonds Openbare Bibliotheken ⁽⁵⁾	130,657	0.087%	65,329
BNP Paribas Investment Partners, Limited Company ⁽⁵⁾	Total	5.025%	3,769,087
Kames Capital plc ⁽⁶⁾	2,045,003	1.363%	1,022,502
Kames Capital Management Limited ⁽⁶⁾	3,096,134	2.064%	1,548,067
Aegon NV ⁽⁶⁾	Total	3.427%	2,570,569
Norges Bank	Total	2.096%	1,571,748
F&C Asset Management plc ⁽⁷⁾	3,124,801	2.083%	1,562,401
Bank of Montreal ⁽⁷⁾	3,124,801	2.083%	1,562,401
Henderson Global Investors Limited ⁽⁸⁾	3,037,609	2.025%	1,518,805
Henderson Group plc ⁽⁸⁾	3,037,609	2.025%	1,518,805
CTT, S.A. (own shares) ⁽⁹⁾	Total	0.133%	100,089
Other shareholders	Total	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 Mello 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 Pensioenfonds 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 31 March 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 three-month period ended 31 March 2016, the movements that occurred in this caption were as follows:

	<u>Quantity</u>	<u>Value</u>	<u>Average price</u>
Balance at 31December 2015	200,177	1,873,125	9.357
Acquisitions	300,265	2,534,357	8.440
Disposals	-	-	
Balance at 31March 2016	<u>500,442</u>	<u>4,407,482</u>	

Reserves

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

	<u>31.03.2016</u>	<u>31.12.2015</u>
Legal reserves	18,072,559	18,072,559
Own shares reserve (CTT, S.A.)	4,407,482	1,873,125
Other reserves	<u>11,275,920</u>	<u>13,438,428</u>
	<u>33,755,961</u>	<u>33,384,112</u>



Legal reserves

The commercial legislation establishes that at least 5% of the annual net profit must be allocated to reinforce the legal reserve, until it represents at least 20% of the share capital. This reserve is not distributable except in the event of the liquidation of the Company, but may be used to absorb losses after all the other reserves have been depleted, or incorporated in the share capital.

Own shares reserve (CTT, S.A.)

As at 31 March 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 three-month period ended 31 March 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 3,360,478 Euros (Note 14).

Retained earnings

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

	<u>3103.2016</u>	<u>31.12.2015</u>
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)	-	(69,750,000)
Adjustments from the application of the equity method	-	109,622
Other movements	<u>20,361</u>	<u>(177,319)</u>
Closing balance	<u><u>163,813,638</u></u>	<u><u>91,727,994</u></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 three-month period ended 31 March 2016 and the year ended 31 December 2015, the movements occurred in this heading were as follows:

	<u>3103.2016</u>	<u>31.12.2015</u>
Opening balance	(18,644,832)	(18,786,310)
Actuarial gains/losses - Healthcare	-	114,181
Other changes - employee benefits	408,277	-
Tax effect - Healthcare	<u>(115,787)</u>	<u>27,297</u>
Closing balance	<u><u>(18,352,342)</u></u>	<u><u>(18,644,832)</u></u>



12. DIVIDENDS

According to the dividends distribution proposal included in the 2015 Annual Report, at the General Meeting of Shareholders, which took place on 28 April 2016, a dividend distribution of 70,500,000 Euros relative to the financial year ended 31 December 2015 was proposed and approved. The dividend will be paid on 25 May 2016.

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 relative 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 three-month periods ended 31 March 2016 and 31 March 2015, the earnings per share were calculated as follows:

	<u>3103.2016</u>	<u>3103.2015</u>
Net profit for the period	20,671,965	22,297,035
Average number of ordinary shares	149,755,015	150,000,000
Earnings per share:		
Basic	0.14	0.15
Diluted	0.14	0.15

The average number of shares is detailed as follows:

	<u>3103.2016</u>	<u>3103.2015</u>
Shares issued at the beginning of the period	150,000,000	150,000,000
Own shares effect	244,985	-
Average number of shares during the period	149,755,015	150,000,000

The basic earnings per share are calculated dividing the net profit attributable to equity holders of the parent company by the average ordinary shares, excluding the average number of own shares held by the Group. As at 31 March 2016, the number of own shares held by the Group is 500,442 and its average number for the period ended 31 March 2016 is 244,985, 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 three-month period ended 31 March 2016 and the year ended 31 December 2015, these liabilities presented the following movement:



	3103.2016				
	Liabilities			Equity	
	Healthcare	Other long-term employee benefits	Total	Other long-term benefits statutory bodies	Total
Opening balance	236,806,000	23,039,345	259,845,345	2,987,092	262,832,437
Movement of the period	(110,250)	(2,488,148)	(2,598,398)	373,386	(2,225,012)
Closing balance	236,695,750	20,551,196	257,246,946	3,360,478	260,607,424

	31.12.2015				
	Liabilities			Equity	
	Healthcare	Other long-term employee benefits	Total	Other long-term benefits statutory bodies	Total
Opening balance	241,166,000	36,125,547	277,291,547	1,376,407	278,667,954
Movement of the period	(4,360,000)	(13,086,203)	(17,446,203)	1,610,685	(15,835,518)
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:

	31.03.2016	31.12.2015
Equity (Other reserves)	3,360,478	2,987,092
Non-current liabilities	239,124,352	241,306,773
Current liabilities	18,122,594	18,538,572
	<u>260,607,424</u>	<u>262,832,437</u>

For the three-month period ended 31 March 2016 and the year ended 31 December 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:

	3103.2016	3103.2015
Costs for the period		
Healthcare	2,442,500	2,485,500
Other long-term employee benefits	(1,336,721)	37,341
Other long-term benefits statutory bodies	373,386	344,102
	<u>1,479,165</u>	<u>2,866,943</u>
Other changes in equity		
Healthcare	(408,277)	62,591
	<u>(408,277)</u>	<u>62,591</u>

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:

	<u>3103.2016</u>	<u>3112.2015</u>	<u>3112.2014</u>	<u>3112.2013</u>	<u>3112.2012</u>
Liabilities at the end of the period	236,695,750	236,806,000	241,166,000	263,371,000	252,803,000

For the three-month period ended 31 March 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:

	<u>3103.2016</u>	<u>3112.2015</u>
Opening balance	236,806,000	241,166,000
Service cost of the period	994,250	4,042,000
Interest cost of the period	1,448,250	5,900,000
Pensioners contributions	1,257,762	5,113,703
(Payment of benefits)	(3,242,985)	(18,654,596)
(Other costs)	(159,250)	(646,926)
Actuarial (gains)/losses	-	(114,181)
Other changes	(408,277)	-
Closing balance	<u>236,695,750</u>	<u>236,806,000</u>

During the three-month periods ended 31 March 2016 and 31 March 2015, the total costs were recognised as follows:

	<u>3103.2016</u>	<u>3103.2015</u>
Staff costs/employee benefits (Note 20)	835,000	841,000
Other costs	159,250	169,500
Interest expenses	<u>1,448,250</u>	<u>1,475,000</u>
	<u>2,442,500</u>	<u>2,485,500</u>

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



	31.03.2016	31.12.2015
Suspension of contracts, redeployment and release of employment		
Opening balance	8,234,231	17,810,243
Interest cost of the period	43,147	379,359
Curtailment	-	(4,782,194)
(Payment of benefits)	(995,584)	(5,187,776)
Actuarial (gains)/losses	-	14,599
Other changes	(67,991)	-
Closing balance	<u>7,213,803</u>	<u>8,234,231</u>
Telephone subscription fee		
Opening balance	4,518,270	4,832,775
Interest cost of the period	26,786	114,854
(Payment of benefits)	(43,937)	(216,939)
Actuarial (gains)/losses	(1,312,244)	(212,420)
Other changes	(72,297)	-
Closing balance	<u>3,116,578</u>	<u>4,518,270</u>
Pension for work accidents		
Opening balance	6,863,591	8,161,400
Interest cost of the period	41,585	198,665
(Payment of benefits)	(87,267)	(472,298)
Actuarial (gains)/losses	-	(1024,176)
Other changes	(17,775)	-
Closing balance	<u>6,800,134</u>	<u>6,863,591</u>
Monthly life annuity		
Opening balance	3,423,253	5,282,395
Interest cost of the period	21,100	130,698
(Payment of benefits)	(24,639)	(97,925)
Actuarial (gains)/losses	-	(1891,915)
Other changes	968	-
Closing balance	<u>3,420,682</u>	<u>3,423,253</u>
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	<u>-</u>	<u>-</u>
Total closing balances	<u><u>20,551,196</u></u>	<u><u>23,039,345</u></u>

During the three-month periods ended 31 March 2016 and 31 March 2015, the total costs for the period were recognised as follows:

	31.03.2016	31.03.2015
Staff costs/employee benefits (Note 20)		
Suspension of contracts, redeployment and release of employment	(67,991)	(112,280)
Telephone subscription fee	(1,384,541)	(62,927)
Pension for work accidents	(17,775)	(19,344)
Monthly life annuity	968	740
Support for cessation of professional activity	-	24,837
subtotal	<u>(1,469,339)</u>	<u>(168,975)</u>
Interest expenses	<u>132,618</u>	<u>206,316</u>
	<u>(1,336,721)</u>	<u>37,341</u>



During the three-month period ended 31 March 2016 as a result of an analysis of the historical average costs per beneficiary regarding the benefit Telephone subscription fee, CTT reduced the liability by 1,312,244 Euros.

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 pensions 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 of a comparison of the recorded performance of the Total Shareholder Return (TSR) of CTT shares and the TSR of a weighted peer group, composed of national and international companies (vesting conditions).

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 three-month period ended 31 March 2016, CTT recorded a cost of 373,386 Euros, booked against Other reserves.

15. PROVISIONS, GUARANTEES PROVIDED, CONTINGENT LIABILITIES AND COMMITMENTS

Provisions

For the three-month period ended 31 March 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:

	31.03.2016					Closing balance
	Opening balance	Increases	Reversals	Utilisations	Transfers	
Non-current provisions						
Litigations	9,102,700	412,750	(410,719)	(442,054)	464,994	9,127,671
Onerous contracts	14,358,103	55,990	(3,113,652)	(6,869,955)	-	4,430,486
Other provisions	17,035,233	69	-	(31018)	(464,994)	16,539,290
Investments in associated companies	189,775	-	-	(189,775)	-	-
	<u>40,685,811</u>	<u>468,809</u>	<u>(3,524,371)</u>	<u>(7,532,802)</u>	<u>-</u>	<u>30,097,447</u>
Restructuring	46,521	-	-	-	-	46,521
	<u>40,732,332</u>	<u>468,809</u>	<u>(3,524,371)</u>	<u>(7,532,802)</u>	<u>-</u>	<u>30,143,968</u>



	31.12.2015					
	Opening balance	Increases	Reversals	Utilisations	Transfers	Closing balance
Non-current provisions						
Litigations	9,907,427	1,942,805	(2,556,840)	(1,603,861)	1,413,169	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)	(1,413,169)	17,035,233
Investments in associated companies	215,772	-	-	-	(25,997)	189,775
	<u>45,671,517</u>	<u>4,446,724</u>	<u>(4,169,411)</u>	<u>(5,237,022)</u>	<u>(25,997)</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>(25,997)</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 three-month period ended 31 March 2016, a reversal of the provision for onerous contracts regarding this building, in the amount of 2,913,557 Euros. The utilisations in the amount of 6,869,955 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 31 March 2016 the amount provided for onerous contracts is 4,430,486 Euros (14,358,103 Euros as at 31 December 2015).

Other provisions

For the three-month period ended 31 March 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 14,677,997 Euros (15,142,991 Euros as at 31 December 2015).

As at 31 March 2016, in addition to the previously mentioned situations, this heading also includes:

- the amount of 204,480 Euros to cover costs for dismantlement of tangible fixed assets and/or removal of facilities and restoration of the sites;
- the amount of 985,324 Euros, which arise from the assessment made by the management regarding the possibility of tax contingencies.

Investments in associated companies

The provision for investments in associated companies corresponds to the assumption by the Group of legal or constructive obligations regarding the associated company PayShop Moçambique, S.A.. The reversal recorded on 31 March 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. As at 31 March 2016, it amounts to 46,521 Euros.

The net amount between increases and reversals of provisions was recorded in the consolidated income statement under the caption Provisions, net and amounted to 3,055,562 Euros and (394,848) Euros as at 31 March 2016 and 31 March 2015, respectively.

Guarantees provided

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

Description	31.03.2016	31.12.2015
Courts	200,087	200,087
FUNDO DE PENSÕES DO BANCO SANTANDER TOTTA	3,030,174	3,030,174
EURO BRIDGE-Sociedade Imobiliária, Lda	2,944,833	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
Sotred	80,000	80,000
ACT Autoridade Condições Trabalho	61,056	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
Petrogal, S.A.	8,280	-
Águas do Porto, E.M	10,720	10,720
INCM - Imprensa Nacional 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
Instituto de Gestão Financeira Segurança Social	12,681	12,681
Instituto de Segurança Social	3,725	-
REN Serviços, S.A.	9,818	9,818
EMEL, S.A.	19,384	19,384
IFADAP	1,746	1,746
Casa Pia de Lisboa, I.P.	1,863	-
Consejeria Salud	6,433	6,433
Universidad Sevilla	4,237	4,237
Fonavi, Nave Hospitalet	40,477	40,477
Other entities	7,694	7,694
	14,393,480	14,336,996



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 12,599,031 Euros.

Commitments

As at 31 March 2016 and 31 December 2015, the Group subscribed promissory notes amounting to approximately 52.4 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 133,597 Euros, which are still active as at 31 March 2016.

As at 31 March 2016, the commitments assumed by the Group regarding the sponsoring of "Taça da Liga" (League Football Cup) for three seasons in the amount of 2.2 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 31 March 2016 and 31 December 2015, the heading Accounts payable showed the following composition:

	<u>3103.2016</u>	<u>31.12.2015</u>
Advances from customers	3,010,871	3,043,051
CNP money orders	204,857,123	218,478,956
Suppliers	54,755,906	67,989,193
Invoices pending confirmation	9,226,273	9,834,805
Fixed assets suppliers	951,146	6,717,094
Invoices pending confirmation (fixed assets)	1,628,653	5,311,267
Values collected on behalf of third parties	6,219,957	5,881,304
Postal financial services	96,986,108	112,544,152
Customers deposits	-	52,422
Other accounts payable	<u>11,431,187</u>	<u>6,039,433</u>
	<u><u>389,067,224</u></u>	<u><u>435,891,677</u></u>

CNP money orders

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



Postal financial services

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

17. BANKING CLIENT DEPOSITS AND OTHER LOANS

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

	<u>3103.2016</u>	<u>3112.2015</u>
Sight deposits	3,305,211	-
Term deposits	<u>1,606,182</u>	<u>-</u>
	<u><u>4,911,393</u></u>	<u><u>-</u></u>

The above mentioned amounts referred to Deposits from Banco CTT's clients.

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 31 March 2016 the caption reflects the estimated income tax regarding 2015, which has not yet been paid, as well as the estimated income tax regarding the three-month period ended 31 March 2016.

19. OTHER CURRENT LIABILITIES

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

20. STAFF COSTS

During the three-month periods ended 31 March 2016 and 31 March 2015, the composition of the heading Staff Costs was as follows:



	<u>3103.2016</u>	<u>3103.2015</u>
Statutory bodies remuneration (Note 22)	1,197,318	996,658
Staff remuneration	65,742,081	67,657,250
Employee benefits	(205,292)	1,063,252
Indemnities	299,163	381,574
Social Security charges	14,549,283	14,747,124
Occupational accident and health insurance	798,789	616,880
Social welfare costs	1,758,317	1,981,816
Other staff costs	7,307	15,173
	<u>84,146,966</u>	<u>87,459,727</u>

Remuneration of the statutory bodies

In the three-month periods ended 31 March 2016 and 31 March 2015, the fixed and variable remunerations attributed to the members of the statutory bodies of the different companies of the Group were as follows:

	<u>3103.2016</u>				
	<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Remuneration Board</u>	<u>General Meeting of Shareholders</u>	<u>Total</u>
Short-term remuneration					
Fixed remuneration	775,601	71,827	6,608	-	854,036
Annual variable remuneration	<u>343,282</u>	<u>71,827</u>	<u>6,608</u>	<u>-</u>	<u>343,282</u>
	<u>1,118,883</u>	<u>71,827</u>	<u>6,608</u>	<u>-</u>	<u>1,197,318</u>
Long-term remuneration					
Defined contribution plan RSP	55,875	-	-	-	55,875
Long-term variable remuneration - Share Plan	<u>373,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,386</u>
	<u>429,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,261</u>
	<u>1,548,144</u>	<u>71,827</u>	<u>6,608</u>	<u>-</u>	<u>1,626,579</u>
	<u>3103.2015</u>				
	<u>Board of Directors</u>	<u>Audit Committee</u>	<u>Remuneration Board</u>	<u>General Meeting of Shareholders</u>	<u>Total</u>
Short-term remuneration					
Fixed remuneration	558,811	71,680	9,360	-	639,851
Annual variable remuneration	<u>356,807</u>	<u>71,680</u>	<u>9,360</u>	<u>-</u>	<u>356,807</u>
	<u>915,618</u>	<u>71,680</u>	<u>9,360</u>	<u>-</u>	<u>996,658</u>
Long-term remuneration					
Defined contribution plan RSP	47,125	-	-	-	47,125
Long-term variable remuneration - Share Plan	<u>344,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>344,102</u>
	<u>391,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>391,227</u>
	<u>1,306,845</u>	<u>71,680</u>	<u>9,360</u>	<u>-</u>	<u>1,387,885</u>

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 373,386 Euros corresponds to the expense to be recognised in the period between 1 January 2016 and 31 March 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, being the actuarial study performed in December.

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 three-month period ended 31 March 2016 mainly reflects the liability reduction related to the Telephone subscription fee as a result of the change in the average cost per beneficiary.

Indemnities

During the three-month period ended 31 March 2016, this caption includes 240,603 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 three-month periods ended 31 March 2016 and 31 March 2015, the heading Staff costs includes the amounts of 133,757 Euros and 128,191 Euros, respectively, related to expenses with workers' representative bodies.

For the three-month periods ended 31 March 2016 and 31 March 2015, the average number of staff of the Group was 12,029 and 12,171 employees, respectively.

21. INCOME TAX FOR THE PERIOD

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

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

Reconciliation of the income tax rate

In the three-month periods ended 31 March 2016 and 31 March 2015, the reconciliation between the nominal rate and the effective income tax rate is as follows:



	<u>3103.2016</u>	<u>3103.2015</u>
Earnings before taxes	29,831,670	31,827,352
Nominal tax rate	210%	210%
	<u>6,264,651</u>	<u>6,683,744</u>
Tax Benefits	(49,842)	(42,993)
Accounting capital gains	(192,067)	(3,134)
Tax capital gains	39,608	1,567
Impairment losses and reversals	381,161	(6,581)
Other situations, net	762,257	431,661
Adjustments related with - autonomous taxation	379,067	127,414
Adjustments related with - Municipal Surcharge	326,065	531,443
Adjustments related with - State Surcharge	1,080,539	1,344,981
Tax losses with no deferred tax assets recognised	481,614	427,225
Excess estimated income tax	(268,918)	-
Income taxes for the period	<u>9,204,135</u>	<u>9,495,327</u>
Effective tax rate	<u>30.85%</u>	<u>29.83%</u>
Income taxes for the period		
Current tax	5,496,634	9,054,161
Deferred tax	3,976,419	441,166
Excess estimated income tax	(268,918)	-
	<u>9,204,135</u>	<u>9,495,327</u>

In the three-month period ended 31 March 2016, the heading Excess estimated income tax includes 268,918 Euros related to the tax credit allocated under the SIFIDE programme of 2014 of CTT - Correios de Portugal, S.A..

Deferred taxes

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

	<u>3103.2016</u>	<u>3112.2015</u>
Deferred tax assets		
Employee benefits - healthcare	67,126,914	67,158,181
Employee benefits - other long-term benefits	5,828,319	6,531,878
Deferred accounting capital gains	1,063,759	1,723,242
Impairment losses and provisions	6,110,975	8,997,558
Tax losses carried forward	324,992	342,161
Impairment losses in tangible fixed assets	392,449	405,373
Share Plan	953,032	847,140
Land and buildings	1,356,461	1,392,924
Other	212,027	137,484
	<u>83,368,928</u>	<u>87,535,941</u>



	<u>31.03.2016</u>	<u>31.12.2015</u>
Deferred tax liabilities		
Revaluation of tangible fixed assets before IFRS	3,497,786	3,562,520
Suspended capital gains	963,916	971,679
Other	42,399	42,399
	<u>4,504,101</u>	<u>4,576,598</u>

As at 31 March 2016, the expected amount of deferred tax assets and liabilities to be settled within 12 months is 4,233,481 Euros and 289,988 Euros, respectively.

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

	<u>31.03.2016</u>	<u>31.12.2015</u>
Deferred tax assets		
Opening balances	87,535,941	91,428,940
Effect on net profit		
Employee benefits - healthcare	84,520	(733,228)
Employee benefits - other long-term benefits	(703,559)	(3,628,545)
Deferred accounting gains	(659,483)	(661,719)
Impairment losses and provisions	(2,886,583)	(1,142,594)
Impairment losses in tangible fixed assets	(12,924)	(91,864)
Tax losses carried forward	4,584	24,628
Share plan	105,892	459,819
Land and buildings	(36,463)	1,392,924
Other	52,790	460,283
Effect on net profit		
Employee benefits - healthcare	(115,787)	27,297
Closing balance	<u>83,368,928</u>	<u>87,535,941</u>
	<u>31.03.2016</u>	<u>31.12.2015</u>
Deferred tax liabilities		
Opening balances	4,576,598	4,841,684
Effect on net profit		
Revaluation of tangible fixed assets before IFRS adoption	(64,734)	(231,295)
Suspended capital gains	(7,763)	(23,274)
Other	-	(10,517)
Closing balance	<u>4,504,101</u>	<u>4,576,598</u>

The tax losses carried forward are related to the losses of the subsidiaries Tourline and Corre. Regarding Tourline, the tax losses of the years 2008, 2009 and 2011 may be reported in the next 15 years, and the tax losses related to 2012 and 2013 may be carried forward in the next 18 years. The tax losses of Corre relate to the year of 2013 and may be carried forward in the next 5 years.



The sensitivity analysis performed allows us to conclude that a 1% reduction in the underlying rate of deferred tax would imply an increase in the income tax for the period of about 2.5 million Euros.

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 31 March 2016.

22. RELATED PARTIES

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

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

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

During the three-month periods ended 31 March 2016 and 31 March 2015, the following transactions took place and the following balances existed with related parties:



	3103.2016				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	-	-
Other shareholders of Group companies	-	-	-	-	-
Associated companies	15,641	-	3,927	-	816
Jointly controlled	224,133	-	121,105	-	18,664
Members of the					
Board of Directors	-	-	-	-	1,118,883
Board of the General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	71,827
Remuneration Board	-	-	-	-	6,608
	<u>239,774</u>	<u>-</u>	<u>125,032</u>	<u>-</u>	<u>1,216,798</u>
	3103.2015				
	Accounts receivable	Accounts payable	Revenues	Dividends	Costs
Shareholders	-	-	-	-	-
Other shareholders Group companies	-	-	-	-	-
Associated companies	4,955	9,737	4,883	-	34,016
Jointly controlled	135,944	27,876	58,693	-	58,693
Members of the					
Board of Directors	-	-	-	-	915,618
General Meeting	-	-	-	-	-
Audit Committee	-	-	-	-	71,680
Remuneration Committee	-	-	-	-	9,360
	<u>140,899</u>	<u>37,613</u>	<u>63,576</u>	<u>-</u>	<u>1,089,366</u>

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

23. SUBSEQUENT EVENTS

General Meeting

The General Meeting of Shareholders of CTT was held on 28 April 2016 and the following items were among those approved:

- The financial statements relating to the financial year of 2015 and the allocation of profits relating to the financial year of 2015, including the payment of a gross dividend of €0.47 per share;
- Election of Mr Manuel Carlos de Mello Champalimaud as non-executive member of the Board Directors;
- Election of Mr Manuel Alves Monteiro as member of the Remuneration Committee following a resignation submitted.

Pension fund

The Board of Directors decided to launch a call for proposals to select the managing entity in the context of a possible creation of a fund to which the liabilities with post-employment healthcare will be transferred under the pension fund system (“CTT Fund for Post-employment Healthcare” or “Fund”).



The creation of the Fund is subject to the definition by CTT and the managing entity to be selected of the corresponding terms and conditions, the necessary internal approvals, and compliance with the formalities and applicable authorisations, specifically the authorisation for its establishment from the Insurance and Pension Funds Supervisory Authority.

The establishment of the CTT Fund for Post-employment Healthcare is a financial information quality reinforcement measure and generates relevant benefits in financial terms during the current and coming financial years. The quantification of such benefits depends namely on the accurate definition of assets and liabilities and on the financing plan of the Fund, as well as on its tax and regulatory framework. As at 31 March 2016 the current amount of the liabilities with the Healthcare Plan corresponds to 237 million Euros.